InSight Bulletin: A Multidisciplinary Interlink International Research Journal
Peer Reviewed International, Open Access Journal.
ISSN : 3065-7857 / Website: https://ibrj.us / Volume-2, Issue-10 / October - 2025

Original Article

Strategic Reforms in Customs, GST, and Commerce for MSME Competitiveness and Inclusive Growth: Policy Pathways for Viksit Bharat @2047

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Manuscript ID:
IBMIIRJ -2025-021017

Submitted: 08 Sept. 2025

Revised: 12 Sept. 2025

Accepted: 10 Oct. 2025

Published: 31 Oct. 2025

ISSN: 3065-7857

Volume-2

Issue-10

Pp. 80-83

October 2025

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OPEN ACCESS

Quick Response Code:

Web. https://ibrj.us

DOI: 10.5281/zenodo.17620952

DOI Link:
https://doi.org/10.5281/zenodo.17620952

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Abstract
India's aspiration to become a Viksit Bharat (developed nation) by 2047 requires deep structural reforms in trade, taxation, and commerce policies to achieve inclusive growth. The Global Trade Research Initiative (GTRI) has proposed significant policy changes, particularly in customs duty architecture, Goods and Services Tax (GST) thresholds, and sector-specific commerce regulations. This paper critically examines these proposals and assesses their implications for India's inclusive growth trajectory. Key recommendations include simplification of customs duty structures, raising GST exemption thresholds to ease compliance for micro, small, and medium enterprises (MSMEs), restructuring incentives for electric vehicles (EVs) and pharmaceutical inputs, and rationalizing e-commerce export regulations. Through an extensive review of literature, secondary data analysis, and triangulation of policy documents, this study evaluates the potential of these reforms to enhance export competitiveness, generate employment, support MSMEs, and reduce import dependence on China. The findings suggest that rationalizing tariffs, expanding GST thresholds, and reforming commerce policies can simultaneously reduce administrative burdens, enhance fiscal efficiency, and integrate Indian enterprises into global value chains. The paper concludes by recommending phased policy implementation, inter-ministerial coordination, and a roadmap aligned with India's 2047 vision of achieving a resilient, self-reliant, and inclusive economy.

Keywords: *India, GTRI, customs duties, GST reform, MSMEs, trade facilitation, inclusive growth, e-commerce exports, tariff rationalization, Viksit Bharat.*

Introduction

India today stands at a critical policy inflection point as it aspires to become a $5 trillion economy in the near term and a Viksit Bharat by 2047. The country's tax architecture is dominated by GST, corporate tax, and personal income tax, while customs duties contribute only about 6.4% of gross tax revenue (The Economic Times, 2021). Despite its relatively modest share, customs policy plays an outsized role in shaping trade competitiveness, industrial development, and external sector resilience. The customs duty structure in India has remained largely unchanged for two decades, with over 27 different duty rates and more than 100 tariff slabs. Strikingly, 85% of customs revenue is derived from fewer than 10% of tariff lines, while nearly 60% of lines contribute less than 3% (The Economic Times, 2025).This complexity leads to administrative inefficiencies, higher transaction costs, and increased opportunities for misclassification and disputes. Parallelly, GST—the hallmark of India's indirect tax reform—has improved compliance and harmonization but continues to burden MSMEs with high compliance costs. The current GST threshold of ₹40 lakh captures nearly 1.4 crore taxpayers, yet MSMEs below ₹1.5 crore turnover account for less than 7% of total GST revenue. This raises critical questions about efficiency and inclusion in India's taxation system. GTRI's proposals, therefore, present a comprehensive framework for rationalizing tariffs, expanding GST thresholds, and aligning commerce policies with India's long-term growth vision. The reforms promise to reduce import dependency in strategic sectors, foster MSME competitiveness, unlock e-commerce exports, and enhance India's global trade standing.

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How to cite this article:
Thorat, T. S. (2025). Strategic Reforms in Customs, GST, and Commerce for MSME Competitiveness and Inclusive Growth: Policy Pathways for Viksit Bharat @2047. InSight Bulletin: A Multidisciplinary Interlink International Research Journal, 2(10), 80–83. https://doi.org/10.5281/zenodo.17620952

By situating these reforms within the broader Viksit Bharat @2047 agenda, this paper analyzes how fiscal rationality can be harmonized with inclusive growth.

Objectives:

The study is guided by the following objectives:

1. To analyze GTRI's proposals for customs and GST reforms in the Indian context.
2. To assess how these reforms can foster inclusive growth—particularly for MSMEs and micro-enterprises.
3. To evaluate the fiscal trade-offs and revenue implications of tariff and GST rationalization.
4. To examine sector-specific vulnerabilities and identify how commerce reforms can address them.
5. To provide structured policy recommendations aligned with the vision of Viksit Bharat @2047.

Review of Literature:

- **Trade Facilitation and Growth**
  Extensive literature highlights the importance of trade facilitation in driving export-led growth. (Anderson, 2004) Finds that reducing tariff and non-tariff barriers significantly boosts GDP growth in middle-income economies. (Srivastava, 31, March 2023) Shows that India's digitization of customs procedures and logistics upgrades under the Trade Facilitation Agreement (TFA) have contributed to higher export performance.
  High tariff barriers, by contrast, are shown to dampen competitiveness. Countries like Vietnam and Indonesia, which adopted simplified tariff regimes, witnessed substantial increases in foreign investment and export integration (WTO, 2022). This comparative evidence underlines the urgency for India to rationalize its fragmented customs architecture.
- **Tariff Structure Complexity**
  India's customs tariff complexity has long been criticized (Bajpai, 2024). Studies show that while 85% of customs revenue is concentrated in a small fraction of tariff lines, the proliferation of slabs leads to administrative inefficiencies (GTRI , 2023). (Sharma, 2024) Emphasizes that rationalizing duty slabs to five categories and capping maximum tariffs at 50% would reduce transaction costs, increase compliance, and strengthen India's image in the global trading system.
- **MSME Tax Thresholds and Inclusion**
  (Jain, 2023) Underscores the centrality of MSMEs in India's economic structure, contributing nearly 30% of GDP and employing over 11 crore people. Yet compliance with GST remains disproportionately costly for micro-enterprises. Literature consistently supports raising thresholds to reduce compliance burdens while maintaining revenue neutrality, given that firms below ₹1.5 crore turnover contribute less than 7% of GST revenue (GTRI , 2023) .
- **Sector-Specific Vulnerabilities**
  (Kumar, 2024) Points out India's alarming dependence on Chinese imports, particularly in EV components (60%), APIs (70%), and biosimilars (80%). This import reliance creates strategic vulnerabilities. (Jain, 2023) And (GTRI , 2023) recommend production-linked incentives, fermentation-based domestic production, and targeted customs duties to encourage domestic value chain development.
- **E-Commerce Export Potential**
  Despite having over 20 lakh potential exporters, less than 1 lakh currently participate in international trade (Sharma, 2024). (GTRI , 2023) Highlights that simplifying customs documentation, Reserve Bank of India (RBI) processes, and DGFT regulations could unlock vast export potential. (Bajpai, 2024) Further stresses the importance of creating digital distinctions between B2B and B2C e-commerce exports and supporting overseas warehouse models.

Research Methodology:

This study adopts a qualitative-descriptive research design based on secondary data analysis. The methodological framework includes:

- **Data Sources:** Policy recommendations from GTRI (2023–2025), Union Budget documents, and Economic Surveys.
- **Policy Triangulation:** Cross-referencing government publications with secondary data from Economic Times, KNN India, Business Standard, and CBIC.
- **Comparative Context:** Reviewing international best practices (WTO, ASEAN economies).
- **Analytical Approach:** Tabular and graphical presentation of customs duty and GST reforms, followed by sectoral impact assessment.

This methodology ensures a robust, multi-layered analysis of GTRI's reform proposals and their potential alignment with inclusive growth and Viksit Bharat goals.

Data Analysis:

Table 1: Customs Duty Reform Analysis

Metric	Current	Proposed
Total Import Value (USD Billion)	680	680
No. of Basic Duty Rates	27	5
No. of Tariff Slabs	100+	5
% Revenue from Top 10% Tariff Lines	85%	85%
% Revenue from Bottom 60% Tariff Lines	3%	3%
Proposed Max Duty (%)	–	50%
Current Avg Tariff (%)	18%	–
Proposed Avg Tariff (%)	–	10%

Interpretation:
The current system, with 27 duty rates, creates administrative bottlenecks without proportional revenue gains. Simplifying to five slabs and reducing the average tariff from 18% to 10% could enhance transparency, reduce classification disputes, and align tariffs with industrial policy objectives.

Table 2: GST Reform and MSME Inclusion

Metric	Value
Current GST Threshold (INR Lakh)	40
Proposed GST Threshold (INR Lakh)	150
Registered GST Taxpayers	1.4 crore
Expected Taxpayers Post-Reform	23 lakh
% Revenue from MSMEs below ₹1.5 Cr	<7%

Interpretation:
Raising the GST threshold to ₹1.5 crore could reduce taxpayers from 1.4 crore to 23 lakh, substantially easing administrative loads. Although MSMEs below this turnover contribute less than 7% of revenue, they face disproportionately high compliance costs. Rationalization would therefore enhance inclusivity while preserving fiscal neutrality.

Table 3: Sector-Specific Recommendations

Sector	Current Challenge	GTRI Suggestion
Electric Vehicles	Over 60% of EV cost from Chinese imports	Avoid incentives unless domestic value >50%
APIs & Pharma	70% APIs and 80% biosimilars imported	Boost fermentation-based local production
E-Commerce Exports	<1 lakh of 20 lakh exporters engaged digitally	Simplify RBI, DGFT, customs, and tax for digital exports

Interpretation:
Sectoral reforms are vital to reduce strategic vulnerabilities. EV incentives should favor domestic value chains, while local API production is critical for pharmaceutical resilience. Simplifying digital export processes can integrate millions of small firms into global trade.

Discussion:
The proposed reforms present both opportunities and trade-offs.

1. **Customs Duty Simplification**: Streamlining tariffs can improve ease of doing business and align India with global standards. However, policymakers must ensure that tariff reductions do not undermine domestic industry competitiveness in sensitive sectors.
2. **GST Threshold Expansion**: Raising GST thresholds promotes inclusion but risks states losing tax autonomy and revenues. Stronger IT-driven invoice matching and data analytics can counter fraud risks and ensure revenue neutrality.
3. **Sectoral Resilience**: Avoiding incentives for low-value EV imports and building API self-reliance aligns with Atmanirbhar Bharat. Yet, building fermentation capacity requires large investments and technological readiness.
4. **E-Commerce Exports**: Regulatory simplification can unlock huge export potential but requires coordinated action among DGFT, RBI, and CBIC to avoid procedural overlaps.

Overall, the reforms promise long-term gains for inclusivity and competitiveness but must be implemented carefully to balance fiscal stability with developmental priorities.

Policy Recommendations and Roadmap to Viksit Bharat 2047:

1. **Short-Term (2025–27):**
   - Reduce customs duty slabs to five categories.
   - Implement GST threshold of ₹1.5 crore with transitional support for states.
   - Launch MSME-focused e-commerce export facilitation schemes.
2. **Medium-Term (2027–2035):**
   - Develop domestic fermentation-based API production clusters.
   - Create EV supply chain ecosystems with minimum 50% domestic value addition.
   - Digitize customs-GST integration for real-time compliance.
3. **Long-Term (2035–2047):**
   - Align customs tariffs with WTO averages (~5%).
   - Position India as a global hub for MSME-driven exports.
   - Establish India's commerce policies as enablers of Viksit Bharat—inclusive, resilient, and globally competitive.

Conclusion
The GTRI's reform blueprint provides a coherent strategy for harmonizing fiscal rationality with inclusive growth. Customs duty simplification reduces inefficiencies, GST threshold expansion empowers MSMEs, sector-specific reforms strengthen resilience, and e-commerce facilitation integrates millions into global trade. As India pursues its Viksit Bharat @2047 vision, these reforms represent critical stepping stones toward a more inclusive, resilient, and globally integrated economy. Effective implementation requires inter-ministerial coordination, phased rollouts, and robust monitoring mechanisms. Ultimately, the success of these

reforms will be judged not merely by fiscal metrics but by their contribution to employment generation, MSME empowerment, and the realization of a developed India by 2047.

Acknowledgment

The author expresses deep gratitude to the Principal and Management of D. G. Tatkare Arts and Commerce College, Tala, Raigad, for their continuous encouragement, institutional support, and motivation throughout the completion of this research work.

Heartfelt thanks are extended to the Department of Commerce for providing an academically enriching environment and valuable inputs that contributed to the quality of this study.

The author also acknowledges the contributions of the Global Trade Research Initiative (GTRI), Ministry of Finance, and various policy institutions whose reports and analyses provided valuable insights into customs, GST, and commerce reforms.

Special appreciation is due to colleagues, mentors, and researchers who offered constructive feedback and intellectual guidance during the preparation of this paper.

Finally, the author conveys sincere gratitude to the Government of India's Viksit Bharat @2047 vision, which served as an inspiration for this research, and to all those committed to building a competitive, inclusive, and self-reliant India.

Financial Support and Sponsorship

Nil

Conflicts of Interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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