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# The Impact of Goods and Services Tax on Sustainability in the Indian Handicraft Sector: A Mini-Review

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### Abstract

The implementation of the Goods and Services Tax (GST) in India has significantly influenced the Indian handicraft sector, integral to India's cultural heritage and economy. This mini-review explores GST's multifaceted role in fostering economic, social, and environmental sustainability within this sector. It delves into GST's implications on various aspects of the handicraft sector, including pricing, production, and marketing strategies, and examines the related governmental strategies and policies. Utilizing secondary data, this review reveals how GST has simplified the tax structure, integrated state economies, and created a conducive business environment, promoting sustainable development and innovation in the sector. It underscores the strategic importance of GST in aiding sustainable growth by formalizing businesses, enhancing job opportunities, and encouraging sustainable practices in the handicraft sector. The review also highlights the need for more exhaustive research, incorporating primary data, to gain deeper insights into GST's practical implications on sustainability in the Indian handicrafts sector.

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**Keywords:** Goods and Services Tax; Indian Handicrafts; Sustainability; Taxation Reform; Cultural Industry

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## 1 Introduction

The Goods and Services Tax (GST), introduced in India on July 1, 2017, marked a pivotal reform aimed at overhauling the nation's taxation system [1]. This tax reform has had profound implications on various sectors, including the Indian handicraft sector, a crucial component of India's cultural heritage and economy. The handicraft sector is not only a repository of the country's rich cultural diversity and traditional artistry but also a substantial contributor to employment and the export economy [1, 2]. However, focused analyses on the specific impact of GST on this sector and its sustainability are scarce, necessitating a detailed exploration to understand the repercussions and potential benefits of GST on the handicraft sector. Taxation plays a pivotal role in economic development, and the introduction of GST in India exemplifies this by simplifying the tax structure and reducing the cost of goods and services, benefiting traders, customers, and the government [3, 4]. This has been a significant economic shift since independence, requiring verification of facts following its implementation [5]. Studies propose that tax simplification, such as GST, minimizes the domino effect, fostering a more efficient tax structure and potentially increasing India's economy [6, 7]. The need for GST in India and its potential to contribute to India's economic development is further underscored by drawing parallels with international GST models such as those in Canada, QUEBEC, and Australia [8]. This study aims to bridge the existing gap in literature by scrutinizing the implications of GST on the Indian handicraft sector.

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It seeks to explore how GST has influenced the sustainability, pricing, production, and marketing strategies within this sector and to evaluate the governmental strategies and policies aimed at bolstering the handicrafts industry and promoting sustainable practices within it. The role of the handicraft sector in generating foreign currency underscores its importance in the export market, with its products being sold in over 100 overseas markets, including key markets like Germany, the United States, the United Kingdom, Canada, Japan, France, and the United Arab Emirates [2]. Figure 1 presents a country-wise breakdown of handicraft exports for the year 2020-21, showcasing the global reach of Indian handicraft products. The absence of complex machinery in their production renders these products uniquely invaluable, making them invaluable representations of India’s cultural heritage.

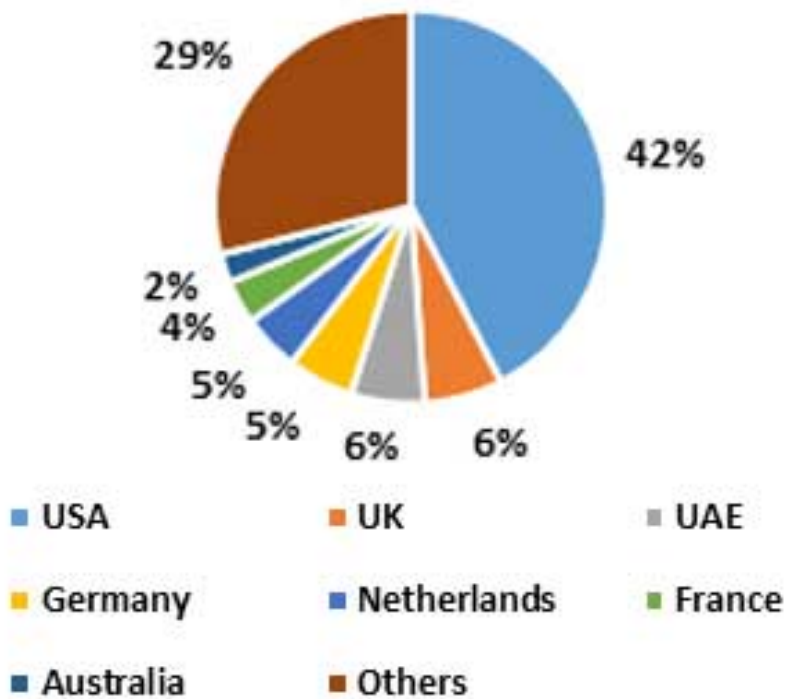


Figure 1: Country Wise Handicraft Exports 2020-21 [9].

To achieve the objectives, this study employs a descriptive and explanatory approach, utilizing secondary data, including information from the Export Promotion Council of Handicrafts and other relevant sources [4, 3]. The analysis focuses on the current state of GST and its implications on the handicraft sector in India, aiming to provide insights into whether GST has been instrumental in fostering sustainable development within the handicraft sector and proposing efficacious policies benefiting all stakeholders.

## 2 Overview of the Indian Handicraft Sector

India, renowned for its rich cultural heritage and diverse traditions, is a hub for exquisite handicraft products. Each product is a unique expression of specific cultures, reflecting the nation’s varied cultural ethos and crafted using local craftsmanship, artistry, and materials [10, 11]. The handicraft sector is crucial for India’s economy, being predominantly labor-intensive, decentralized, and a significant contributor to employment and exports [12, 13]. It stands as the second-largest employment generator following agriculture and is pivotal for economic development, contributing significantly to the export economy. This sector is a repository of the country’s rich cultural diversity and traditional artistry, and it plays a substantial role in the nation’s economic growth. The substantial contribution of the handicraft sector to Indian exports is depicted in Figure 2, highlighting the economic significance of the sector. Handicraft products, encompassing various types such as basketry, leather, metal, pottery, textiles, and wood, are crafted either entirely by hand or with hand tools, bearing unique features that can be utilitarian, aesthetic, artistic, creative, culturally attached, decorative, functional, traditional, religious, and socially significant [15]. Despite having a recognized importance in the export market and a presence in international markets [2], the sector faces specific issues and constraints that threaten the survival of this traditional legacy [16]. Nonetheless, the handicraft sector continues to be a symbol of India’s cultural and economic heritage, showcasing a myriad of traditional craftsmanship and artistic expressions.

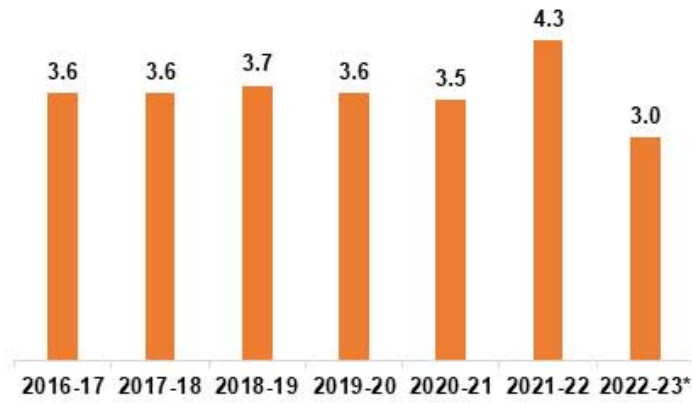


Figure 2: Indian Handmade Export (in US billion dollars) [14].

### 3 Challenges and Impacts of the Pre-GST Taxation System

Before the implementation of the Goods and Services Tax (GST), the Indian taxation system was multifaceted and intricate, imposing several taxes such as Value Added Tax (VAT), Central Sales Tax (CST), and excise duty at different stages of the production and supply chain [1]. This complexity led to increased compliance costs, lack of transparency, and a cumbersome environment for stakeholders in the handicraft sector, affecting the pricing, production, and marketing strategies within the sector. The contrast between the pre and post-GST tax structures is illustrated in Figure 3, demonstrating the multifaceted nature of the previous tax regime.

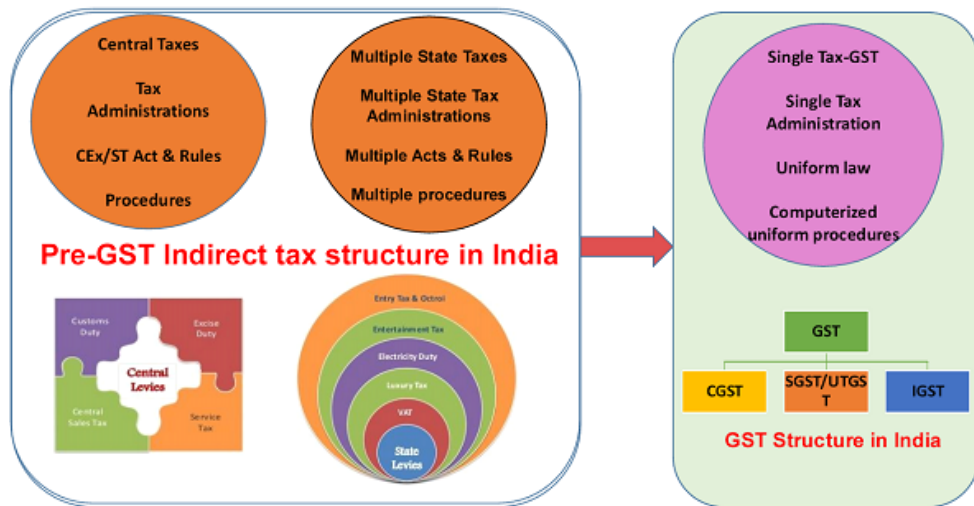


Figure 3: Pre and Post Tax Structure [17]

The cascading effect of these multiple taxes inevitably increased the final price of goods, impacting the competitiveness and sustainability of the handicraft sector. The intricate and complex nature of the pre-GST taxation system significantly hindered the overall growth and sustainability of the handicraft sector, necessitating transformative reform to streamline the taxation process, reduce the burden on the sector, and foster an environment conducive to its growth and sustainability.

### 4 Government Initiatives and Policies

Recognizing the significance of the handicraft sector in preserving traditional skills and promoting sustainable development, the Indian government has implemented several policies and initiatives [16]. The Comprehensive Handicrafts Cluster Development Scheme (CHCDS) has facilitated the formation of handicrafts clusters to equip artisans with improved infrastructure, technology, and market linkages, enhancing production capabilities and promoting sustainability [18]. Initiatives like the "e-Haat" platform and the National Handicrafts Development Programme (NHDP) are designed to expand the sale of handicrafts through online platforms, reducing middleman involvement and improving artisans' income. The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE) provides credit facilities to artisans, enabling investment in crafts and business expansion, contributing to long-term sustainability. Collaborations with institutions like the National Institute of Fashion Technology (NIFT) and the National Institute of Design (NID) offer training and capacity-building programs to artisans.

Geographical Indications (GI) tags protect and promote traditional crafts by ensuring products are region-specific, aiding in the preservation of local craftsmanship and traditions. Initiatives like "Green Crafts" emphasize the use of sustainable and eco-friendly materials in handicraft production, minimizing environmental impact. The Export Promotion Council for Handicrafts (EPCH) works to enhance the export of handicrafts from India, elevating the profile of Indian craftsmen globally and supporting sustainable industry growth [19]. To summarize, the discussed government initiatives and policies encompass various aspects, including skill enhancement, marketing support, and credit facilities, aiming to foster a conducive environment for the growth and sustainability of the handicraft sector.

## 5 GST's Contribution to Sustainable Development

The Goods and Services Tax (GST) has been instrumental in establishing sustainable development, integrating state economies and creating a conducive business environment [20]. The implementation of GST has simplified taxation, leading to improved tax collections and potentially lowering prices over time, stabilizing the economy [21, 22]. It has encouraged transparency and value co-creation, supporting sustainable logistic performance (SLP) and promoting sustainable practices in public entities and local authorities [23, 24]. The economic impact of GST on the handicraft sector has been multifaceted. It has expanded the handicraft artisan market by creating a unified national market, simplifying the taxation system, and reducing compliance burdens [25]. This has increased market access for artisans, enabling them to reach a wider customer base and potentially increase their earnings. Socially, GST has led to the formalization of many previously informal businesses in the handicraft sector, incentivizing artisans to register their businesses and comply with taxation requirements [1]. This formalization has resulted in improved access to financial services, enhanced social security, and heightened status within society. However, the impact of GST on job creation has been intricate, with arguments suggesting that the compliance burden and initial confusion surrounding GST implementation may have temporarily disrupted the sector's workforce [26, 27]. From an environmental perspective, while GST does not directly address environmental issues within the sector, it creates opportunities for favorable environmental outcomes by promoting the use of sustainable materials and production methods in the handicraft sector [18].

## 6 Recent Developments in GST and their Impact

The GST Council has made notable revisions and refinements in the handicraft industry, which have had significant impacts on the sector. One of the significant developments is the reduction of the tax rate on numerous handicraft items from 18% to 12% (EPCH). This reduction has likely eased the financial burden on stakeholders in the handicraft industry, potentially fostering growth and development in the sector. Refinements have also been made to the e-way bill system, predominantly used for goods transportation, aiming to streamline the transportation processes and enhance operational ease and efficiency in the handicraft industry [28]. The applicability of refunds under the refined GST processes is detailed in Figure 4, elucidating the enhancements made to the e-way bill system.

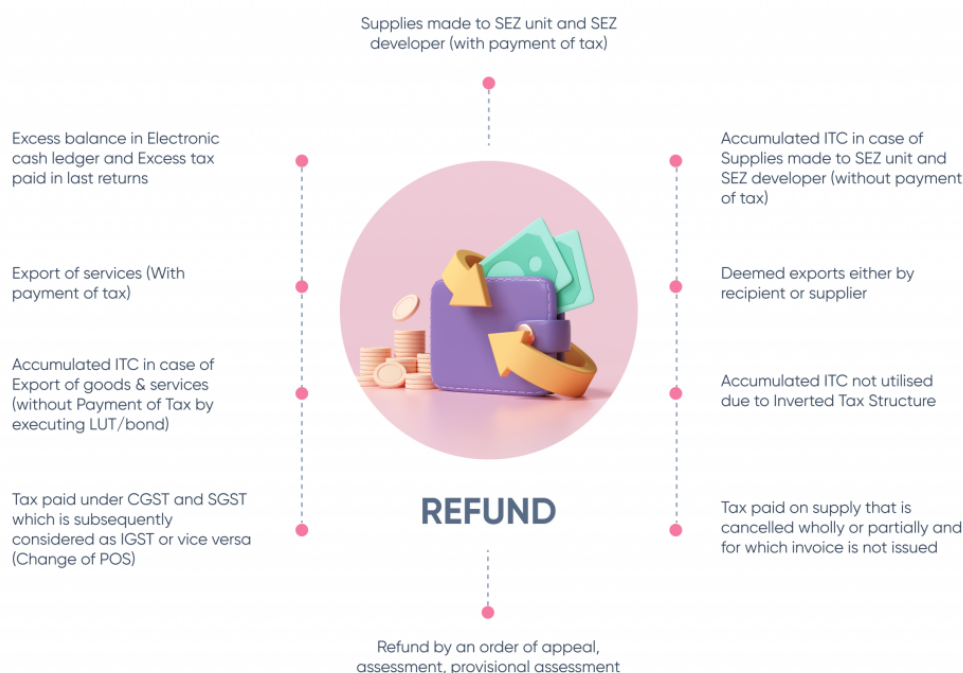


Figure 4: Refunds where RFD-01/01A is applicable [29].

These recent developments in GST have enhanced the ease of operations and reduced the tax burden in the handicraft industry, fostering an environment conducive to growth and development. The streamlined processes and reduced complexity are instrumental in promoting the sustainability and overall progress of the handicraft sector.

## 7 Conclusion

The implementation of the Goods and Services Tax (GST) marked a transformative reform in India's economic landscape, significantly impacting the handicraft sector, a vital repository of the nation's rich cultural diversity and a key economic driver. Before GST, the sector was ensnared in a labyrinth of taxing procedures, characterized by a cascade of taxes and a glaring lack of transparency, which posed numerous challenges and hindered its growth and sustainability. The advent of GST has streamlined the taxation processes, alleviating the financial and operational burdens on the handicraft industry and fostering an environment conducive to its growth and development. The subsequent refinements and adjustments by the GST Council, including the reduction of tax rates and enhancements to the e-way bill system, have further facilitated operational ease and efficiency in the sector. Moreover, the government, recognizing the paramount importance of the handicraft sector, has rolled out a plethora of initiatives and policies. These are aimed at preserving the traditional skills, promoting sustainable development, and enhancing the global presence of the handicraft sector. These initiatives range from the development of handicraft clusters and marketing support through e-commerce to sustainable material promotion and export promotion, significantly contributing to the sector's sustainability and global recognition. In conclusion, the revolutionary changes brought about by GST, along with the supportive government initiatives, have played a pivotal role in mitigating the challenges faced by the handicraft sector, enabling its growth, sustainability, and global recognition, and aiding in the preservation of India's rich cultural heritage. Looking forward, the insights provided by this study open avenues for more nuanced and extensive research. Future studies could focus on a comparative analysis of the impacts of GST across different sectors and its global counterparts. A deeper and more sector-specific exploration into the repercussions of GST and the various government initiatives will offer more profound and comprehensive insights, shedding light on their effectiveness in fostering economic and sustainable development.

## Declaration of Competing Interests

The authors declares that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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## Author Contribution

**Rishika Awasthi** : Conceptualization, Methodology, Data curation, writing—original draft preparation.; **Moiz Akhtar**: reviewing and supervision. **Farhina Sardar Khan**: writing, reviewing, and editing. supervision.

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