

# Post-GST Structural Transformation in North-East India: The Evolving Economic Position of Arunachal Pradesh

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## Abstract

Implementation of Goods and Services Tax (GST) in July 2017 is one of the significant fiscal reforms in India that has significantly changed the economic and social geography of indirect tax taxation. In the North-East (NE) area, which emphasizes tertiary sector, central transfers and a substantial informal economy, this transformation has begun a tortuous structural economic change. This paper discusses the structure transitions in the NE zone post-GST, concentrating on the position Arunachal Pradesh (AP). The research focuses on three central areas: the transition from a non-formal economy to a formal one, the service sector's rapid growth and formalization, and the obvious changes in consumption that occur alongside uniform tax payment and specific rate rationalization. It suggests that the destination-based character of GST and the embedded compliance aspects has substantially bolstered AP's own tax revenues, fostered measurable formalization and improved competitiveness in its core primary and tertiary industries of the country.

## Keywords:

***Goods and Services Tax (GST); Structural Transformation; North-East India; Arunachal Pradesh; Informal Economy; Service Sector.***

## I. Introduction.

India has a fragmented indirect tax system that was a source of cascading taxes over generations and blocked regional markets from integrating. The introduction of GST in 2017 was a major policy development, creating a single, destination based consumption tax framework with the objective of liberalising the taxation framework, encouraging the market and making it easier to operate in an environment of high levels of competition. For the North-East regions, from Arunachal Pradesh, the economic dynamic differs. The state depends on central grants, has a strong primary and services sector with little manufacturing and an extensive informal economy, characterized by traditional crafts, smallholder agriculture and local trade. With low industrial production, Arunachal Pradesh is a net consumer of goods and services. GST operates in such context as a fiscal and structural mechanism that might enhance internal revenue generation and normalize economic activities and enhance market integration. GST influences in Arunachal Pradesh should also take into account the socio-economic and geographical nature of the state. Sparse population and little infrastructure the state's terrain is likely to pose challenges in tax collection and market connectivity, while its rich cultural and natural resources will provide opportunities for tourism and local enterprise growth. The goal is for the GST framework to address these contextual aspects to encourage compliance, strengthen the formal economy and catalyze sectoral growth — specifically in tourism and services. Conceptual and descriptive approaches are adopted and supported by empirical findings in this paper in which empirical trends are examined to interrogate GST's particular role in capitalizing on the state's unique attributes in driving structural economic change and increasing fiscal capacity.

## II. Objectives of the Study.

The specific aims of this study are the following:

1. To assess the form and nature of institutional and macroeconomic transformation in regional economic landscape of North-East India in the wake and beyond of GST, with emphasis in GST-impaired Arunachal Pradesh.

2. To examine the impact of GST in creating a transition from informal to formal economy in Arunachal Pradesh.
3. To examine the impact of destination-based taxation under GST and its impact on the development and formalization of the state service sector.
4. To study consumption behavior of similar patterns of consumption as a result of uniform GST and objective rate rationalization.
5. To derive policy lessons on fiscal autonomy development for consumption-based and peripheral countries and regional inclusiveness.

### III. Research Methodology.

Adopting these findings as a basis, this research uses a conceptual–descriptive and analytical research design supplemented by secondary empirical evidences.

#### (a) Nature of the Study.

Qualitative study was conducted with an additional descriptive study of fiscal and economic trends in the post-GST period.

#### (b) Sources of Data.

The study makes exclusive use of secondary data obtained from:

- GST revenue statistics (official statistics) and state-level tax reports.
- Publications by Government (GST Council, PIB, State GST Acts).
- Policy writing reports by NITI Aayog and academic papers.
- Well-reputed national papers and peer-reviewed policy journals.

#### (c) Analytical Framework.

The analysis is organized on three fundamental dimensions of structural change:

1. Formalization of economy (expansion of the taxpayer base, revenue buoyancy).
2. Sectoral changes, especially in services and primary activities.
3. Consumption-side adjustments based on uniform taxation and rate rationalization.

Trends are analyzed through the prism of fiscal federalism, destination-based taxation, and regional development theory.

### IV. Scope of the Study.

The present study is limited to:

- The post-GST frame (2017-2025).
- N-E of India (Case Analysis- Arunachal Pradesh).
- Structural changes in taxation, formalization, the evolution of services and consumption.

The paper does not make an econometric analysis or state-level statistic-based analysis from a firm-wise perspective, nor does it attempt an interstate statistical comparison but, instead, presents a structural analysis on GST-related trends that uses policy-oriented statistics.

### V. Shift from Informal to Formal economy.

One of the most important envisaged structural result(s) of GST lies in the move from non-formal to formal economy. In Arunachal Pradesh, this evolution is particularly manifest in better tax compliance and revenue buoyancy.

#### A. The Formalization Mechanism.

The ITC mechanism as the main driver of formalization under GST That means that unregistered (informal) businesses that supply to registered businesses have an implicit cost disadvantage, since only registered businesses can claim and pass on ITC. This provides a strong commercial incentive for the informal sector to register.

## B. The empirical evidence based on Arunachal Pradesh.

Arunachal Pradesh has exhibited a significant increase in formalization and tax revenue growth since the implementation of the GST:

**Increase in Revenue:** The government's revenue from GST collections has risen by more than 700% from 2017-18 (₹227 crore) to 2023-24 (almost ₹1,900 crore). This spike gives evidence that economic activities are finally getting placed under the formal tax umbrella.

**Taxpayer Base Expansion:** The number of AP registered taxpayers more than doubled in the post-GST period (e.g. 7,365 in 2017 to over 18,477 at the mid-2025). This increase is in-step with changes from mere informality to a state legal system of business registration, driven by increasing digital access and easier processes.

**In a Policy Context:** This growth in own tax revenue directly translates to support for the state's developmental priorities like infrastructure, healthcare, and education and serves as an effective means of lessening the fiscal burden placed on central compensation.

## VI. Service Sector Growth and Entrance into the Form of Employment.

The Services Subsector driven by Public Administration (PAD), Trade and fast-Developing Tourism—Accounts for a significant share of the Gross State Value Added (GSVA) in Arunachal Pradesh and GST has been an architectural force for growth in this industry.

### A. Tax advantage by destination.

From origin-based (Central Sales Tax (CST)) to destination-based (IGST) and then into the new scheme the State GST (SGST) has been a huge fiscal windfall, especially as a net consuming state for Arunachal Pradesh. Revenue is accruing under the new regime to the state where the consumption (supply) takes place. One of the most important drivers of the evident buoyancy in tax collections has been this reorganization.

### B. Effects on Tourism and Logistics.

**Less Cascading:** Prior to GST, taxes on inputs (i.e., purchases of supplies externally, taxes on capital goods) were not entirely creditable, raising the finished cost of services. The complete and easy ITC under GST has mitigated this domino effect making tourism services (hotels, transportation, and packaged tours) more competitive.

**Logistics Efficiency:** The elimination of a check post and entrance payment (or inward entrance tax) has made moving items into the state relatively efficient. And that decrease in time and cost works for the trade and logistics business sub-sectors of our service economy, enabling improved management and distribution of goods in inventory.

## VII. Change in Consumption Patterns Because of Harmonized Taxing.

GST's uniform tax structure has provided financial validity to the uniformity of prices of goods and services across the country and has affected consumer behavior and product selection in a price-sensitive market such as Arunachal Pradesh rationalization and affordability of the price. The direct impact of universal GST rates has been in the price of fundamental categories of goods:

**Essential commodities:** The GST Council has targeted the rate cuts on essential goods, in particular processed foods (biscuits, pickles), life-saving medicines, and agricultural machinery that have directly brought down rates for the local poor and others. Similarly, biscuits and pickles are now far cheaper at just 7% to 11%, thanks in no small part to substantial reduction in GST rates; this directly contributes in an active effect of increasing the purchasing power effect.

**Agricultural/Horticultural Products:** The rationalization of GST rates on principal local produce and value-added products, such as Arunachal Orange, Kiwi, and Adi Kekir (Ginger), traditionally in the pre-GST bracket of 12-18% down to 5%, has resulted in substantially lower prices for consumers. Market Integration and Favourate of Locally produced Items. This has facilitated a seamless national market by removing inter-state tax differentials. This:

1. **Minimizes Tax Arbitrage:** One will not be tempted by the arbitrage of taxes, in that it would now be less attractive to consumers to buy illicitly from neighboring states for a price advantage from tax incentives.
2. **Boosts Local Competitiveness:** When combined with various rate reductions in conventional crafts (e.g. bamboo furniture, traditional textiles) and dairy-based economies (e.g. Yak Churpi), the local, registered artisans and producers of crafts can attain a comparative advantage over informal traders and big (external) companies, because of their high price discrimination in the general price when used with special tax treatments on traditional handicrafts (e.g. bamboo furniture and classic textiles) and dairy products (e.g. Yak Churpi). It's a subtle change in pattern of choice of consumption preferences from imported goods towards products that promote the local livelihoods and heritage.

## VIII. Conclusion.

GST has been the critical trigger factor for the realignment of the economy of India north east; Arunachal Pradesh is recognized as a beneficiary of GST. The basic structural changes are:

1. **Empowerment of the state finance-wise:** the shift to destination (and indeed national) tax has drastically increased the self-revenue of the state strengthening its status as a fiscal federal actor.
2. **Aims at economic officialization:** The strategic necessity and legal need of ITC and with simple-to-observe digital compliance, has opened a larger tax base and a significant part of the informal economy moved to the formal sector.
3. **Realignment of Sectors:** Less cost and logistics which is good for the service sector, especially tourism and trade. Meanwhile, localized GST rationalizations add value to the primary and artisan industries. And despite remaining challenges such as a need for ongoing tax simplification for micro-enterprises, and investment in the digital backbone required to maintain compliance – it is undeniable that GST started with a progressive, formalizing the structure and fiscally sound restructuring of Arunachal Pradesh, in transition to more economic integration and self-reliance.

## IX. Policy Recommendations.

The post-GST situation in Arunachal Pradesh underlines the role of tax reform as a process behind the structural transformation in peripheral and consumption dominated economies. To consolidate these gains and address emerging constraints the following policy measures are recommended.

1. **Sustaining Formalization without Exclusion.** The GST has immensely created huge numbers of Taxpayers in Arunachal Pradesh; however, compliance continues to be an issue for micro-enterprises, artisans, and traditional traders. The State is expected to reinforce localized efforts for the facilitation of GST, in particular in remote geographies, to offer technical support related to registration, filing and digital compliance.

Streamlined return systems and broader adoption of composition schemes can avoid compliance fatigue, and formalisation can remain less burdensome and more inclusive.

2. Strategic reinvestment for service-sector growth. As a net consuming state, Arunachal Pradesh has also benefited disproportionately from the GST revenue due to destination-based. This would allow them to selectively reinvest these gains into high-employment service-industries (including tourism, trade, and logistics) at a strategic level. Targeted investment into tourism infrastructure, formal homestays, and transport services may increase value capture in the State while also broadening the formal service economy into more services. Linking GST enforcement to sectoral incentives may enhance revenue buoyancy and competitive services sectors, however such as fiscal incentives in the sector.

3. Value adding in Primary and artisanal Activities. Rationalization of GST rates has made prices of local agricultural and handicraft products more competitive on price. To turn this into durable structural change, policy will have to transition away from production support and toward value-chain development. Creation of GST-standardized value-addition clusters for horticulture, bamboo-based industries, and traditional textiles can serve to increase market access and income stability. The integration to national branding programs or to e-commerce platforms under an integrated taxation system will increase competitiveness.

4. Closing the Digital Infrastructure Gap. The success of GST is tied up with the digital divide in Arunachal Pradesh which remains uneven throughout the province. Increasing digital connectivity is also key to ensuring that compliance is prolonged – particularly at the border and interior. Development of capacity with digital literacy and GST processes will be part of existing livelihood and MSME development programs. Better digital infrastructure will lower transaction costs and help facilitate long-lasting formalization.

5. Leveraging GST as an Instrument of a Fiscal Planning Model. This significant rise in GST collections opens up the pathway towards fiscal independence. State needs to institutionalize Data analytics from the GST to track trends across sectors, consumption habits and compliance patterns. The data used to inform evidence-based GST policy can drive focused policy strategies, optimize resource utilization and ease reliance on central transfers. This would reframe GST as not a narrow revenue tool but a strategic tool for developmental planning. X. Policy Implication. More generally, GST ushered in a move toward progressive change for the formalization, fiscal empowerment and service-based expansion, and finally service-driven development in Arunachal Pradesh. Policymaking must shift its policy emphasis from revenue generation towards consolidation, so that GST-induced structural transformation is effectively reflected by inclusive and sustainable regional development.

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