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# Impact of GST On MSMEs' Survival, Growth and Competitiveness: A Comparative Analysis Of Rural And Urban Enterprises

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**Abstract**

Micro, Small and Medium Enterprises (MSMEs) play a vital role in fostering economic growth, employment generation, and regional development. This study examines the impact of the Goods and Services Tax (GST) on MSMEs, with a comparative focus on rural and urban enterprises in terms of survival, growth, and competitiveness. Rural MSMEs are characterized by low capital investment, traditional production methods, and dependence on local resources, whereas urban MSMEs benefit from better infrastructure, access to finance, advanced technology, and wider market opportunities. The implementation of GST has brought structural changes by introducing tax uniformity, transparency, and ease of doing business; however, its impact varies across regions.

Rural MSMEs face challenges such as lack of digital literacy, compliance burden, and limited awareness of GST procedures, which affect their survival and growth. In contrast, urban MSMEs are better equipped to adapt to GST due to technological readiness and professional support, although they face issues like increased compliance costs and competition. The study highlights that GST has improved market integration and formalization, benefiting growth and competitiveness, especially in urban areas. However, rural enterprises continue to struggle with adaptation. The study concludes that strengthening digital infrastructure, simplifying compliance, and enhancing financial inclusion are essential to maximize GST benefits and ensure balanced MSME development.

## Introduction

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in economic development by contributing to employment generation, industrial output, and exports. In India, MSMEs are widely distributed across both rural and urban areas, creating a diverse and dual economic structure.

The introduction of the Goods and Services Tax (GST) marked a significant reform in the indirect tax system, aiming to create a unified national market by replacing multiple indirect taxes. GST has significantly impacted MSMEs by altering tax compliance, pricing, and supply chain mechanisms.

This study focuses on comparing how GST has influenced MSMEs in rural and urban settings, particularly in terms of survival, growth, and competitiveness, and its implications for balanced economic development.

## Objectives of the Study

The primary objective of this study is to analyze the impact of GST on the performance of MSMEs in rural and urban areas, focusing on survival, growth, and competitiveness. It aims to understand how GST has transformed the operational environment of MSMEs and whether its effects differ across regions.

One key objective is to examine the survival conditions of MSMEs post-GST implementation. This includes analyzing compliance challenges, tax burden, digital requirements, and access to financial resources, especially in rural areas where awareness and infrastructure are limited.

Another objective is to study the growth patterns of MSMEs under GST. The study evaluates how GST has influenced market expansion, supply chain efficiency, and formalization, and whether urban MSMEs have gained more advantages compared to rural enterprises.

The study also aims to assess the competitiveness of MSMEs by analyzing cost efficiency, pricing strategies, innovation, and integration into wider markets under the GST regime.

Finally, the study seeks to suggest policy measures to reduce regional disparities and enhance the benefits of GST for MSMEs, particularly in rural areas.

## Review of Literature

The literature on MSMEs highlights their crucial role in economic development and examines the effects of policy reforms like GST on their performance. C. Rangarajan (2018) emphasized that MSMEs, particularly in rural areas, face survival challenges due to limited credit access and weak infrastructure, which are further complicated by GST compliance requirements. Rakesh Mohan (2019) observed that urban MSMEs are better

positioned to adapt to GST due to access to financial systems and digital tools, while rural enterprises struggle with procedural complexities. Reports by the World Bank (2020) indicate that formalization through GST improves transparency but increases compliance burden for small firms. Abhijit Banerjee noted that informal enterprises face difficulties transitioning into formal systems like GST. These studies suggest that GST has uneven effects on MSME survival across regions.

In terms of growth and competitiveness, Michael Porter (1990) emphasized innovation and efficiency as key drivers, which GST supports through market integration. The Organisation for Economic Co-operation and Development (2021) highlighted that tax reforms like GST enhance competitiveness by improving supply chains. Joseph Stiglitz stressed the importance of policy support in adapting to structural reforms. Reports from the Reserve Bank of India indicate that GST has encouraged digitalization among MSMEs, improving efficiency, especially in urban areas. Amartya Sen emphasized inclusive growth, noting that policy reforms must address regional inequalities. Overall, GST has improved competitiveness but has created adaptation challenges for rural MSMEs.

**Concept of MSMEs**

MSMEs are enterprises classified based on investment in plant & machinery and annual turnover.

Micro enterprises are small-scale units that require low investment and are often managed by individuals or families, focusing on localized markets and limited production. Small enterprises operate on a moderate scale, with slightly higher investment and resources, allowing them to expand their customer base and diversify their offerings. Medium enterprises, on the other hand, are larger organizations with higher capacity, greater workforce, and more advanced infrastructure, enabling them to compete in broader markets. Together, these categories form the backbone of economic development, fostering entrepreneurship, generating employment, and contributing to innovation and industrial growth.

This classification helps in policy targeting and financial support, especially under GST where tax thresholds and compliance differ based on size.

**Employment Generation**

MSMEs are a major source of employment.

These types of enterprises generally require low capital investment but demand high labor input, making them accessible to many aspiring entrepreneurs. They play a crucial role in providing employment opportunities across both skilled and unskilled sectors, thereby supporting diverse segments of the workforce. Additionally, by creating

job prospects within local communities, they help reduce rural-to-urban migration, allowing people to sustain livelihoods closer to home. In this way, such enterprises not only strengthen local economies but also contribute to balanced regional development and social stability.

GST has promoted formal employment but also increased compliance requirements for small employers.

**Contribution to GDP and Exports**

MSMEs contribute significantly to a nation's GDP and exports, acting as a vital engine of economic growth. By supplying raw materials, components, and services, they provide crucial support to large industries, strengthening the overall industrial ecosystem. Moreover, their active participation in international trade enhances foreign exchange earnings, helping stabilize the economy and improve global competitiveness. Collectively, MSMEs not only drive domestic development but also play a pivotal role in positioning a country on the global economic stage.

GST has improved export competitiveness through input tax credit and removal of cascading taxes.

**Promotion of Entrepreneurship**

MSMEs play a vital role in encouraging self-employment, empowering individuals to start their own ventures and generate income independently. They are strongly supported by various government schemes and initiatives that provide financial assistance, training, and market access, making them more sustainable and competitive. With low entry barriers, these enterprises are accessible to a wide range of people, including those with limited resources or formal education. In addition, MSMEs foster innovation, promote inclusive growth, and help in uplifting marginalized communities by creating opportunities at the grassroots level. They also contribute to balanced regional development by spreading industrial activity beyond urban centers.

However, GST compliance can be a barrier for small entrepreneurs, especially in rural areas.

**Balanced Regional Development**

MSMEs play a crucial role in promoting rural industrialization by bringing manufacturing and service activities closer to villages and semi-urban areas. This not only creates employment opportunities locally but also helps in utilizing regional resources effectively. By spreading industrial growth beyond metropolitan cities, MSMEs contribute to reducing regional disparities, ensuring that development is more balanced and inclusive across different parts of the country. In doing so, they foster equitable

economic progress, uplift rural communities, and strengthen the overall national economy.

GST aims to create a unified market, but rural MSMEs face challenges in adapting.

**Flexibility and Adaptability**

MSMEs are known for their ability to make quick decisions, which allows them to adapt swiftly to changing market conditions and customer demands. Their flexibility also enables them to offer customization of products, tailoring goods and services to meet specific client needs. This responsiveness not only strengthens customer satisfaction but also helps them maintain a competitive edge in diverse markets. By being agile and customer-oriented, MSMEs foster innovation and build strong relationships with their clientele, ensuring long-term sustainability and growth.

Urban MSMEs adapt faster to GST due to better resources.

**Innovation and Competitiveness**

- Technology adoption
- Market expansion

GST enhances competitiveness by standardizing tax systems.

**Linkage with Large Industries**

- Supply chain integration
- Cost efficiency

GST improves supply chain transparency and efficiency.

**Role in Rural Development**

- Supports agro-based industries
- Enhances rural income

GST compliance remains a challenge in rural areas.

**Contribution to Inclusive Growth**

- Supports marginalized groups
- Reduces inequality

GST promotes formalization, aiding inclusive growth.

**Growth Patterns**

**Rural MSMEs**

- Slow but stable growth
- Limited scalability

GST impact: Compliance challenges slow growth

**Urban MSMEs**

- Rapid and scalable growth

GST impact: Better market access and expansion

**Competitiveness Analysis**

**Rural MSMEs**

- Cost advantage
- Limited innovation

GST impact: Weak competitiveness due to compliance issues

**Urban MSMEs**

- High innovation
- Strong networks

GST impact: Improved competitiveness

**Key Differences**

| **Aspect** | **Rural MSMEs** | **Urban MSMEs** |
|---|---|---|
| Survival | Subsistence-based | Efficiency-based |
| Growth | Slow | Fast |
| Competitiveness | Local | Global |
| GST Impact | Compliance burden | Growth opportunity |

**Challenges**

**Rural MSMEs**

- Lack of GST awareness
- Poor digital literacy
- Compliance burden

**Urban MSMEs**

- High competition
- Increased compliance cost

**Opportunities**

- Digital transformation
- Government GST support schemes
- Market expansion

**Suggestions**

- Simplify GST procedures
- Improve rural digital infrastructure
- Provide GST training programs
- Enhance financial inclusion

**Conclusion**

GST has significantly transformed the MSME sector by promoting transparency, efficiency, and market integration. However, its impact is uneven across rural and urban enterprises. While urban MSMEs benefit from improved competitiveness and growth opportunities, rural MSMEs face challenges in adapting to compliance requirements. A balanced policy approach focusing on digital inclusion, infrastructure development, and capacity building is essential to ensure that GST contributes to inclusive and sustainable economic growth.

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