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Structural Transformation in Unorganized Sectors Post-GST: A Secondary Data Analysis of Small Traders and Micro-Enterprises in India

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Abstract

In 2017, with the introduction of the Goods and Services Tax (GST), there was another fiscal reform, which was intended to harmonize the fragmented system of taxation in India and to stimulate the formalization of the unorganized sector. The paper focuses on the structural change that happened to small traders and micro-enterprises in India based on the secondary data of NSSO, PLFS, ASI, GSTN, and MSME reports of 2014-2023. The study uses a descriptive and analytical design to examine registration trends, employment trends, compliance trends, and enterprise performance trends. The results indicate partial or limited formalization exhibiting higher GST registrations and still high informality, particularly by micro enterprises. Although GST has led to greater transparency and integration of the supply chain, it has created high compliance costs, digital issues, and working capital limitations that have had a negative impact on survival and profitability of smaller units. Employment trends reveal that there is still prevalence of informal job with minimal social security benefits. Analysis of the sectors shows that transformation in trade, manufacturing and services is uneven. The research finding is that GST has brought about structural reform, but has not completed inclusive formalization. The key policy measures to make the unorganized sector in India transform equitably and sustainably are simplified compliance, digital capacity-building and financial inclusion.

Keywords: Goods and Services Tax (GST), Informal Sector, Structural Transformation, Micro-Enterprises, Formalization

Introduction

The unorganized or informal sector is a significant part of the Indian economy, which consists of unincorporated businesses, including proprietary and partnership enterprises, which are not subject to formal regulatory and taxation (Kalyani, 2016). This industry is normally low productivity, unregistered and relies on family labor or casual employment. It encompasses various activities, such as manufacturing, trade, construction, and services, as it employs over 80% of the non-farm workforce and has a substantial contribution to the net domestic product in the country (Mehrotra and Giri, 2023; Sen and Das, 2016; Verma and Giri, 2017). Notably, it serves as an unemployment cushion, particularly to low-skilled laborers, although it is not completely incorporated into institutional systems (Kalyani, 2016).

In this industry, small traders and micro-enterprises are very crucial in maintaining the economic system of India. They provide almost 45 percent of the manufacturing production, 40 percent of exports, and about 30 percent of GDP, and also provides employment to more than 110 million people (Mehrotra and Giri, 2023; Wickramasinghe and Premachandra, 2021). These businesses sustain the local economies, evenly allocate income, and sustain supply chains both in rural areas and urban areas. Nevertheless, they are constantly struggling with insufficient access to finance, resources, and they are susceptible to economic shocks (Ranjan, 2021; Wickramasinghe and Premachandra, 2021).

On July 1, 2017, the introduction of the Goods and Services Tax (GST) was a major fiscal change to have indirect taxes unified, increase transparency, and facilitate economic integration (Harishekar and Manoj, 2021; Mohan and Ali, 2018; Singh and Singh, 2024). On the one hand, GST has stimulated formalization with the help of digital compliance, input tax credit, and minimum registration requirements, but on the other hand, it has created a burden of compliance and digital obstacles (Ghosh, 2022; Shacheendran, 2024). Although it has a transformative purpose, it can be argued that there is an uneven formalization and continued informality. The proposed research fills these gaps by analyzing secondary data that includes the trends of formalization, the effects of compliance, and performance of the enterprise to give informed input into the development of inclusive policies (Ghosh, 2022; Singh and Singh, 2024).

Literature Review

Theoretical Perspectives on Formalization

The formalization of informal sector is described in terms of dual economy theories, which highlight the co-existence of the formal and informal markets in the developing economies by the regulatory barriers, weak enforcement, and inability to access credit (Kalyani, 2016; Mehrotra and Giri, 2023). According to theoretical approaches to regulatory burden and technological change, high costs of compliance and procedural complexity tend to prevent small businesses of joining the formal system (Kanbur, 2017). Formalization is deemed to be critical in enhancing productivity and employment security through facilitation of access to institutional finance, markets and social protection, thus contributing to structural transformation (Mehrotra and Giri, 2023; Ranjan, 2021). Nonetheless, formalization that is policy-based but not sufficiently supported by the institutions can strengthen inequalities (Kar et al., 2019).

Studies on Goods and Services Tax and Informal Sector

Formalization in the informal economy of India has been widely considered triggered by the introduction of GST in 2017 (Ghosh, 2022; Singh and Singh, 2024). Research indicates that GST upset the old systems like cash-based dealings, and non-registered supply chains, driving the companies to the digital realm of compliance and tax registration (Ghosh, 2022; Sinha and Nayak, 2021). Nevertheless, the higher compliance costs in the range of 3-6 percent of the turnover have resulted in adaptive behavior, including selective registration and partial digitalization that is referred to as limited formalization (Singh and Singh, 2024). Although GST increases transparency, its electronic platform presents a problem to companies with low technological ability (Shacheendran, 2024; Singh and Singh, 2024).

Impact of GST on MSMEs and Small Traders

The effect of GST on small traders and the MSMEs is varied. Although it decreases cascading taxes and enhances the market access of bigger businesses (Harishekar and Manoj, 2021; Mohan and Ali, 2018), micro-enterprises experience the problems of compliance burden, slow refunds, and decreased competitiveness (Ghosh, 2022; Sinha and Nayak, 2021). Regressive effects are still present even with the benefits of integration in smaller units (Singh and Singh, 2024; Srivastava et al., 2025).

Research Gaps

Current literature is mainly centered on short-term or regional effects and less secondary data is used to investigate structural change in the informal sector over the long term (Ghosh, 2022; Singh and Singh, 2024). It lacks a thorough study based on such national statistics as NSSO and PLFS (Kanbur, 2017; Sharma and Sharma, 2026). The proposed study fills these gaps by using a secondary data-based methodology (Ranjan, 2021).

Objectives of the Study

1. To analyze structural changes in unorganized sectors post-GST
2. To examine the impact of GST on small traders and micro-enterprises
3. To assess formalization trends using secondary data
4. To evaluate challenges faced by informal businesses

Research Questions

1. Has GST led to formalization of informal enterprises?
2. What structural changes are observed in employment and enterprise patterns?
3. Is there a significant impact on survival of micro-enterprises?

Methodology

The research design used in this study is the descriptive and analytical research design that will be used to explore structural transformation in the unorganized sector after introduction of Goods and Services Tax (GST). It is based on secondary data gathered on the credible and nationally representative sources such as NSSO, PLFS, ASI, GSTN (registration and compliance data), and Ministry of MSME reports. The analysis will be conducted with the comparative time period (before GST (20142016) and after GST (20172023)) to evaluate the change in formalization, employment pattern, and performance of the enterprise. The most important variables are GST registration trends, informal employment shares, enterprise size and survival, as well as the compliance-related variables like cost and digital adoption.

The research uses trend analysis, comparative analysis, and calculation of percentages and growth rate to assess the changes over time and analysis by sector; trade, manufacturing, and services. The results have been put down in tables and graphical representation to make them understandable. Nonetheless, secondary data might restrict the ability to capture firm-level differences and informal coping, and variations between data collection can impact comparability. Though these are the

limitations, the methodology gives a strong structure of analyzing macro-level structural changes in unorganized sector.

Conceptual Framework

This paper uses a conceptual framework that assumes the existence of a causal pathway: GST implementation → Compliance → Formalization → Structural Transformation. An independent variable, GST implementation (implemented in 2017), is the primary driver of the disruption in informal mechanisms in the unorganized sector because it is IT-enabled and requires digital compliance (Ghosh, 2022; Shacheendran, 2024; Singh and Singh, 2024). It Formalization, in its turn, affects the final outcomes of structural transformation (dependent variables: employment patterns and enterprise growth), which may allow the survivors to have access to credit, markets, and scale economies, but may lead to job losses and reduced competitiveness of the smallest units in the face of uneven capacity (The framework is based on two hypotheses: moderated by digital literacy, compliance strains are reduced, leading to positive growth; and by existing barriers, exclusion is increased, as postulated by dual economy models and regulatory burden theories (Kalyani, 2016; Kanbur, 2017).

Table 1: Conceptual Framework Variables and Description

Variable Type	variables	Description
Iindependent	ST Implementation	Means the Goods and Services Tax reform of 2017, which req he digital registration, electronic invoicing, and input tax claims (Singh and Singh, 2024).
Iintervening	Compliance Iigital Literacy	as financial and administrative costs (calculated as 3–6 per turnover) and digital skills gaps that do not facilitate adaptation of small traders and micro-enterprises (Bhalla et 023;Singh and Singh, 2024).
Ddependent	Formalization	Refers to the partial adoption of informal enterprises in term registration and compliance to reduce the use of cash-transactions (Ghosh, 2022).
Ddependent	Eemployment	Meanings Changes in employment patterns, level

	Eenterprise Growth	of product and survival or growth of micro-enterprises in post-GST pe Mohan & Ali, 2018; Ranjan, 2021).

The model will inform the secondary data analysis, and test the pathways through trend and comparative measures of NSSO/PLFS/GSTN. This methodological framework allows conducting a strong evaluate the dynamic interaction between policy implementation and the development of the unorganized sector and goes beyond anecdotal evidence to quantitatively measure systemic change (Bari et al., 2024).

Data Analysis and Interpretation

1. Trends in GST Registration Increase in registered firms

Since the introduction of post-GST in 2017, the number of registered firms has increased significantly, especially in the unorganized sector of MSMEs. Recent estimates show that about 12.1 million taxpayers and most of them MSMEs under VAT or excise regimes have registered with the GST Network (Mehrotra and Giri, 2023), which is a type of partial formalization under the influence of mandatory digital compliance, although registration rates are not as high as they should be, particularly in manufacturing micro-enterprises.

2. Changes in Informal Sector Employment Shift in labor patterns

Post-GST informal sector jobs continue to be the prevailing, about 68% of non-farm jobs are registered enterprises with fewer than 10 workers, and higher in services, while both PLFS and NSSO data show heavily concentrated levels of informality (PLFS), and still fail to benefit with social security due to scale effects (Parida and Madheswaran, 2023).

3.Impact on Small Traders Entry/exit trends

According to surveys, GST has increased entry barriers by increasing compliance and technology requirements, leading to increased exit rates of the smallest units (Sinha and Nayak, 2021; Srivastava et al., 2025). It has created disrupted supply chains and wastes the input tax credit claims, which led to informal survival tactics such as selective registration (Sinha and Nayak, 202

Profitability and sustainability

The working capital blockages and the delays in making refunds have hurt profitability, with small traders experiencing regressive overhead costs; composition schemes have not been profitable enough but have shown marginal profitability in the face of reverse

charge complications (Bhalla et al., 2023; Ghosh, 2022)

3.Micro-Enterprise Performance Output, productivity, survival

The compliance costs and shocks put a strain on the micro-enterprises, 91 percent of which make up the major part of the establishments in comparable settings, resulting in stagnant outputs and low productivity after GST due to the intricate rates of formalization (e.g., 76 percent of the industrial labor force).(Ranjan, 2021) Because of the rates of formalization.

4.Sector-wise Analysis

The e-invoicing threatens the sustainability of trade in acute ways, manufacturing is facing limited formalization, and various services are characterized by labor mobility amid the ongoing informality (Mehrotra and Giri, 2023; Sharma and Sharma, 2026).

Findings

Evidence of Partial Formalization

Since the introduction of post-GST, a significant increase is registered in firms, especially MSMEs in the unorganized sector with millions moving out of previous tax regimes. Registration levels however, are still lower than is desirable particularly when it comes to registering a micro-enterprise in manufacturing since a lot of small units avoid complete compliance because of threshold limits as well as cost.

Increased Compliance Burden

There are huge financial and administrative costs and obligations, such as digital registration, invoicing and claims of input tax credit that have been placed by GST. Small traders and micro-enterprises are exposed to increased technology pressure, working capital strains, and individual transactions held back, and compounded by things such as reverse charge systems, disproportionately impacting people with finite resources.

Mixed Impact on Micro-Enterprises

Compliance costs impose deadweight output levels, low productivity and strained survival rates on micro-enterprises, which are low fixed capital provides some survival. Those who are digitally proficient units boast of incremental growth and access, and the smallest face job losses, supply-chain issues, and risk of exclusion.

Structural Shift towards Organized Sector

The informal sector of employment is still largely prevalent with the majority of the non-farm employment being served by small firms (fewer than 10 workers) but GST

has restructured cash-based operations that have shifted labor to own-account enterprises, and to partial formalization. The
integrated sectors include trade, manufacturing, and services sectors, which are characterized by a limited integration accompanied by a high degree of informality and progressive patterns in registration and monitoring.

Discussion

Comparison with Previous Studies

The results are in line with previous studies that cite the effect of making GST beneficial in enhancing partial formalization within MSMEs and the informal sector but are characterized by unresolved obstacles (Ghosh, 2022; Singh and Singh, 2024). As is the case with Ghosh (2022), the informal practices are disrupted, and the micro-enterprises receive only slight advantages as indicated in stagnant productivity. Singh and Singh (2024) too mention higher registrations and formalizations that are bound, which is in line with the high rates of informal employment that persist (Mehrotra and Giri, 2023). Mixed results are supported by other studies, with the compliance costs incurred cancelling any gains (Bhalla et al., 2023), and supply chain shocks with delayed input tax credit increased small trader quits (Harishekar and Manoj, 2021). The given study is also important as it draws the attention to industry-specific differences (Parida and Madheswaran, 2023; Ranjan, 2021).

Interpretation of Structural Transformation

GST represents the change in favor of some form of formalization of informal businesses into formal taxation with its appearance in increasing numbers of formal registrations despite the overpowering informality of relevance (Mehrotra and Giri, 2023; Ranjan, 2021). Such a constrained formalization represents the shift of the cash-based operations to the digital form of compliance without significant productivity improvements (Ghosh, 2022; Singh and Singh, 2024). Informality is maintained through selective registration facilitated by threshold exemptions especially in the trade and manufacturing sectors (Parida and Madheswaran, 2023; Srivastava et al., 2025). It is more of a cascading effect in which larger organizations pressure smaller units to do it, yet they still have to fight against the economies of scale (Patnaik, 2026).

Economic and Social Implications

GST makes the economy more efficient and transparent, but puts MSMEs under regressive pressure, especially in terms of refund time and compliance expenses (Bhalla

et al., 2023; Singh and Singh, 2024). Although beneficial to market integration, the general growth of micro-enterprises is restrained by the stagnation of the inclusive path (Roy et al., 2021; Sharma and Sharma, 2026). In social terms, the precarious nature of employment is perpetuated by informality, which has in a larger proportion involved the vulnerable population (Abraham et al., 2021; Parida and Madheswaran, 2023). To solve these obstacles, the policy changes that concentrate on simplification, digital support, and capacity-building are necessary (Singh and Singh, 2024).

Policy Implications

Simplification of GST Compliance

The GST processes must be made easier by increasing the registration requirements, facilitating the process of the returns and automating the refunds to limit compliance costs. The reduction of issues like reverse charge and e-invoicing can facilitate working capital limitation in small units.

Support for Small Traders

Specialized assistance, such as complimentary compliance services and allowances, is very necessary. Sector-specific exemptions and helpdesks are capable of enhancing sustainability and slow formalization graduality.

Digital Training Initiatives

Technology solutions Digital literacy workshops on GST systems, invoicing, and tax credits could help to narrow techno gaps and improve enterprise flexibility.

Financial Inclusion Measures

Financial stress can be minimized by making credit and insurance more affordable and inclusive growth can be supported.

Limitations of the Study

The research is based on the secondary data, with the possible risk of bias or discrepancies in these data and the lack of updated information on specific aspects of the firms, as the official surveys such as NSSO and PLFS might include.

The fact that there are gaps of data in the informal sector presents significant issues, since micro-enterprises and own-account businesses are not registered and therefore they are not accurately measured in registration, labor movements, and productivity alterations in cash-based activities.

Moreover, results are limited to mainly short-term GST impacts (20172023), long-term consequences, including permanent formalization, inclusive growth, or

sectoral shift, as unclear in changing policies and economic shocks.

Suggestions for Further Research

Primary data studies

Primary data should be collected in the future through firm-level surveys and interviews with the micro-entrepreneurs and own-account enterprises. This would yield real-time compliance expenditures, digitalization adaptation issues and experience of labor reallocation after GST that close the gaps in secondary data such as NSSO and PLFS since it will make unreported exits, productivity changes, and coping behavior in the cash-based operations visible.

State-wise comparative analysis

At the state level, comparisons would be made of registration rates, informal employment persistence and formalization cascades due to regional enforcement, infrastructure as well as economic diversity. These types of analysis would know the best practices to integrate progressive integration of informal sectors to counter the imbalanced burdens on vulnerable MSMEs.

Sector-specific studies

Beneath-the-surface sector research, such as manufacturing lags, the vulnerability of the trade and the OAE growth of services, would help unravel the differentiated effects on output, working capital, and inequality. These analyses would investigate the long-term productivity test and policy modifications towards visibly fair structural change.

Conclusion

The Goods and Services Tax in India has become the driver of a slow formalization, especially with the incentives of input tax credit that cause cascades in the chain of supply bringing small suppliers on board and the larger firms initiating the process. The solution to low-productivity traps in trade and manufacturing is selective registration through threshold exemptions and composition schemes that partially overcome the low-productivity ceiling but micro-units remain because of high costs of compliance and working capital constraints caused by delayed refunds. GST also boosts efficiency and

transparency at the expense of backwards charges on the MSME sector to curtail inclusive growth even as micro-enterprise output remains stationary and informality remains endemic. In social terms, it intensifies precarious jobs which are mostly applied

to women, lower class and poor.

The policy needs to be supportive between reducing compliance costs through increased thresholds, simpler returns, and automatic refunds; enabling part of the direct support such as subsidized services and online training to small traders; and bringing on board financial inclusion support. These reforms are guaranteed of gradual formalization, fair labour redribing and structural transformation sustainability, utilizing the GST potential of wider economic resilience.

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