

## India's Reform Strategy: Evolution, Impact, and Challenges

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### Introduction

Over the past decade—and with renewed momentum in the last three to four years—India has witnessed significant transformations in its economic policy framework, marking a new and more decisive phase in its development strategy. While the broad thrust of these reforms continues to align with trends observed in other developing economies and post-socialist countries—namely the reduction of excessive government controls, expansion of the private sector's role, strategic reallocation of public resources, and greater integration with global trade and investment—the recent phase reflects a sharper emphasis on structural reforms, digital governance, infrastructure-driven growth, and self-reliance under initiatives such as *Make in India*, *Digital India*, *Atmanirbhar Bharat*, and large-scale production-linked incentive (PLI) schemes.

These reforms have generated intense debate both within India and abroad. International observers have generally welcomed India's reform trajectory, often advocating a faster and deeper implementation in view of intensifying global competition and shifting geopolitical dynamics. Within the country, however, opinions remain diverse. While the broad direction of reform now enjoys widespread acceptance across political and economic spectrums, differences persist regarding the appropriate pace, sequencing, and social safeguards associated with these changes. There is strong support for easing bureaucratic controls on domestic producers, yet concerns remain over the speed of trade liberalisation, exposure of domestic industries to foreign competition in the presence of labour market rigidities, and the scale and scope of privatisation of public sector enterprises.

These debates highlight the complexity of reform design, particularly in an environment constrained by social equity considerations, employment concerns, and political feasibility. The challenge of implementing an optimal reform package in a phased manner continues to confront policymakers with "second-best" dilemmas, where delays or partial implementation in one area may dilute or even counteract the gains in another. Contemporary literature on reform sequencing offers valuable insights into these trade-offs, though it remains far from definitive, especially in the context of India's unique institutional and socio-economic conditions.

This paper provides an overview of India's recent reform experience, outlining the compulsions that have shaped both the sequencing and the pace of policy change. It evaluates the internal coherence of the evolving reform package and offers a tentative assessment of the economic and institutional outcomes achieved at the current stage of implementation.

### Objectives of the Study

1. **To analyse the rationale behind India's gradualist approach** to economic reforms since 1991.
2. **To examine the scope, coverage, and sequencing** of major reform components across fiscal, industrial, trade, financial, agricultural, and labour policy domains.
3. **To evaluate the internal coherence** of India's evolving reform package and its alignment with political economy constraints.

4. **To assess macroeconomic, structural, and sectoral outcomes** resulting from three decades of liberalisation and institution-building.
5. **To identify persistent challenges and policy gaps** that continue to influence India's long-term growth potential.
6. **To offer insights into the future trajectory of reforms**, particularly in the context of digital governance, infrastructure-driven growth, and global integration.

### Research Methodology

This study employs a **qualitative, analytical, and review-based methodology** that synthesises:

- **Secondary data** from established research literature (e.g., Panagariya, Joshi & Little, Rodrik & Subramanian, NITI Aayog, RBI reports, Government documents).
- **Policy analysis** of key reforms such as GST, IBC, labour law consolidation, digital governance initiatives, and the Make in India and PLI programmes.
- **Comparative historical analysis** of pre- and post-1991 reforms to understand continuity, departures, and structural shifts.
- **Theoretical frameworks** from international literature on reform sequencing, political economy constraints, and gradualist vs. shock-therapy approaches.
- **Outcome assessment** using qualitative indicators related to macroeconomic stabilisation, growth, investment trends, and sectoral performance.

This methodological approach enables a holistic and multidimensional evaluation of India's reform trajectory rather than relying on single quantitative indicators.

### 1. A Gradualist Approach to Economic Reforms in India

India's economic reforms have followed a gradual, evolutionary path rather than rapid "shock therapy," reflecting its political economy, institutional constraints, and historical context. Understanding this gradualism is essential for analysing the post-1991 reform trajectory.

The 1991 reforms were triggered by a short-term balance of payments crisis rather than a structural economic collapse. The economy had grown at about 5.5% during the 1980s—higher than the earlier 3.5–4% "Hindu rate of growth"—and above many developing economies (Panagariya, 2008; Joshi & Little, 1996). This growth was attributed to limited liberalisation measures introduced in the 1980s. These included relaxation of industrial licensing, a larger role for the private sector, reductions in direct taxes, and partial liberalisation of trade and foreign investment. These steps eased controls without fully dismantling the regulatory regime (Rodrik & Subramanian, 2005; Bhagwati & Panagariya, 2013).

The positive outcomes of these early reforms created support for a gradualist approach. Consequently, the 1991 reforms adopted calibrated liberalisation to maintain macroeconomic stability and social cohesion. This incremental approach continued through the 1990s and 2000s in trade liberalisation, financial sector reform, disinvestment, tax reform, and phased capital account liberalisation (Ahluwalia, 2002; Panagariya, 2008).

India's democratic and diverse political system further necessitated gradualism. Sustaining major reforms required a broad political consensus, making abrupt policy shifts difficult. The minority government of 1991 especially depended on cautious sequencing (Jenkins, 1999). Later reforms, such as the GST, IBC, labour codes, and digital governance, also evolved through prolonged negotiations and phased implementation (Mukherjee & Rao, 2021; Government of India, 2016).

Even during the COVID-19 period, reforms under the Atmanirbhar Bharat initiative—encompassing agriculture, MSMEs, digital infrastructure, and PLI schemes—followed this evolutionary pattern (NITI Aayog, 2021).

Overall, India's gradualist strategy has prioritised stability, political feasibility, and institutional learning, shaping its transition from a state-controlled to a market-oriented economy.

## **2. The Scope and Coverage of the Reforms**

Despite following a gradualist strategy, the post-1991 reforms marked a decisive break from the limited liberalisation of the 1980s. Unlike earlier deregulation within a protected economy, the new reforms aimed at comprehensive global integration through trade, foreign investment, technology, financial markets, and competitiveness of domestic enterprises. The objective was to create a market-oriented, outward-looking economy within four to five years (Ahluwalia, 2002; Panagariya, 2008).

Reforms required system-wide institutional change across fiscal policy, industry, trade, finance, taxation, public sector governance, agriculture, and labour markets. While 1991–93 focused on macroeconomic stabilisation, reforms deepened through the 2000s and accelerated after 2014 with second-generation reforms such as GST, IBC, Digital India, labour law consolidation, and PLI schemes (Government of India, 2016; NITI Aayog, 2021).

### **A. Fiscal Stabilisation**

Fiscal stabilisation was placed at the core of reforms, consistent with sequencing theory (Williamson, 1994; Fischer, 1995). In 1990–91, the Central Government fiscal deficit was 8.4 per cent of GDP, and the combined deficit was nearly 10 per cent. Through tax measures, subsidy rationalisation, and expenditure control, the deficit fell to 5.9 per cent in 1991–92 and 5.7 per cent in 1992–93. Key measures included abolition of export subsidies, fertiliser subsidy restructuring, and hard budget constraints on public enterprises, though this also led to compression of developmental spending (Joshi & Little, 1996).

After a temporary slippage in 1993–94, fiscal discipline was institutionalised through the FRBM Act, 2003, which imposed statutory deficit limits and ended automatic deficit monetisation. Though suspended during major crises, it continues to anchor fiscal policy (RBI, 2023).

### **B. Industrial Policy and Foreign Investment**

The New Industrial Policy, 1991 dismantled the licensing system and removed MRTP Act restrictions on firm expansion (Bhagwati & Panagariya, 2013). Public sector exclusivity was reduced, opening power, telecom, mining, aviation, and infrastructure to private and foreign participation.

FDI policy shifted to a largely automatic approval system, with 100 per cent FDI now permitted in most sectors (DPIIT, 2023). Annual inflows rose from under \$200 million in the late 1980s to over \$70 billion in 2022–23.

### **C. Trade and Exchange Rate Policy**

Quantitative import restrictions were dismantled, and tariffs were reduced from over 200 per cent in 1991 to below 10–15 per cent by the 2010s (Panagariya, 2008; WTO, 2023). Exchange rate reform progressed from the 1991 devaluation to a unified market-determined rate in 1993. Current account convertibility was adopted in 1994, while capital account liberalisation proceeded cautiously.

This managed openness helped India withstand global shocks such as the Asian Crisis, the Global Financial Crisis, and COVID-19 (RBI, 2023).

#### **D. Tax Reforms**

Following the Chelliah Committee (1991), tax reform focused on simplification and broadening the base. Key outcomes include reduced personal income tax rates, corporate tax rationalisation including the 22 per cent regime (2019), tariff reduction, and the introduction of GST in 2017 (Government of India, 2017; NIPFP, 2022).

#### **E. Public Sector Policy**

India adopted gradual disinvestment rather than mass privatisation. Public enterprises were subjected to market discipline through stock listings and withdrawal of automatic budgetary support. The IBC (2016) strengthened hard budget constraints. Strategic privatisation expanded after 2016 in aviation, telecom, and hospitality.

#### **F. Financial Sector Reforms**

Based on the Narasimham Committees, reforms included CRR/SLR reduction, interest rate deregulation, Basel norms, bank recapitalisation, and entry of private banks. SEBI was established in 1992, electronic trading expanded, and portfolio flows liberalised. Digital public infrastructure such as UPI and Aadhaar-based KYC now anchors financial inclusion (World Bank, 2022).

#### **G. Reforms and Agriculture**

While price incentives improved, public investment remained uneven. Major post-2014 initiatives include PM-KISAN, Soil Health Cards, e-NAM, and irrigation programmes. The 2020 farm laws were repealed after political opposition, reaffirming democratic constraints on reform.

#### **H. Labour Market Reforms**

Between 2019–2020, 29 central labour laws were consolidated into four labour codes covering wages, industrial relations, social security, and occupational safety (Government of India, 2020).

### **3. A Tentative Assessment (Updated)**

The reforms represented a system-wide transformation covering macroeconomic management, industry, trade, taxation, finance, public sector governance, agriculture, and labour. Although institutional change has a long gestation, outcomes can be assessed in three dimensions: stabilisation, growth, and structural transformation.

#### **A. Macroeconomic Stabilisation**

Inflation declined from 17 per cent in 1991 to below 9 per cent by 1993–94. Foreign exchange reserves rose from \$1.2 billion in June 1991 to over \$15 billion by 1994 (Joshi & Little, 1996; RBI, 2023). Exports surged and investor confidence strengthened, with FDI inflows now exceeding \$50–70 billion annually (DPIIT, 2023).

#### **B. Growth Performance**

After an initial decline to 1.1 per cent in 1991–92, growth recovered and averaged over 8.5 per cent during 2003–08 (Panagariya, 2008). Post-2008 growth reflected cyclical volatility, including the COVID-19 contraction and rebound (World Bank, 2023; RBI, 2023). Long-term growth has clearly shifted upward.

#### **C. Industrial Performance**

Industrial growth was initially subdued but later diversified into automobiles, pharmaceuticals, steel, electronics, engineering, and IT services. However, manufacturing's GDP

share remains around 15–17 per cent, constrained by labour, land, and infrastructure bottlenecks (NITI Aayog, 2021).

#### **D. Investment Performance**

Investment declined initially but surged during the 2000s, crossing 35 per cent of GDP by 2007–08. Since 2011–12, investment moderated due to banking stress and stalled projects but is now supported by NIP, PLI schemes, and rising public capital expenditure.

#### **E. Infrastructure and Public Investment**

Infrastructure remains a binding constraint. Since 2014, highways, railways, ports, renewable energy, and digital infrastructure have expanded rapidly. Public investment has become the main counter-cyclical growth driver (RBI, 2023; Economic Survey, 2024).

#### **F. Fiscal Sustainability**

The FRBM Act (2003) anchors fiscal discipline, though State-level fiscal stress persists. Long-term sustainability depends on power sector reform, subsidy rationalisation, and GST efficiency gains.

#### **G. Overall Assessment**

Three decades of reforms have:

- Restored external stability,
- Raised long-term growth,
- Deepened global integration,
- Built modern financial, tax, and digital systems.

Yet constraints remain in labour, land, infrastructure, and sub-national fiscal health. The evidence suggests that India's gradual, democratically negotiated reforms have successfully transformed the economy, though the full manufacturing and employment dividend remains unrealised. Sustained growth above 7–8 per cent will depend on investment-led expansion, infrastructure deepening, institutional efficiency, and fiscal discipline.

#### **Major Findings**

##### **1. Gradualism as a Deliberate and Sustainable Strategy**

- India rejected “shock therapy” due to its democratic structure, institutional constraints, and the nature of its 1991 crisis, which, unlike in transition economies, was not a systemic collapse.
- Incremental reform built political consensus and reduced social disruption.

##### **2. Transition from Piecemeal to System-wide Reform**

- Reforms evolved from selective deregulation (1980s) to deep structural transformation post-1991.
- The reform agenda progressively expanded into taxation, financial markets, public sector governance, digital infrastructure, and global value-chain integration.

##### **3. Macroeconomic Stabilisation Achieved Early On**

- Inflation decline, rapid reserve accumulation, and restored external confidence marked the immediate success of reforms.
- FDI inflows increased from negligible levels to tens of billions annually.

##### **4. Growth Performance Improved but Remained Cyclical**

- Long-term trend growth rose significantly compared to the pre-1991 era.
- High-growth periods (2003–08, post-2014) were interspersed with slowdowns (post-GFC, COVID-19).

## 5. Structural Transformation Occurred but Manufacturing Lagged

- While services and technology sectors expanded vigorously, manufacturing failed to achieve the East Asian-style share of GDP due to labour rigidity, land constraints, and infrastructure deficits.

## 6. Investment Cycles Influenced Growth

- Initial investment decline (early 1990s) was followed by a major revival in the 2000s.
- Renewed investment push occurred after 2014 through infrastructure expansion and PLI incentives.

## 7. Persistent Institutional and Fiscal Challenges

- State-level fiscal stresses, incomplete agricultural reforms, labour implementation delays, and legacy infrastructure deficits remain significant constraints.

## Suggestions

1. **Strengthen State-Level Fiscal Reform** to ensure FRBM discipline, reduce power sector losses, and rationalise subsidies.
2. **Accelerate labour and land market reforms** through consensus-based implementation to support manufacturing competitiveness.
3. **Deepen infrastructure investment**, especially in logistics, energy, digital systems, and urban clusters.
4. **Promote diversified export strategies** and integrate SMEs into global supply chains through technology upgrading.
5. **Enhance agricultural market integration** using digital platforms, storage infrastructure, and risk-mitigation tools.
6. **Improve institutional capacity** in regulatory agencies, judicial processes, and insolvency resolution for better economic efficiency.
7. **Maintain macroeconomic stability** through prudent fiscal management and continued tax system simplification under GST.

## Conclusion

India's economic reform experience reflects a **distinctive model of gradual, democratically negotiated transformation** rather than a rapid overhaul of institutions and markets. This approach has generated substantial benefits: restored macroeconomic stability, enhanced global integration, improved investment climate, modernised financial and tax institutions, and expanded infrastructure and digital governance. At the same time, the strategy has produced uneven outcomes, with persistent constraints in manufacturing, labour markets, infrastructure capacity, and state-level fiscal management.

The evidence indicates that while India's reforms have been transformative, the process remains **incomplete and evolving**. Achieving sustained 7–8% growth will require a renewed focus on investment-led expansion, second-generation institutional reforms, and politically feasible but decisive action in labour, land, and agricultural markets. If these challenges are addressed, India's reform trajectory—initiated in 1991 and strengthened in the last decade—has the potential to secure long-term economic resilience, competitiveness, and inclusive development.

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