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ANALYSIS**

TOPIC

**BUILDING A NEW GROWTH STRATEGY
FOR INDIA: BEYOND THE 1991 REFORM
PARADIGM**

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BUILDING A NEW GROWTH STRATEGY FOR INDIA: BEYOND THE 1991 REFORM PARADIGM

Context

- Amid rising geopolitical tensions, deglobalisation, supply-chain fragmentation, and debates on India's growth model, economists are reassessing whether the 1991 liberalisation framework remains adequate for India's development aspirations.

About India's Economic Strategy

- **India's economic reforms of 1991** marked a decisive shift from a state-led development model to a liberalised, market-oriented economy.
- Trade openness, foreign investment, deregulation, and integration with global markets became the central pillars of growth.
- The strategy delivered important gains:
 - ◆ GDP expanded nearly 15 times since 1991.
 - ◆ Poverty levels declined significantly.
 - ◆ India emerged as a major services exporter.
 - ◆ Foreign exchange reserves and global economic integration improved.
- However, unlike China, India did not develop a comparable manufacturing base or technological ecosystem.
- China combined trade openness with aggressive industrial development, technology acquisition, and domestic capability creation while India integrated into global markets largely as a services provider and consumer market.

Why India Needs a New Economic Strategy?

- **Changing Nature of Globalisation:** The era of hyper-globalisation is receding. Trade wars, strategic tariffs, and technology restrictions have weakened the WTO-led global order.
 - ◆ The US-China rivalry is reshaping global supply chains. Nations are increasingly prioritising economic security and industrial self-reliance.
 - ◆ The IMF acknowledges the growing role of industrial policy and strategic state intervention in economic development.
- **Weak Manufacturing Base:** India's manufacturing share in GDP has remained around 15–17%, far below East Asian economies.
 - ◆ India-China trade deficit exceeded **\$100 billion in 2025**.
 - ◆ India imported approximately **\$114 billion worth** of goods from China, largely manufactured products and high-tech equipment.
 - ◆ It exposes vulnerabilities in strategic sectors such as electronics, semiconductors, renewable energy equipment, and defence.
- **Slow Growth in Incomes and Employment:** Income growth for ordinary citizens has been less transformative while GDP growth has been impressive.
 - ◆ China's per capita income has increased nearly **38 times since 1991**.
 - ◆ India's per capita income has increased about **eight times**.
- **Need for Indigenous Technological Capability:** India spends only around **0.65% of GDP on Research and Development (R&D)**, significantly lower than major innovation-driven economies.
 - ◆ Low investment in innovation limits technological self-reliance, high-value manufacturing, and global competitiveness.

- **Demand Constraints in the Domestic Economy:** Weak purchasing power among farmers, workers, and small entrepreneurs restricts domestic demand.
 - ◆ Without broad-based income growth, consumption remains concentrated at the premium end, private investment slows, and economic inequality widens.

Current Efforts & Initiatives Supporting a New Economic Strategy

- **Production Linked Incentive (PLI) Scheme:** Encourages domestic manufacturing in sectors such as electronics, pharmaceuticals, telecom equipment, solar modules, and automobiles.
 - ◆ Seeks to integrate India into high-value global production networks.
- **Atmanirbhar Bharat Abhiyan:** Focuses on self-reliance in critical sectors, and promotes domestic production while remaining globally connected.
- **National Semiconductor Mission:** Supports semiconductor fabrication, packaging, and design ecosystems, and reduces dependence on imported chips.
- **Startup India and Deep-Tech Ecosystem:** Encourages innovation in AI, biotechnology, space technology, and advanced manufacturing.
- **PM Gati Shakti and National Logistics Policy:** Improve infrastructure efficiency, and reduce logistics costs and enhance industrial competitiveness.
- **Digital Public Infrastructure (DPI):** UPI, Aadhaar, DigiLocker, and ONDC create a foundation for innovation and productivity growth.

Way Forward: How India Can Build a New Growth Strategy?

- **Build Domestic Industrial Depth:** India needs to move beyond assembly and develop complete manufacturing ecosystems.
 - ◆ Focus areas are electronics, semiconductors, defence production, green technologies, and advanced machinery.
- **Increase R&D Investment:** India should aim to raise R&D expenditure to at least **2% of GDP over time**.
 - ◆ Measures include tax incentives for innovation, industry-university collaboration, venture capital support for deep-tech startups, and pension fund participation in innovation financing.
- **Expand Domestic Demand:** Growth needs to be driven by rising incomes. It requires higher agricultural productivity, better wage enforcement, skill development, and stronger MSMEs.
 - ◆ A larger domestic market can become a sustainable engine of growth.
- **Promote Planned Urbanisation:** New cities and growth centres can reduce pressure on existing metros, generate construction and manufacturing jobs, and improve productivity through better infrastructure.
 - ◆ Examples such as Amaravati's land-pooling model offer useful lessons.
- **Invest in Human Capital:** India's demographic dividend can become an economic advantage only through quality schooling, technical education, apprenticeships, and industry-linked skill development.
 - ◆ The goal should be to create pathways for youth to 'earn and learn'.
- **Strengthen Institutions and Governance:** Transparent political funding, predictable regulation, contract enforcement, and improved ease of doing business are essential for long-term investment and innovation.

Daily Mains Practice Question

[Q] Examine why India requires a new growth strategy beyond the 1991 reform paradigm. Discuss the key pillars of such a strategy.

[Source: HT](#)

