NEXT IAS

DAILY EDITORIAL ANALYSIS

TOPIC

INDIA'S POST-1991 REFORMS: ON MANUFACTURING & GROWTH

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Context

- Recent discussions on India's post-1991 economic reforms highlight that **industrial de-licensing** failed to accelerate manufacturing growth and job creation while financial markets and software exports boomed.

India Before 1991 Reforms

- India followed a mixed-economy model characterised by **state-led industrialisation, import substitution, industrial licensing and extensive government controls** before 1991.
- The public sector occupied a dominant position in strategic industries, while private enterprises faced restrictions on investment, production capacity and expansion.
- However, the model suffered from **low productivity, bureaucratic controls, limited competition and foreign exchange constraints.**
- The **balance of payments crisis of 1991** compelled India to undertake structural reforms.

Key Attributes of 1991 Reforms

- The **New Economic Policy (1991)**, based on **Liberalisation, Privatisation and Globalisation (LPG)**, introduced:
  - **Liberalisation:** Abolition of industrial licensing for most industries, reduction in import restrictions and financial-sector reforms.
  - **Privatisation:** Greater participation of private enterprises and disinvestment in public-sector enterprises.
  - **Globalisation:** Encouragement of foreign investment, trade liberalisation and integration with the global economy.

India's Economic Reforms Since 1991

- Economic liberalisation was not an entirely sudden development. Several reform initiatives had emerged during the 1980s.
- The **Vadilal Dagli Committee (1979)** questioned the effectiveness of industrial licensing, while the **Rajaraman Committee (1981)** recommended greater access to computers to promote software exports.
- Some liberalisation measures were implemented during the 1980s, with comprehensive reforms following in 1991.
- Subsequent reforms included:
  - Introduction of the Goods and Services Tax (GST) in 2017.
  - Insolvency and Bankruptcy Code (IBC), 2016.
  - Expansion of Foreign Direct Investment (FDI).
  - Digitalisation of financial and public services.
  - Production Linked Incentive (PLI) schemes to strengthen domestic manufacturing.

Changing Role of the Public and Private Sectors

- India has witnessed a substantial shift towards private-sector participation in manufacturing and infrastructure.
- The public sector's share in manufacturing investment declined from approximately 40% in 1980-81 to 24% in 1991-92 and just 8% in 2023-24.
- Similarly, its share in infrastructure investment decreased from around 69% in 1991-92 to 44% in 2023-24, reflecting **greater private participation** in electricity, roads, airports and ports.

Why Delicensing Failed to Transform Manufacturing?

- **Industrial de-licensing** has not substantially increased manufacturing's contribution to the Indian economy despite reducing entry barriers and encouraging competition.

- Key indicators highlight this limitation:
  - Manufacturing's share in Gross Value Added (GVA) increased from approximately 12% in 1950-51 to 18–19% by the mid-1990s but subsequently declined to around 14% in 2024-25.
  - Its share in total investment decreased from 41% in 2011-12 to 32% in 2023-24.
  - Manufacturing continues to employ only around 10–11% of India's workforce.
- Although large conglomerates such as Tata, Reliance, Adani and Aditya Birla expanded significantly, their diversification across multiple sectors has not automatically created globally competitive manufacturing capabilities.
- Thus, **removing regulatory barriers is necessary but insufficient**. Industrial development requires technological innovation, skilled labour, research and development, competitive supply chains and export-oriented production.

India-China Comparison: Missing Innovation Ecosystem

- The manufacturing contributions of both economies were relatively comparable during the early 1990s.
- China subsequently developed large-scale manufacturing capabilities, specialised industrial clusters and globally competitive technology-intensive enterprises.
  - China's success was supported by export-oriented policies, infrastructure investment, technology absorption, manufacturing ecosystems and sustained industrial policy.
- India, meanwhile, has struggled to develop a comparable ecosystem of technology-driven start-ups and specialised manufacturing enterprises.
- The lesson is that economic liberalisation needs to be complemented by innovation, research and development, economies of scale and integration into global value chains.

Financial Liberalisation

- Private-sector banks increased their share of total bank advances from approximately 17% in 2004-05 to 39% in 2024-25. Their share of banking employment also rose from 10% to 43%.
- The liberalisation of mutual funds, expansion of capital markets and simplification of securities trading further strengthened financial intermediation.
- Consequently, India's financial system became more diversified, facilitating savings mobilisation, private investment and entrepreneurship.

India's Success Story: Growth of Software Exports

- **Software exports** increased from approximately $400 million in 1991-92 to $240 billion in 2025-26, accounting for around 28% of total exports and supporting nearly six million jobs.
  - The foundations for software export were **laid before 1991** through **computer-import liberalisation** and policy support during the 1980s.
- However, artificial intelligence is creating new challenges for India's IT services industry, highlighting the need for continuous technological upgrading and workforce reskilling.

Way Forward: Reforms Beyond 1991

- **Manufacturing-led Growth:** Strengthen industrial clusters, MSMEs, logistics and integration into global value chains.
- **Innovation Ecosystem:** Increase R&D expenditure, university-industry collaboration and support for technology-intensive start-ups.
- **Employment Generation:** Promote labour-intensive sectors such as textiles, footwear, food processing and tourism.
- **Agricultural Reforms:** Improve irrigation, storage, agricultural marketing, food processing and farmer incomes.

- **Inclusive Development:** Strengthen education, healthcare, skill development and social protection.
- **Competitive Markets:** Ensure a level playing field, prevent excessive market concentration and improve regulatory institutions.
- **AI Preparedness:** Promote digital skills, technological adaptation and high-value services exports.

Conclusion

- The 1991 reforms marked a decisive departure from excessive state controls and opened new opportunities for private enterprise.
- However, the experience demonstrates that **de-licensing alone cannot guarantee industrialisation, technological advancement or inclusive growth**.
- India needs to move from a framework of merely enabling private investment towards one that actively builds productive capabilities, generates quality employment and promotes innovation.
- The next generation of reforms should focus on economic growth along with its sustainability and equitable distribution.

Source: BS

Daily Mains Practice Question

[Q] India experienced a 'services miracle' rather than the anticipated manufacturing boom despite the dismantling of the 'License-Permit Raj' in 1991. Examine the underlying factors responsible for this sectoral asymmetry and suggest measures to revitalize India's manufacturing ecosystem.