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Reform to Resilience: India's Economic Liberalisation and the Sustainable Development Goals Agenda

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Abstract

Economic reforms in India have been a critical driver of growth, transformation, and integration into the global economy since the early 1990s. While these reforms accelerated industrialisation, trade liberalisation, and financial expansion, their impact on sustainable development remains a subject of intense debate. This chapter examines the trajectory of economic reforms in India and their interlinkages with the three pillars of sustainability—economic, social, and environmental. It explores how liberalisation, digitalisation, taxation reforms, and green initiatives have contributed to achieving Sustainable Development Goals (SDGs) by fostering innovation, reducing poverty, and promoting renewable energy transitions. At the same time, the analysis highlights persistent challenges such as rising inequality, environmental degradation, and uneven regional development, which threaten the sustainability of growth. Using case studies on renewable energy adoption, financial inclusion through digital reforms, and the Goods and Services Tax (GST), the chapter provides a nuanced assessment of the successes and limitations of India's reform journey. Finally, it emphasises the need for inclusive, equity-driven, and environmentally sensitive reforms to align India's economic strategies with global sustainability commitments, particularly the 2030 Agenda for Sustainable Development.

Keywords:- Economic Reforms, Sustainable Development Goals (SDGs), Liberalization and Globalization, Inclusive Growth, Green Economy

Introduction

The story of India's economic transformation since 1991 stands as one of the most remarkable reform experiences in the developing world. Faced with a severe balance of payments crisis, the nation stood at a critical crossroads—one that demanded bold decisions to ensure survival and pave the way for long-term growth. In response, the Government of India introduced a sweeping set of structural reforms under the Liberalisation, Privatisation, and Globalisation (LPG) framework. These reforms aimed to dismantle the complex and restrictive "License-Permit-Quota Raj", encourage foreign investment, expand trade, integrate with global markets, and unlock the potential of Indian industries. The shift marked the beginning of a new era where market-driven policies replaced state-controlled mechanisms, setting India on a trajectory of rapid economic expansion (Joshi & Little, 1996). Simultaneously, the global development narrative was undergoing a profound transformation. Economic growth, once seen as the ultimate objective, was being redefined through the lens of sustainability. The Brundtland Report (1987) introduced the landmark concept of sustainable development, defining it as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." For India, a nation of over 1.4 billion people, this posed a unique challenge: achieving accelerated economic growth while ensuring environmental protection, equitable resource distribution, and social inclusion. This chapter explores the intricate relationship between economic reforms and sustainable development in India. It examines how policy changes reshaped the nation's economic landscape, driving GDP growth, fostering technological innovation, and reducing poverty. At the same time, it highlights the unintended consequences of these reforms, including widening income inequalities, regional imbalances, and rising environmental pressures. By analysing the interplay between economic ambition and sustainability imperatives, this discussion provides a deeper understanding of India's ongoing struggle to balance developmental aspirations with the responsibility to safeguard future generations.

Conceptual Framework

Economic reforms represent a series of structural policy changes implemented by the government to liberalise markets, improve efficiency, and enhance economic growth. In the context of India, these reforms have played a pivotal role in transforming the economy from a state-controlled system to a more market-oriented structure. Over the years, the reforms have evolved in three distinct phases, each addressing different sectors and challenges. The first-generation reforms (1991–2000) marked the beginning of India's economic liberalisation. Triggered by the 1991 balance of payments crisis, these reforms focused on opening up the economy to global markets and reducing excessive government control. Key measures included trade liberalisation, which reduced import tariffs and promoted exports; deregulation, which removed industrial licensing and entry barriers; and privatisation, which allowed private participation in sectors previously dominated by the government. These policies collectively aimed to stimulate competition, improve productivity, and integrate India with the global economy (Ahluwalia, 2002).The second-generation reforms (2000–2010) built upon these foundations by targeting structural bottlenecks and promoting long-term growth. This phase emphasised banking sector liberalisation, enabling private banks and foreign investment to enhance financial services and capital accessibility. Simultaneously, there was a strong push toward infrastructure development, recognising its importance for sustained economic expansion. Tax reforms were also introduced, including rationalising the tax structure and laying the groundwork for future indirect tax integration. These reforms sought to create a more transparent, efficient, and business-friendly environment. The third-generation reforms (2010 onwards) reflect India's transition into a digitally-driven and innovation-led economy. Initiatives such as Digital India accelerated technological adoption, fostering financial inclusion and improving governance through digital platforms. The introduction of the Goods and Services Tax (GST) unified India's fragmented indirect tax system, simplifying compliance and boosting interstate trade. Furthermore, the Insolvency and Bankruptcy Code (IBC) modernised the resolution of financial distress, strengthening investor confidence. In addition, there has been a growing focus on renewable energy initiatives to address climate challenges and ensure sustainable growth (Mukherjee et al., 2019). Economic reforms are deeply interconnected with the broader agenda of sustainable development, which rests upon three interdependent pillars: economic, social, and environmental sustainability. The economic pillar emphasises achieving long-term, stable growth while ensuring efficient use of resources. The social pillar focuses on equity, inclusion, and well-being, aiming to reduce inequalities and provide opportunities for all sections of society. Finally, the environmental pillar underlines the conservation of natural resources and climate mitigation, ensuring that development today does not compromise the needs of future generations (Sachs, 2015). Together, these reforms and sustainability principles form the conceptual framework for India's development journey. By integrating market efficiency, technological advancement, social inclusion, and environmental responsibility, India continues to evolve toward a resilient, equitable, and sustainable economic future.

Historical Overview of Reforms

India's economic journey has undergone a remarkable transformation over the past few decades, shifting from a highly controlled and protectionist framework to a liberalised, globally integrated economy. Prior to 1991, the country's economic structure was dominated by state control, heavy regulation, and limited private participation. The "License Raj" system required businesses to obtain numerous approvals for production and investment, leading to low productivity, inefficiency, and minimal innovation. Foreign trade was highly restricted, resulting in limited competitiveness and technological advancement. By 1991, India faced a severe balance of payments crisis, with foreign exchange reserves dwindling to the point where the country could barely cover two weeks of imports. To overcome this economic emergency, India sought financial assistance from the International Monetary Fund (IMF), which required significant policy reforms to revive growth and stabilise the economy (Jalan, 1996). The turning point came with the introduction of the New Economic Policy of 1991, spearheaded by Dr. Manmohan Singh, then Finance Minister, under Prime Minister P.V. Narasimha Rao. The reforms were based on three foundational pillars. Liberalisation removed industrial licensing, reduced tariffs, deregulated financial markets, and encouraged competition. Privatisation enabled the disinvestment of public sector enterprises, increasing efficiency and attracting private investments. Globalisation integrated India into the world economy by reducing trade barriers and promoting foreign direct investment (FDI), thereby enhancing technological exchange and economic growth (Panagariya, 2008).Post-2000, successive governments deepened these reforms with a focus on telecom liberalisation, IT sector expansion, infrastructure development through Public-Private Partnerships (PPPs), and financial sector strengthening (Kumar, 2000). In the last decade, several landmark reforms transformed India's economic framework further. The Goods and Services Tax (GST) in 2017 unified indirect taxation across the nation, streamlining business processes (Mukherjee et al., 2019). The Insolvency and Bankruptcy Code (IBC) of 2016 provided an efficient system for resolving corporate debt. Under the Digital India initiative (2015 onwards), Aadhaar, Unified Payments Interface (UPI), and e-governance have driven digital transformation. Additionally, India has accelerated its green energy transition, with large-scale investments in solar and wind power under the National Solar Mission (NITI Aayog, 2023). Together, these reforms reshaped India into a competitive, innovation-driven, and globally connected economy, laying the foundation for sustainable long-term growth.

Reforms and the Sustainable Development Goals (SDGs)

India's commitment to the United Nations 2030 Agenda for Sustainable Development reflects its ambition to achieve inclusive growth and balanced development. Over the years, a series of economic, social, and environmental reforms have been implemented, significantly contributing to various Sustainable Development Goals (SDGs).

i) SDG 1 (No Poverty): India has made remarkable progress in reducing poverty levels through targeted welfare schemes, rural development programs, and direct benefit transfers. According to the World Bank (2020), poverty levels dropped from 45% in 1993 to about 10% by 2020, reflecting the impact of economic liberalisation, job creation, and enhanced social safety nets.

ii) SDG 7 (Affordable Energy): The country has undergone a transformative energy transition. With a strong focus on renewable energy, India's solar power capacity expanded significantly, growing from 2.6 GW in 2014 to over 70 GW by 2023 (NITI Aayog, 2023). Initiatives like the National Solar Mission and international collaborations have positioned India as one of the global leaders in renewable energy adoption.

iii) SDG 8 (Decent Work and Growth): The reforms in the IT, services, and manufacturing sectors have created millions of employment opportunities. However, challenges remain as informal employment continues to dominate, especially in rural areas.

iv) SDG 10 (Inequality): Reduced Inequalities remains a pressing concern. Economic growth has disproportionately benefited the wealthier sections of society, with the top 10% of India's population controlling over 77% of total wealth.

v) SDG 13 (Climate Action): Climate Action has gained momentum through renewable energy expansion and India's active participation in global frameworks like the Paris Agreement. While reforms have paved the way for sustainable development, addressing inequality and strengthening climate resilience remain critical for achieving the 2030 goals.

Positive Impacts of Economic Reforms

i) Accelerated Growth: India's economic transformation began in 1991 with sweeping Liberalisation, Privatisation, and Globalisation (LPG) reforms that opened markets, attracted investments, and boosted industrial productivity. Since then, India has maintained an average GDP growth rate of 6–7%, lifting millions out of poverty and becoming a global hub for IT and services. In recent years, growth has accelerated further, with a 7.2% GDP rise in FY 2022-23. Initiatives like Digital India, UPI, and Make in India strengthened innovation and manufacturing. By 2023, India had become the world's fifth-largest economy, positioning itself to reach the third-largest by 2030.

ii) Trade and Global Integration: Trade and Global Integration. After the 1991 liberalisation, India's exports broadened from primary goods to manufactures and modern services. Lower tariffs, FDI, and SEZs enabled firms to join global value chains. IT and BPM exports leveraged English-speaking talent; generic pharmaceuticals were built on process engineering and TRIPS compliance. Participation remains uneven: services lead, complex manufacturing lags, and import dependence persists; yet diversification and productivity gains strengthened resilience and competitiveness.

iii) Foreign Direct Investment (FDI): Liberalised entry norms, lower equity barriers, and clearer approval pathways triggered a sustained surge of FDI. Investment clustered in manufacturing, telecom, and infrastructure, complementing domestic savings while diffusing processes, standards, and supply-chain linkages into the broader economy.

iv) Digital Transformation. The state-backed "India Stack" (Aadhaar identity, e-KYC, and interoperable UPI rails) lowered onboarding and transaction costs, formalised micro-payments, and widened access to finance. The Jan Dhan–Aadhaar–Mobile (JAM) trinity enabled DBT at scale, reducing leakages and boosting account usage, while ubiquitous QR acceptance accelerated MSME digitisation.

v) Green Economy Initiatives. A mix of public digital/financial rails and industrial policy is greening growth: green bonds lower capital costs; FAME spurs EV demand and charging networks; and de-risked solar parks scale grid-connected capacity. Complementary measures—renewable purchase obligations, grid waivers, and PLI for PV—accelerate diffusion and crowd-in investment.

Challenges and Criticisms

i) Inequality: A disproportionate share of reform-era gains accrued to asset owners and high-skill workers, pushing the top 1% to ~40% of wealth. Stagnant real wages in the informal sector, regional divides, and limited social protection reinforced concentration

ii) Jobless Growth: High-productivity services led the post-reform boom with limited labour absorption. Manufacturing's job creation lagged, and most new work was informal—about 80% without statutory protections—dampening the translation of GDP gains into secure employment.

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iii) Environmental Stress. Weak enforcement and underpriced externalities encouraged resource overuse. Land-use change, thermal power, and transport raised emissions; inadequate wastewater and hazardous-waste management degraded ecosystems—yielding high aggregate CO_2 alongside acute local pollution.

iv) Regional Imbalances: Post-reform growth was spatially uneven: southern and western states accelerated on stronger infrastructure, skills, and business climates, while much of the north and east lagged, widening inter-state gaps.

v) Governance Gaps: Reforms moved faster than institutions. Protracted dispute resolution, overlapping jurisdictions, and discretionary approvals created policy risk and compliance burdens; uneven implementation across states limited competition, tax compliance, and infrastructure quality, constraining productivity and trust.

Future Prospects

i) Green and Digital Economy: India's next phase of growth will be powered by the synergy between green technologies and digital innovation. The country is investing heavily in green hydrogen, especially for hard-to-abate sectors like steel, cement, and heavy transport, to reduce carbon emissions. Simultaneously, the government is accelerating electric vehicle (EV) adoption and developing nationwide charging infrastructure to promote sustainable mobility. Digital technologies, particularly artificial intelligence (AI), are being applied to optimise power grids, logistics, agriculture, and climate risk management. This integration of clean-tech and data-driven solutions will make industries more efficient and environmentally friendly. By harnessing these advancements, India can position itself as a global leader in the green and digital economy.

ii) Inclusive Growth: Inclusive growth is essential for ensuring that economic reforms benefit all sections of society. Future policies must expand capabilities by easing compliance requirements for MSMEs and supporting them with affordable credit and wider market access. Investments in girls' education, childcare facilities, safe mobility, and property rights for women will empower marginalised groups and promote gender equality. Upgrading rural infrastructure, improving agro-processing facilities, and enhancing agricultural extension services will boost rural productivity and incomes. These measures will help reduce regional and social disparities while fostering balanced development. By prioritising inclusion, India can achieve sustainable growth that uplifts every community.

iii)Climate Finance: India can scale investment by expanding sovereign and municipal green bonds, adopting clear green taxonomies, and standardising disclosure and impact reporting. Partnerships with MDBs/DFIs should deploy blended finance—guarantees, first-loss tranches, and FX hedges—to de-risk renewables, resilient infrastructure, and green hydrogen. Robust project-preparation pipelines and credible MRV would crowd in long-term institutional capital at scale.

iv)Policy Roadmap: Build human capital through industry-linked skilling, portable credentials, and apprenticeships. Strengthen labour institutions to expand formal coverage, ensure timely wages and safety standards, and enable social dialogue. Modernise environmental regulation with clear standards, real-time monitoring, and transparent enforcement to internalise externalities.

v)Global Cooperation: Global cooperation will play a crucial role in driving India's sustainable economic reforms. Platforms like the G20 and BRICS provide India with opportunities to collaborate with leading economies on trade, technology, and climate action. By engaging in these forums, India can attract foreign investments, access advanced technologies, and strengthen global value chains. Such cooperation also supports India's transition toward green energy, inclusive growth, and financial stability. Joint commitments on issues like carbon reduction, digital innovation, and equitable trade policies will accelerate sustainable development. In the long term, leveraging these global alliances will enable India to position itself as a key leader in shaping global economic reforms.

Conclusion

Since 1991, India's economic reforms have reoriented the economy toward openness, competition, and digitalisation, delivering faster growth and productivity gains. Trade and investment liberalisation integrated firms into global value chains while digital public infrastructure widened access to finance and services. These shifts aided poverty reduction and positioned India as an early mover in renewable energy deployment. However, inequality has widened, labour absorption lags, and environmental pressures—from air and water pollution to rising emissions—remain acute. Regional imbalances and governance gaps in regulation, contract enforcement, and urban capacity further dilute reform dividends. Aligning the next phase with the SDGs requires pairing green industrial policy and energy transition with stronger labour rights, skilling, and social protection. De-risked climate finance, clear standards and taxonomies, and cooperative federalism can crowd in private investment and improve execution at scale. By pursuing a coherent green–digital strategy while closing social and spatial gaps, India can convert its demographic scale into resilient, inclusive, and sustainable prosperity.

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