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Economic and institutional aspects of India's economic development in the 21st century

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This paper examines the economic and institutional aspects of India's development in the 21st century, focusing on the analysis of the factors that determine the country's economic growth as well as the challenges that the Indian economy currently faces. At the moment, India represents one of the most dynamically developing economies in the world, which is clearly predisposed by its positive demographic growth. India is already the most populous country in the world, which creates prospects of harnessing the labor force, as well as skilled and educated labor force, for the continuous positive economic growth of the country in the 21st century. Nevertheless, Indian GDP declined at the beginning of the third decade of the 21st century mainly due to the impact of the COVID-19 pandemic and the strict lockdown and social distancing measures that were put in place to control the spread of the coronavirus. These measures led to a sharp decline in economic activity in several sectors, including manufacturing, construction, as well as services. At the same time, the Indian economy is now showing signs of recovery after the perilous year of 2021. This paper demonstrates how the Indian government has taken several measures to promote economic growth as well as various policy reforms aimed at encouraging investment and consumption for supporting the economic recovery. In this study, we also discuss the principles of institutional economics and their specificities in the case of India, in particular path dependency and others, comparing the introduced reforms and their impacts on selected indicators with China as a similarly strong and large economy.

Keywords: *public policy; economic development; institutional reforms; sustainable growth; India*

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Экономические и институциональные аспекты экономического развития Индии в XXI веке

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В статье рассматриваются экономические и институциональные аспекты развития Индии в XXI в. Особое внимание уделяется анализу факторов экономического роста страны, а также проблемам, с которыми в настоящее время сталкивается индийская экономика. Индия представляет собой одну из наиболее динамично развивающихся экономик мира, чему явно способствует ее положительный демографический рост. Индия уже является самой густонаселенной страной, что создает перспективы использования рабочей силы, в том числе квалифицированной и образованной, для непрерывного экономического роста страны. В начале третьего десятилетия XXI в. ВВП Индии снизился, в основном из-за последствий пандемии COVID-19 и строгих мер изоляции и социального дистанцирования, которые были введены для контроля за распространением коронавируса. Эти меры привели к резкому снижению экономической активности в ряде секторов, включая обрабатывающую промышленность, строительство, а также сферу услуг. В то же время индийская экономика сейчас демонстрирует признаки восстановления после неблагополучного 2021 года. В статье показано, как индийское правительство приняло ряд мер по содействию экономическому росту. Освещаются политические реформы, направленные на стимулирование инвестиций и потребления для восстановления экономики. В нашем исследовании мы также обсуждаем принципы институциональной экономики и их специфику в случае Индии, в частности, зависимость от предшествующего развития и другие явления. Проводится сравнение между Индией и Китаем в плане проведенных реформ и их влияния на отдельные экономические показатели.

Ключевые слова: *государственная политика; экономическое развитие; институциональные реформы; устойчивый рост; Индия*

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Introduction

In 2020, according to the International Monetary Fund (IMF), India's GDP contracted by 5.8%[1], the largest decline in more than four decades. This was primarily due to the impact of the pandemic and the strict blocking measures put in place to control the spread of the virus. These blockades led to a sharp decline in economic activity across several sectors, including manufacturing, construction, and services. However, the Indian economy shows signs of recovery in 2021, when the GDP growth rate

[1] International Monetary Fund (IMF) (2024). https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/IND?zoom=IND&highlight=IND (accessed on January 10, 2025)

was 9.7%, compared to 7.6% in 2023, indicating that the economy is slowly getting back on track. Based on the World Bank (WB) analysis[2], India in 2023 had the highest growth rate compared to the top five developed countries in the world as per GDP by Country; China's GDP growth rate was 5.2%, USA's – 2.5%, Japan's – 1.9%, and Germany's – -0.3%[3]. The Indian government has also announced several measures to boost economic growth as well as various policy reforms aimed at encouraging investment and consumption.

India has emerged as the fastest growing economy among the G20 countries, with a projected GDP growth rate of 7% in 2024. This remarkable achievement highlights India's economic resilience and potential amidst global challenges. The rankings released during the G20 Summit in Rio de Janeiro, Brazil, in November 2024 underscore the disparity in growth rates among G20 countries. Indonesia ranks second in G20 economic growth with 5%, followed by China with a growth rate of 4.8%, Russia with 3.6% and Brazil, as host country, in fifth place with 3%. The performance of other regions and countries is projected to grow by 3% for the African region, with the US seventh with 2.8% growth. Other Western powers have the following growth forecasts for 2024: Canada at 1.3%, Australia at 1.2%, France, the EU, and the UK at 1.1%, Italy at 0.7%, Japan at 0.3%, and the worst among the advanced economies is Germany with a 0% growth forecast 2024[4].

In the context of India and its socio-economic development, it is also necessary to deal with the so-called path dependency and other concepts of institutional economics. Path dependency points out that historical decisions and past events have a significant impact on current institutions, policies, and economic performance (North, 1990; Pierson, 2000). This principle asserts that "past decisions constrain future possibilities": even when more efficient alternatives exist, institutions and processes may persist in suboptimal states because of the high costs of change or because of entrenched norms (David, 1985; Arthur, 1994). It also addresses the so-called "lock-in effect": once a trajectory is set, it can become entrenched and difficult to change, even if it is no longer optimal (Mahoney, 2000), and the importance of initial conditions, where historical circumstances such as colonialism, political culture, or early reforms can affect a country's long-term development (Greif, 2006).

In the case of India, it is impossible to overlook aspects such as the "Colonial Legacy," where British colonization left India with a robust administrative framework but also a stagnant economy focused on raw material exports (Acemoglu, et al., 2001). After gaining independence, India embraced a socialist development model centered on state-led industrialization and the "License Raj." Even after the economic liberalization in 1991, certain administrative barriers, such as bureaucracy and regulations, have persisted, continuing to influence economic growth to this day (Strielkowski, et al., 2017; Panagariya, 2020). Equally significant for the country's development has been, and remains, the strong "Caste System." Although caste-based discrimination has been officially abolished, deeply ingrained social structures continue to affect inequalities in access to education, employment, and political participation (Drèze and Sen, 2019).

Methodology

Our paper employs a desk-based research methodology, which relies on several primary and secondary sources. Data on India's GDP and its components come from official government statistics as well as international organizations such as the World Bank, the International Monetary Fund, and the World Population Review. The paper also draws on academic and policy literature to analyze the factors that drive India's economic growth and the challenges faced by the Indian economy. Further, a comparative analysis of the socio-economic reforms undertaken by India and China has been carried out in an attempt to highlight their impact on the quality of life of the population as well as selected indicators such as GDP per capita, poverty ratio, share of global exports, human development index, household debt, and unemployment. We have drawn on secondary data processing in the course of our analysis.

[2] World Bank (2023). *Country Environmental Assessment Report 2023. India*. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/510601468252652037/environmental-impact-assessment-report (accessed on January 10, 2025)

[3] World Bank (2024). Top 15 Countries by GDP in 2024. https://globalpeoservices.com/top-15-countries-by-gdp-in-2024/ (accessed on January 10, 2025)

[4] The G20 Brasil 2024. https://www.g20.org/en (accessed on January 10, 2025)

Growth and socio-economic development in India

Today, India is one of the fastest-growing major economies in the world, with a gross domestic product that has been growing at an average rate of 6–7% per year in recent years. This growth is driven by a combination of factors, including strong domestic consumption, government policies that encourage investment, and a young, expanding workforce. However, India also faces several challenges in sustaining its economic growth, such as infrastructure limitations, significant levels of inequality, and geopolitical risks.

According to Panagariya (2004), economic development in post-independence India can be divided into three phases. In the first phase (1950–1975), India followed an inward-looking strategy for a long time after independence, i.e. from 1947 onwards, with the idea that India would be economically strong and self-sufficient, which in turn led to balance of payments problem. Given the persistent balance of payments problem leading to a shortage of foreign exchange and the presence of a strong domestic industrial lobby opposing trade liberalization, India had to pursue an inward-looking and anti-trade policy. This phase saw a trend of tightening controls, which culminated in de facto autarchy towards the end of the period. In the second phase (1976–91), trade liberalization began in 1976 with the reintroduction of the open general license list. By the early 1980s, it became clear that exports could not be seen in isolation from production for the domestic market. Therefore, licensing and highly regulated trade policies began to be liberalized in the early 1980s. In the third phase, from 1991 onwards, a deeper and more systematic liberalization took place. The new industrial and trade policy became more liberal and transparent with the adoption of liberalization, privatization, and globalization policy framework in 1991. Changes in trade policies began to take place, and institutions were set up in 1995, guided by WTO commitments. These policy changes were directed towards export promotion and the removal of import restrictions. Since 1991, various reform measures have been announced to promote the integration of the Indian economy with the world economy (Saba and Ahmed, 2022: 231–232).

India has made significant economic progress in terms of GDP during the second half of the 20th century and especially in the early 21st century. While in 1960 it ranked 13th in terms of total GDP of USD 136.37 billion, in 2019 (the pre-pandemic year), it already ranked 6th with a total GDP of $2.69 trillion (note that the 1960 ranking is an estimate as we did not have data for some major economies such as Germany or the Russian Federation, so it is possible that India's ranking was higher). This means that, over a period of 60 years, India managed to achieve 18 times growth in total GDP, with a total GDP exceeding US$1 trillion by the 21st century, at a level of $1.014 trillion in 2004. In 2023, with a total GDP level of USD 3.2 trillion, India ranked 6th among the world economies, surpassing even some advanced economies such as the UK, France, Italy, Brazil, and Canada in terms of GDP. However, the COVID-19 pandemic has had a significant impact on the Indian economy, causing GDP growth to fall to US$2.68 trillion in 2020. India's share in the world GDP is also increasing. In the 1960s, India's share stood at 1.25%, but it has risen steadily. Currently, India's share of total world GDP is 3.3%.

In terms of economic growth, India's economy grew at a higher average annual GDP growth rate than the world GDP growth rate from 1960 to 2019. While the world GDP grew at an average rate of 3.5% over the period, India's GDP growth rate was as high as 5.2%. If we consider developments in the 21st century, from 2000 to 2019, India's average annual growth rate was even higher at 6.5%, while the average annual growth rate of world GDP was 3.1%. Even in the crisis year of 2009, when world GDP contracted by -1.3%, India achieved economic growth of 7.9% and the highest growth during the early 21st century in 2010 at 8.5%. During the 2020–2021 pandemic, although India's growth fell by -5.8% (year 2020), the Indian economy grew by 9% in the following year (2021) and by 7.2% in 2022. As for the strong growth in the 1990s and early 2000s, this growth was mainly influenced by the reforms initiated in the 1990s. From a relatively closed economy, India has opened up to international trade and investment, attracting foreign capital and boosting India's exports. Privatization and deregulation have also taken place in several sectors such as telecommunications, encouraging efficiency gains and growth in the IT sector and related services, which has significantly boosted both exports and job creation. The population of India is relatively young, with more than 60% of the population being of working age. This has had a positive impact on the size of the labor force and domestic demand (Grešš, 2024: 60).

India's economy is the 5th largest in the world with a GDP of $2.94 trillion, overtaking the UK and France in 2019 to take the fifth spot. India's GDP (PPP) is $10.51 trillion, exceeding that of Japan and Germany. India's real GDP growth, however, is expected to weaken for the third straight year from 7.5% to 5%.

Due to high population, India's GDP per capita is $2,170 (for comparison, the U.S. is $62,794). Given the above, it is evident that in terms of GDP per capita, India does not rank as highly as it does in terms of total GDP. In 2022, India was ranked 141st (nominal; 2024) and 125th (PPP; 2024). Several factors can be identified that contribute to the low level of GDP per capita, even though the total GDP places India among the largest economies in the world:

- Income distribution. One of India's persistent problems is high income inequality, which has remained above 0.7 throughout the 21st century and, since 2005, has exceeded 0.8[5]. This indicates that a small percentage of India's population owns a significant portion of the wealth.
- Informal sector. According to Hammer, et al. (2022), approximately 80% of the workforce is employed in the informal sector, a higher proportion than the estimated average of 70% in developing countries. Since this sector is characterized by low wages and a lack of social benefits, it contributes to low per capita income despite the growth potential in certain sectors.
- Infrastructure. Insufficient infrastructure, particularly in rural areas, limits access to healthcare, education, and markets, negatively impacting productivity and income levels.
- Agriculture. Although agriculture currently accounts for only 16.7% of India's GDP, it employs almost half of India's economically active population (44%), in contrast to services, which account for almost half of India's GDP but only one-third of total employment.
- Population and demographics. The slower growth of GDP per capita compared to overall GDP is primarily due to India's demographic trends. Currently, India is the most populous country in the world, with a total population of 1.43 billion. Population growth rate remained above 2% from the 1960s until the end of the 20th century. Although fertility rates declined from 5.9 children per woman of reproductive age in the 1960s to 3.31 in 2000, they were still too high and far above the replacement-level fertility rate.

Demographic factors

Despite the fact that India already has the largest population in the world (1.451 billion[6]), prospects for further population growth are determined by low fertility rates, which is typical of most developed nations, including China and India.

Currently, the country has already achieved a total fertility rate of 2.07. This is below the replacement fertility level of 2.1 children per woman, and the success story of the decline in fertility in India is characterized by a strong catching-up process. Greater progress in reducing the fertility rate in demographically weak states has led to the gradual convergence of the fertility rates across the states (Arokiasamy and Goli, 2012; Deb and Chakrabarty, 2016).

As pointed out by Chakravorty et al. (2021), the factors driving fertility decline in India do not align with historical transitional trends. The reasons and causal factors that have led couples to opt for smaller families are unique to India and largely influenced by government policies. Since 2005, the Indian government has significantly increased budgetary allocations to improve population and health indicators, especially in the demographically backward states of the country. Overall, family planning programs and population stabilization policies have accelerated the fertility decline in India, regardless of developmental indicators (James & Goli, 2016).

Sanju Purohit (2023) considers the following to be the critical factors determining demographic development in India:

- Urbanization has played a key role in influencing demographic development in India. As India continues to industrialize, more and more people are moving from rural to urban areas in search of better living conditions and job opportunities. Urbanization is generally associated with a decline in the aggregate fertility rate in India. According to the National Family Health

[5] Statista (2023). Wealth Gini coefficient of India from 2000 to 2021. https://www.statista.com/statistics/1248515/india-wealthgini-coefficient/ (accessed on January 10, 2025)

[6] World Population by Country 2024. https://worldpopulationreview.com/ (accessed on January 10, 2025)

Survey HFHS-5 (2019-21), the cumulative fertility rate in urban areas was 1.6, well below the replacement level, and 2.1 in rural areas, which is at the margin of the desired level[7].

- Socio-economic factors including education levels, income levels and social norms significantly influence the pace and nature of the demographic transition in India. Higher levels of education, particularly among women, are associated with lower fertility rates (Drèze & Murthi, 2001). In addition, educated women tend to marry later and invest more in the quality of life of their children than in the quantity (Cleland & Wilson, 1987). Also, higher income levels are associated with lower fertility rates. Prevailing social norms and cultural beliefs also play a significant role in Indian society. For example, the preference for male children in some parts of India encourages larger families, as couples have children until they have a son, similar to Chinese society. Overall, however, the interconnectedness of education, income levels and social norms creates a complex web of influences on the demographic character and structure of Indian society.
- The demographic transition in India has been strongly influenced by government policies aimed at population management. Since Independence, the Government of India has launched several initiatives and programs aimed at population stabilization[8]. The initial strategy was based on promoting spaced contraceptive methods and raising awareness about family planning. In the 1970s, under pressure from rapid population growth, the government focused on sterilization, which led to widespread human rights violations during the Emergency (1975–1977). Coercive sterilization campaigns were carried out during this period, resulting in public distrust and opposition to family planning programs (Bhat, 1999). Learning from past experiences, India's family planning program underwent a paradigm shift in the 1990s. The program began to focus on a non-targeted approach emphasizing informed choice and reproductive health services. Government policies played a key role in shaping the demographic transition in India as it moved from coercive methods to a more voluntary, rights-based approach. The effectiveness of these policies has varied, and their success depends largely on a careful balance between individual rights and societal goals.

Indian workforce

According to the Angel One Wealth report, India is expected to play a key role in global labor force growth, contributing 20% between 2023 and 2050. In contrast, China is anticipated to experience a decline in its labor force during this period. The report highlights significant progress in income levels within India. It predicts that by 2030, the number of high-income households in India is expected to increase three times. The report also implies that the proportion of low-income households will significantly decrease from 43% in 2018 to just 15% by 2030, signaling a major shift in income distribution. India is thus poised to become the fastest-growing country in terms of income per capita, supported by strong household balances.

The report also points out that India's household debt as a percentage of GDP remains much lower than that of other Asian countries. This is a sign of strong income growth and good financial health. Another key factor is the country's young demographic profile. With an average age of 29, India has one of the lowest dependency ratios in the world, meaning that there are fewer dependents per working individual compared to other countries like China and Europe, where this ratio is on an upward trend[9].

[7] The National Family Health Survey 2019-21 (NFHS-5). Fact Sheet India, Ministry of Health and Family Welfare, Government of India, p. 3. https://mohfw.gov.in/sites/default/files/NFHS-5_Phase-II_0.pdf (accessed on January 10, 2025)

[8] India was the first country in the world to address population growth. In 1952, they introduced a family planning program. India pursued an antinatalism policy during the 1970s to limit the population explosion but did not exacerbate it to the form we can see in China. Since the 1990s, the Indian government has gradually begun to abandon this policy. Another example is Kenya, which opted for such a program in the late 1960s. Countries such as Bangladesh and Indonesia, where the population is rapidly growing, are facing additional challenges that could contribute to a decrease in the birth rate. By order of the Central Committee of the Communist Party of China of 25 September 1980, the one child policy regulation entered into force. The aim of this policy was to raise China's standard of living as well as the country's social and economic development. However, the first attempts to intervene in the population's development began almost two decades earlier, in the late 1950s (Čajková and Čajka, 2021).

[9] The Economic Times. (2024). India to contribute 20 pc of global workforce growth between 2023–2050, China share to decline: Report. November, 19. https://economictimes.indiatimes.com/news/economy/indicators/india-to-contribute-20-pc-of-global-workforce-growth-between-2023-2050-china-share-to-decline-report/articleshow/115444589.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst (accessed on January 10, 2025)

However, India needs sustained economic growth of over 8% in order to create sufficient jobs for the millions of young people joining the workforce. A major challenge to achieving this goal is that there is no universal unemployment rate in India. This is partly due to the difficulty of measuring unemployment in a country with close to one billion people who are eligible to work, and without a common starting point it is difficult to assess success. The Bank of India estimates that about 80% of the Indian workforce is employed in the informal economy.

The official unemployment figures don't reflect the lack of jobs in the informal sector. Since most people in India work in the informal sector, especially in rural areas, they are not counted as unemployed. According to the latest government data, the unemployment rate for the 2022–23 fiscal year was just 3.2%. This is well below the already historically low unemployment rate in the United States. However, a private think tank called the Center for Monitoring Indian Economy reported that unemployment in May reached 7.0%, which is higher than the 6% unemployment rate before the pandemic[10].

Indian economy

Despite the significantly positive economic and financial results of recent years, some experts also point to certain risks of a potential economic slowdown.

Amid growing concerns about a potential economic slowdown, Pranjul Bhandari, chief economist for India and Indonesia at HSBC, offered a more nuanced view, suggesting that while some sectors are indeed experiencing a slowdown, the overall economy continues to show resilience. According to Bhandari, 55% of indicators across sectors continue to grow positively, suggesting that the majority of the economy is maintaining its upward trajectory. However, Bhandari acknowledges that certain sectors of the economy face challenges, particularly in terms of consumption and manufacturing of consumer goods.

One of the most notable concerns is the slowdown in consumption – a critical driver of India's economic growth. Bhandari pointed out that both rural and urban India are struggling with a slowdown in consumption, but the decline is more significant in urban areas. Urban consumption is facing greater challenges, which can be attributed to a combination of factors such as reduced discretionary spending, higher inflation, and slower wage growth[11]. Private consumption accounts for approximately 60% of India's GDP, but sales of items ranging from cars to biscuits have dropped significantly. Sales of passenger vehicles recorded their first decline in the past 10 quarters, and sales of two-wheelers have also experienced a sharp slowdown[12].

On a more positive note, the production of manufactured goods remains strong. This indicates that the production of capital goods and infrastructure-related items is still thriving. This is a key support for the overall economy, especially since the manufacturing sector plays a crucial role in driving GDP growth. However, the production of consumer goods, which has traditionally been a major contributor to India's industrial production, has shown signs of slowing down. The slower growth in this sector reflects a weakening demand for daily necessities in both urban and rural markets[13].

From a global or regional perspective, especially compared to its neighbor China, India has been growing faster than China for three consecutive years, starting in 2015. When we talked about China's rise 15 years ago, we often overlooked India. It seemed to be a minor player, hidden behind the impressive achievements of its neighbor. However, it wasn't until India launched its first Mars probe and second lunar probe that people started taking it seriously. Fifteen years later, as India quietly surpasses the UK and France in terms of GDP, people are wondering if India will become the next China.

Industrialization in India is also accelerating, raising its industrial value added to $715 billion (Zhang, 2021: 58–59). The development of domestic giant corporations is a more compelling angle from which to compare economic power. In Fortune's 2020 Global 500 list, India owns seven companies, including Reliance

[10] Ganguly, S, Krishna, P. (2024). Reuters poll: Job creation is India's top economic challenge, policy experts say. *Reuters*, June 20. https://www.reuters.com/world/india/job-creation-is-indias-top-economic-challenge-policy-experts-say-2024-06-20/ (accessed on January 10, 2025)

[11] Ojha, H. (2024). Indian economy heading towards a slowdown? HSBC's Pranjul Bhandari offers insight. *NDTV Profit*. https://www.ndtvprofit.com/economy-finance/is-indias-economy-heading-towards-a-slowdown-hsbcs-pranjul-bhandari-offers-insight (accessed on November 18, 2024)

[12] Mishra, V. (2024). Slackening demand likely weighed on India's GDP growth in September quarter: Reuters poll. *Reuters*, November 26. https://www.reuters.com/world/india/slackening-demand-likely-weighed-indias-gdp-growth-september-quarter-2024-11-25/

[13] Ojha, 2024, as cited above.

Industry, with the second largest market value in energy companies, Tata Motor, which ranks among the world's top 20 automakers and component makers, and Rajesh Export, one of the largest jewelry factories.

India boasts three companies that are among the world's largest arms manufacturers and military services providers, as reported by SIPRI and U.S. Defense News. Together, these companies generated revenue of over $5,850 million.India has the fourth largest military force, trailing only behind the United States, Russia, and China. The country can produce its own missiles, satellites, lunar probes, tank fighters, frigates, and aircraft carriers, although most of these products lack the necessary quality and maturity.Another comparative advantage of India is its relatively high educational attainment. In 2024, 18 Indian universities were ranked among the top 1,000 in the QS World University Ranking List[14]. In the Shanghai Ranking's Academic Ranking of World Universities[15], 24 Indian universities were also among the top 1,000, and in the Times Higher Education World University Rankings, 44 Indian universities were among the top 1,000 in 2025[16]. Lastly, India has become a major world leader in the film industry, known for its Bollywood blockbusters.

Currently, foreign direct investment (FDI) plays a crucial role in the Indian economy. To attract FDI, several factors need to be considered (Grešš, 2024: 77–79):

- Job creation. FDI can lead to the creation of new businesses or the expansion of existing businesses, which means the creation of new jobs. This helps to reduce unemployment, which currently stands at around 7% in India[17]. Employment growth in turn results in rising incomes of the population and hence improved living standards of the population.
- Capital injection and technology transfer. FDI serves as a source of foreign capital, which can help bridge the investment gap in sectors of the Indian economy through the expansion of production capacities as well as technology modernization. Additionally, foreign investments can bring new, advanced technologies, manufacturing processes, and new knowledge. Technology transfer can lead to increased labor productivity as well as improvements in the quality of products and services. It also enables the development of a skilled workforce.
- Growth of productivity and efficiency in domestic sectors and access to global markets. The introduction of new, modern production methods, business management practices, or advanced technologies can contribute to the growth of competitiveness in domestic sectors on foreign markets. FDI can provide Indian companies with access to global markets through the already established distribution channels of foreign investors. This makes it easier for Indian firms to establish themselves in foreign markets and integrate into global supply chains.
- Infrastructure development. FDI can contribute to the development of infrastructure projects in the Indian economy, such as road networks, telecommunications, and ports. This can ensure the expansion of various sectors of the Indian economy while also improving the overall business environment.
- Ensuring external economic balance. The inflow of FDI can help balance the current account deficit of the balance of payments, as India has been running a trade deficit in goods since the early 21st century, which has gradually deepened and currently stands at $-19.8 billion[18].
- Support for economic growth. FDI contributes to the growth of business activity, which can have a positive impact on the overall economic growth of the Indian economy. As various sectors of the Indian economy expand and diversify, they contribute to the growth of India's GDP.
- Risk diversification. Since FDI comes from multiple external sources, it can potentially reduce the vulnerability and dependence of the Indian economy on external shocks and fluctuations in the global market. The countries that invest the most in India include the USA, United Arab Emirates, Netherlands, Japan, and the UK[19]. However, the largest inflows of FDI into India come from Singapore ($17.2 billion) and Mauritius ($6.13 billion). Regarding Singapore, several factors contribute to its position as

[14] QS World University Rankings 2025: Top global universities. https://www.topuniversities.com/world-university-rankings?search=India (accessed on February 16, 2025)

[15] The Academic Ranking of World Universities 2024. https://www.shanghairanking.com/rankings/arwu/2024 (accessed on February 16, 2025)

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the country with the highest share of FDI inflows to India: geographical proximity, tax benefits, and a large Indian diaspora (approximately 10% of Singapore's population[20]). Additionally, both countries have signed a Comprehensive Economic Cooperation Agreement (CECA) aimed at liberalizing trade in goods and services. As for Mauritius, it serves mainly as a channel for FDI from other countries, particularly due to low taxes and the double taxation avoidance agreement between India and Mauritius.
- Growth in government revenue. FDI is a potential source of tax revenue. As FDI leads to expansion of businesses and hence growth in their profits, the Government of India can collect more taxes. These revenues can be used for other development projects in the Indian economy and serve to raise the standard of living of the population.

On the other hand, we can also mention the potential threats that FDI may bring with it, in particular, according to Grešš (2024: 79–80):
- Uneven distribution of benefits – if FDI is not evenly distributed, it can lead to the underdevelopment of certain regions or sectors within the country and deepen existing inequalities. In the case of the Indian economy, it can be observed that the regions capable of attracting the highest volume of FDI are the western states of India – Maharashtra, Karnataka, Gujarat – along with Delhi[21], which attracted 83% of the total FDI volume in 2022. On the other hand, the most competitive regions in attracting FDI to India are the union territory of Chandigarh (strategic location in northern India, developed infrastructure, skilled workforce) and Telangana (IT investments in Hyderabad)[22].
- Shift of jobs. On one hand, FDI creates jobs, but on the other hand, it can also lead to a reduction in jobs in certain sectors. Key areas that may experience such a reduction include automation of production, where machines can replace unskilled labor, such as in the textile industry. Additionally, there may be a shift of FDI from India to countries with lower labor costs, such as Bangladesh, which could lead to job losses. FDI in certain sectors may also negatively affect employment in the informal sector, where small businesses may be unable to compete with large foreign companies.
- Environmental impacts. FDI can also have negative environmental impacts, and within India, we can identify three groups of FDI that have negative impacts: (1) FDI in industry; (2) FDI in agriculture; (3) FDI in infrastructure. As far as FDI in industries is concerned, we can mention deforestation, water, and air pollution as a result of the construction of heavy industry or mineral extraction plants. In the case of FDI in agriculture, it is the excessive use of pesticides and artificial fertilizers and the introduction of new invasive species, which leads to soil degradation, loss of biodiversity, and groundwater pollution. In the case of infrastructure, construction of large dams, hydroelectric power plants, and road infrastructure can lead to alterations in the natural water cycle and damage to aquatic ecosystems. This can also lead to displacement of indigenous peoples.

Specifics of the sectoral structure of the Indian economy

Looking ahead, India is facing a number of challenges in sustaining economic growth, including addressing infrastructure constraints and reducing inequality. The government of India has also launched several policy initiatives to address these challenges. One such initiative is the "Make in India" campaign[23] to promote manufacturing, the Digital India initiative[24] to promote technology and connectivity, and the

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[23] "Make in India" initiative was launched globally in September 2014 as a part of India's renewed focus on manufacturing. The objective of the Initiative is to promote India as the most preferred global manufacturing destination.

[24] The Digital India programme was launched by Prime Minister Shri Narendra Modi on July 01, 2015, with an aim to transform India into a knowledge-based economy and a digitally empowered society by ensuring digital services, digital access, digital inclusion, digital empowerment and bridging the digital divide. The programme is coordinated by MeitY with the Ministries and Departments in the Central and State Governments partnering it in their respective domain areas. The Ministry of Electronics and Information Technology, through the Digital India Programme, has been focusing on several key areas. These include: supporting start-up industries in the country; attracting investment in semiconductors and enhancing the semiconductor ecosystem in India; promoting quantum computing and digital public infrastructure.

Swachh Bharat Abhiyan initiative[25] to improve sanitation and hygiene. One of the positive factors contributing to India's GDP growth is the strong agricultural sector, which accounts for approximately 17% of India's economy. Despite the COVID-19 pandemic, agriculture has remained relatively stable, and the government has implemented various measures to help farmers and increase their income.

Economic growth is typically led by the manufacturing sector; however, the leading sector of current Indian economic growth is increasingly services rather than manufacturing. In India, due to new technological developments and other factors, services may replace industry as the engine of growth in the future, like many other developing countries. In this sense, India can be seen as a pioneer of a new development path that prioritizes services rather than manufacturing as the leading sector. Some consider it a temporary phenomenon and unsustainable in the long term, as it contradicts previous historical models of economic growth (Joshi, 2004).

Different growth rates in various sectors have led to significant changes in the sectoral structure of output. The agricultural sector has lost its dominant position, and its share of GDP has fallen from 46% in 1970 to 24% in 2000. All other sectors have gained in terms of their share of GDP. The share of industry increased gradually from around 22% in 1970 to 28% in 2000, while the share of public administration and defense increased from 4% to 6% over the same period. The service sector has shown the strongest performance, with its share increasing from around 28% in 1970 to around 42% in 2000. If we add to the service sector the GDP from public administration and defense, we get a tertiary sector whose share of GDP in 2000 was about 50% (Bhattacharya and Kar, 2004). Growth in the services sector is linked to growth in the industrial and manufacturing sectors. Between 2016 and 2019, there was a decrease in the growth of the industrial sector and manufacturing. This decline mirrored the slowdown in the service sector, indicating a connection between the two sectors (Salameh and Beg, 2021: 22–23). Currently, the service sector accounts for approximately 55% of India's GDP and has been growing rapidly in recent years. This growth is due to the rising middle class and the country's increasing urbanization. However, the pandemic has had a significant impact on the service sector. Many sectors, including tourism and hospitality, have been heavily affected (Dubey, 2023: 6–7).

Socio-economic reforms: A comparative analysis of India and China

India and China are the world's two largest emerging economies whose trajectories of economic and social development in the 20th and 21st centuries have demonstrated divergent approaches to reform and development management. This analysis compares their reform processes in terms of socio-economic policies.

Historical contexts of reforms

India introduced market-oriented reforms after the financial crisis and the sharp decline in foreign exchange reserves in 1991. The reforms included deregulation, privatization and opening to foreign investment similar to other countries (Kapur, Nangia 2015; Kalyugina, et al., 2015). India adopted reforms incrementally and in the face of political pressures.

China under Deng Xiaoping's leadership implemented a policy of "reform and opening up" since 1978 (Naughton, 2018). Key steps included liberalization of agriculture, establishment of special economic zones (SEZs), and opening to foreign capital. China's reforms were managed by an authoritarian regime, which allowed for faster implementation under centralized control without democratic constraints).

Main reform areas

Economic reforms in India primarily involved industrial deregulation, the removal of licensing quotas (the so-called "License Raj" or "License – Permit – Quota Raj") to promote self-reliance and ensure

[25] Swachh Bharat Mission (SBM) was launched in 2014 to achieve an open defecation free (ODF) India in five years. This progressed the country towards SDG 6.2, which aims for adequate and equitable sanitation access for all, especially for women and girls. By 2019, the campaign had achieved great success through approaches such as people's participation. They had built over 100 million household toilets, which benefited 500 million people in 630,000 villages. Now, other national campaigns are following the Mission's model. It has also influenced policies in countries such as Nigeria, Indonesia, and Ethiopia. Since 2020, the entire cycle of investing in sustainable building materials has been covered under SBM Phase II.

regional equality (Chandrasekhar and Ghosh, 2018), as well as trade liberalization. The most significant change was the reduction of customs duties from 85% in 1980 to around 10% in 2020. Additionally, the growth of the outsourcing sector, especially in IT and services, played a key role. Cities like Bangalore became hubs of technological development (Heeks, 2018). India also faced limitations, particularly a slow-growing manufacturing sector and infrastructure deficits.

In China, the reforms primarily focused on the agricultural sector, especially with the introduction of the "household responsibility system," which significantly increased production (Lardy, 2019). There was also a strong emphasis on manufacturing and exports, with China becoming a global manufacturing powerhouse. This also included the creation of Special Economic Zones (SEZs), such as Shenzhen, which attracted massive foreign investments. However, like India, China faced its own limitations, particularly its dependence on state-owned enterprises (SOEs) and uneven regional development (Huang, 2017).

In India, social reforms focused mainly on poverty reduction policies. These included programs such as MGNREGA (rural employment) (Dréze and Sen, 2021). However, investments in education and healthcare remained low compared to GDP. Inequality and the caste system continue to pose challenges for inclusive development (Deshpande and Ramachandran, 2019).

According to World Bank data, China has focused on significant poverty reduction. More than 800 million people have been lifted out of extreme poverty thanks to massive investments in infrastructure and urbanization. This has improved access to education and healthcare (Kanbur, et al, 2021). In contrast, the "hukou" system (household registration) limited the mobility of rural populations, creating urban-rural disparities (Chan, 2019). The key reform differences can be descried as follows:

- Speed and scope of reform: China has implemented reforms more quickly and with greater state control, while India has moved more slowly due to political pluralism.
- Focus: China has focused on the manufacturing and export sector, while India has emerged as a leader in IT services and outsourcing.
- Social inclusion: India faces persistent challenges of caste discrimination and inequality, while China's "hukou" system has created significant disparities between urban and rural areas.

Table

Key financial indicators: A comparison of India and China

Indicator	India			China		
	2010	2020	2024 (estimate)	2010	2020	2024 (estimate)
GDP per capita (USD)	1.34	2.19	2.6	4.45	10.28	12.5
Poverty ratio (%)	21.9	10.0	8.0	9.9	0.6	0.3
Share in global exports (%)	1.4	2.0	2.5	10.4	15.0	16.0
Human development index (HDI)	0.547	0.633	0.670	0.699	0.761	0.780
Household debt (% GDP)	11.0	15.2	17.5	29.7	61.7	68.0
Unemployment (%)	5.6	7.1	6.8	4.2	5.0	5.2

Source: own results

All in all, India and China offer contrasting models of socio-economic reforms. While China underwent radical state-led changes, India relied on market forces and democratic processes. China was successful in rapidly reducing poverty and developing infrastructure but faces challenges related to inequality, dependence on exports, and state-owned enterprises. It must also address a demographic crisis, especially population aging. India has strong potential in the IT sector but needs to strengthen inclusiveness, healthcare, and the manufacturing sector to achieve a similar growth trajectory. The Table above allows for a comparison of key economic indicators for both countries, which also reflect the impacts of these reforms. This is most evident in the household debt data, which doubled in China from 2010 to 2020, while in India, the increase was only about 40%.

Discussion

India's economic development in the 21st century depends on the integration of institutional and economic factors. While India has made significant progress, it still faces major challenges such as corruption, regional inequalities, environmental issues, and weak integration of the informal sector. Currently, India ranks 134th on the Human Development Index, which is far behind some other developing countries.

Several authors (Krishnan and Mishra, 2021; Singh and Sharma, 2022) point to the need to simplify bureaucratic processes and improve administrative efficiency. According to their studies, it is corruption and red tape that consistently act as obstacles that increase transaction costs and thus, again logically, discourage both foreign and domestic investors, further point out that digital technologies can be the key to overcoming geographic and social inequalities, especially in rural areas. According to them, it is digitization, effectively supported by initiatives such as "Digital India," that has contributed significantly to improving access to finance in the country, and thus of course, secondarily to improving education levels and access to basic services, but they point out that the availability of digital options is still poor and access to the internet and digital technologies is limited by socio-economic factors such as income, education and caste. Similarly, the role of the informal sector also needs to be addressed in the future, where many experts point out that even today, the Indian economy is still heavily influenced by the informal sector, which employs approximately 80% of the workforce. While it is true that this sector is increasing in terms of employment, poor employee protection remains a problem, as well as low productivity. Thus, it was during the COVID-19 pandemic that millions of workers lost their income for these reasons (Mehrotra, et al., 2024).

Another major problem for the Indian economy is the impact of the federal system and the mismatch between central and state policies on regional inequalities. In this context, we can conclude that decentralization could be an effective tool to address regional disparities, but only if there is adequate coordination and more efficient redistribution at the financial level. Attracting investment, however, requires a certain level of industrialization and an education system, which can lead to regional disparities. In the case of India, the question of designing appropriate policies to reduce regional disparities remains open, as does the role of decentralization in addressing local economic problems.

In the context of the need to maintain high economic growth, the setting of environmental sustainability is an important issue for India, especially in terms of air quality and water availability. Therefore, going forward, it will ensure the necessary investments in renewable energy and improved environmental regulation.

Conclusion

In the coming years, India is expected to become one of the world's economic superpowers. To achieve this, it is crucial to speed up social and economic reforms in the country. The Indian government should take steps to address the existing institutional and infrastructural challenges in the country. A major concern for India is the development of not only physical infrastructure but also social infrastructure, as both are essential for sustainable economic growth.

Even though many Indian cities have undergone significant infrastructural modernization, the opposite is true for rural areas. A similar situation exists in healthcare, education, and other human development indicators, where India lags considerably, with stark disparities evident between urban and rural areas. Currently, India faces many challenges, particularly in maintaining the dynamic economic growth of recent years. A key aspect for the future will also be managing the growth of India's population, as it is now the most populous country in the world. It will also be crucial to successfully expand India's industrial sector to absorb not only surplus labor from agriculture but also the large number of women and teenagers entering the labor market each year. Another challenge will be to encourage foreign investment in various sectors of the Indian economy. Lastly, ensuring universal education and healthcare for the entire population is crucial for India's future.

Many economic experts and studies conducted worldwide believe that India and China will be the most influential countries in the 21st century. For more than a century, the United States has been the dominant force in the global economy. However, recent changes have shifted attention from the U.S. and other wealthy European countries to these two Asian giants – India and China. India's unique position, with rapidly growing incomes, low household debt, and a young workforce, makes it a global economic powerhouse that will drive both domestic and international growth in the coming decades. To achieve sustainable economic growth and unlock the potential of the Indian economy, it is crucial to implement economic reforms and invest in key sectors such as education, healthcare, and technology. The Indian government's efforts to promote economic growth, along with the resilience of the agricultural sector and growth potential in the services sector, suggest that the country's economy is on the path to growth in the coming years.

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