



India's Strategy for Deregulation and Growth

For Prelims: [GDP](#), [Inflation](#), [Unemployment](#), [Covid-19 pandemic](#), [World Bank](#), [Current Account Deficit](#), [International Monetary Fund](#), [Disinvestment](#), [Production-linked Incentive \(PLI\) Scheme](#), [Intellectual Property Rights](#).

For Mains: Key Focus Areas for Sustainable Economic Growth, Opportunities and Challenges of Indian Economy

[Source: IE](#)

Why in News?

Recently, the **Chief Economic Advisor (CEA)**, Dr. **V. Anantha Nageswaran**, has announced that **deregulation** will be a major theme in the **Economic Survey** for 2024-25.

- This announcement underscores the government's intention **to ease restrictive regulations in various sectors** to spur economic growth, and enhance the productivity of **Small and Medium Enterprises (SMEs)**.

Note: Deregulation refers to the process of **reducing or eliminating government controls over industries** or sectors to foster **competition and enhance market efficiency** by encouraging the entry of new players.

- It has been a significant aspect of [Economic Reforms \(LPG Reforms\)](#) initiated **post-1991**, transitioning the country from a highly regulated, state-controlled economy to a more liberalized and globally integrated one.
- For Example, in **1978**, India passed the **Airline Deregulation Act**, which gave more control to airline companies and changed the landscape of the industry.

What are the Key Focus Areas for Economic Growth of India?

- **Deregulation as a Catalyst for Growth:** The upcoming **Economic Survey** for 2024-25 highlights **deregulation, particularly at state and local levels**, as a key growth catalyst.
 - Citing outdated restrictions on **118 occupations deemed "risky" for women**, and to **reform female labour force participation** and promote entrepreneurship, unlocking greater economic potential.
- **Wage Growth and Consumption:** CEA highlighted the **stagnation of wages, especially for contractual employees**, which has **failed to keep up with inflation, reducing purchasing power**. Despite rising corporate profits, **wage disparity** persists.
 - A **correction in corporate wage structures** is needed to align earnings with living costs, stimulating demand and economic growth.

- **Informalisation of the Workforce:** The Covid-19 pandemic accelerated the shift from regular to informal employment, weakening job security and benefits. While beneficial for companies, this trend hampers consumption and economic growth by limiting workers' ability to save and invest.
- **Small and Medium Enterprises (SMEs):** India's **Small and Medium Enterprises (SMEs)** sector is crucial for economic growth, especially in manufacturing. However, it faces challenges due to the "micro" category, **limiting access to resources and support**.
 - Learning from Germany and Switzerland, India must end concessions that keep SMEs small. A vibrant SME sector can help achieve India's goal of a 25% share of GDP from manufacturing.
- **Job Creation and Labour Force Participation:** India needs to create around **8 million jobs annually** to absorb its growing workforce. CEA emphasized **balancing capital and labour-intensive growth**, with the **private sector** playing a key role.
 - Policies like **cash incentives and provident fund contributions** for first-time hires aim to boost job creation.

What are the Implications of Deregulation for the Indian Economy?

- **Boost to Private Sector Growth:** Deregulation allows businesses to operate with **greater autonomy, reducing bureaucratic delays and enabling faster decision-making**. This has led to the flourishing of industries such as telecommunications, aviation, and IT.
- **Innovation and Entrepreneurship:** Deregulation has created a **conducive environment for startups and innovation** by reducing compliance burdens and fostering ease of doing business.
 - With the growth of industries due to deregulation, there has been a corresponding **increase in job opportunities** across various sectors, contributing to economic empowerment.
- **Attraction of Foreign Investments:** By removing restrictions on **foreign direct investment (FDI)** in various sectors, deregulation has helped India become a preferred destination for global investors, enhancing capital inflows and technology transfer.
- **Increased Efficiency and Competition:** A deregulated market fosters healthy competition, ensuring **better quality goods and services** at competitive prices, benefiting consumers while driving industrial growth.

LPG Reforms

- PM Rao along with Finance Minister Manmohan Singh, initiated the **LPG reforms (Liberalization, Privatization, and Globalization)** that were introduced as a cornerstone of India's economic strategy to overcome the crisis and promote sustainable growth.
 - **Liberalisation:**
 - **New Trade Policy:** Introduced to boost exports by revamping the licensing process and linking non-essential imports to exports.
 - **Exim Scrips:** The government removed export subsidies and instead introduced tradeable exim scrips for exporters based on the value of exports. The policy ended the monopoly of state-owned firms over imports, enabling the private sector to import goods independently.
 - **Ending Licence Raj:** The new industrial policy dismantled the licence raj, relaxing Monopolies and Restrictive Trade Practices Act provisions to facilitate business restructuring and mergers. The policy abolished industrial licensing for all but **18 industries, irrespective of investment levels**.
 - **Privatisation:**
 - **FDI Reforms:** Automatic approval for **foreign direct investment (FDI)** up to 51% was introduced, compared to the previous cap of 40%.
 - **Public Sector Monopoly Restriction:** Restricted public sector monopoly to sectors critical for national security.
 - **Opening Markets:** These changes made it easier to do business in India, attracting a deluge of foreign goods and investments in subsequent years.
 - **Globalisation:**
 - **Economic Policies:** The reforms aimed at integrating India's economy with the global market, encouraging international trade and investment.
 - **Boosting Exports:** With the massive devaluation of the rupee and new trade

policies, Indian exports became more competitive globally.

What is the Importance of Deregulation for the Indian Economy?

▪ Reviving Economic Growth:

- The Covid-19 pandemic triggered a significant **contraction in India's economy** in 2020. While the economy rebounded strongly in **2021 with a GDP 9% growth**, which has now slowed down to **5.4% in July-September FY25**, below **RBI's 7% projection**.
- By reducing **bureaucratic hurdles and empowering market forces**, deregulation fosters entrepreneurship, investment, and innovation, driving sustainable economic recovery and growth.

▪ Addressing Unemployment and Underemployment:

- The pandemic worsened unemployment, with over **1.8 crore** salaried jobs lost between April and July 2020.
- By **promoting ease of doing business and fostering private sector growth, deregulation creates** employment opportunities, particularly in sectors that were adversely impacted by the pandemic

▪ Reinvigorating Agriculture and Allied Sectors:

- Despite some recent growth, the **agricultural sector** which employs over 50% of the workforce has not kept pace with overall economic growth.
- The **sector's contribution to GDP** has **declined** from **35% in 1990-91** to **15% in FY23** and its growth rate **declined to 1.4% in 2023-24** from **4.7% in 2022-23**.

▪ Bridging Infrastructure Deficit:

- According to the **World Bank**, India faces an infrastructure gap estimated at USD 1.5 trillion, with significant deficiencies in **transportation, energy, and healthcare**.
- Private investment remains low, falling to **19.6% of GDP in 2020-21**, and **Gross Fixed Capital Formation (GFCF)** declined by **14.5% in FY 2020-21**.

▪ Enhancing Export Competitiveness and Geopolitical Tensions:

- Geopolitical issues, such as the **Russia-Ukraine war**, have disrupted global trade, impacting sectors like textiles and footwear, where exports have contracted.
- Additionally, India's **pharmaceutical sector**, despite its global aspirations, has struggled to keep pace with growing demand, lagging behind global growth in the sector.

MSME Sector

▪ About:

- MSMEs (Micro, Small, and Medium Enterprises) are businesses involved in the production, processing, and preservation of goods and services.

▪ Classification:

- They are classified based on investment in plant and machinery for manufacturing or equipment for service enterprises, as well as their annual turnover as:

CLASSIFICATION	MICRO	SMALL	MEDIUM
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover ; not more than Rs. 5 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore

▪ Contribution in Indian Economy:

- The MSME sector is crucial to India's economy, driving employment, innovation, exports, and inclusive growth.
- It accounts for 45% of industrial production, 40% of exports, and contributes 37.54% to India's GDP.
- The manufacturing segment within MSMEs contributes 7.09% to GDP, while the services sector adds 30.50%.

What are the Key Initiatives to Accelerate the Growth of the Indian Economy?

- [New Economic Policy \(NEP\), 2020](#)
- [Strategic Disinvestment](#)
- [Comprehensive Labour Codes](#)
- [Production-Linked Incentive \(PLI\) Scheme](#)
- [PM Gati Shakti - National Master Plan](#)
- [Bharatmala Project](#)
- [Start-up India](#)
- [Make in India 2.0](#)

What Strategies Can India Adopt to Make Deregulation Impactful?

- **Encourage PPP and Competition:**
 - For making deregulation successful and impactful there is a need to foster **partnerships between the government and private sector** to ensure effective implementation of reforms while encouraging **fair competition** to **break monopolies** and foster innovation.
- **Leverage Technology and Simplify Compliance:**
 - Use **digital platforms** to enhance **governance transparency**, **reduce compliance** burdens, and streamline approval processes. The **Digital India initiative** and single-window clearance systems under the Ease of Doing Business reforms.
- **Promote Financial Inclusion and Support SMEs:**
 - Ensure deregulation benefits marginalized populations by **expanding access to banking and credit facilities**, while supporting SMEs to adapt to market dynamics.
Example: **Pradhan Mantri Jan Dhan Yojana (PMJDY)** and **Startup India** initiatives.
- **Learn from Global Examples:**
 - There is a need to **adapt global best practices to local contexts** and engage **stakeholders in participatory decision-making** to build trust and address resistance.
 - **Singapore's deregulation** has fostered economic growth and improved living standards, benefiting the financial sector, telecommunications, transportation, and electricity market.
- **Sector-Specific Reforms:** Sector-specific reforms should address unique challenges while ensuring **strong regulatory oversight** in critical areas like finance, environment, and defense.
 - For example, allowing **100% FDI in defense promotes modernization** but requires stringent regulations for security, while the **Insolvency and Bankruptcy Code (IBC)** streamlines financial resolution while maintaining accountability and preventing risks.

Drishti Mains Question:

Discuss the challenges and opportunities of India's evolving economy and the role of key sectors in ensuring sustainable and inclusive growth.

UPSC Civil Services Examination Previous Year's Questions (PYQs)

Prelims:

Q: Consider the following statements: (2018)

1. Human capital formation as a concept is better explained in terms of a process that enables individuals of a country to accumulate more capital.
2. increasing the knowledge, skill levels and capacities of the people of the country.
3. accumulation of tangible wealth.
4. accumulation of intangible wealth

Which of the statements given above is/are correct?

- (a) 1 and 2
- (b) 2 only
- (c) 2 and 4
- (d) 1, 3 and 4

Ans: (c)

Q. Disguised unemployment generally means (2013)

- (a) large number of people remain unemployed
- (b) alternative employment is not available
- (c) marginal productivity of labour is zero
- (d) productivity of workers is low

Ans: (c)

Mains

Q. Most of the unemployment in India is structural in nature. Examine the methodology adopted to compute unemployment in the country and suggest improvements. **(2023)**

PDF Reference URL: <https://www.drishtiias.com/printpdf/india-s-strategy-for-deregulation-and-growth>

