International Journal of Advanced Research in Commerce, Management & Social Science (IJARCMSS)
ISSN :2581-7930 (Online), Impact Factor : 7.270, Volume 08, No. 04(II), October-December, 2025, pp 199-206

Impact of Economic Reforms on The Indian Economy: A Sectoral Analysis

Dr. Prabhakar Poddar*

Assistant Professor, Department of Economics, R.D. & D.J. College, Munger University, Munger, Bihar, India.

*Corresponding Author: spprabhu247@gmail.com

***Citation**: Poddar, P. (2025). Impact of Economic Reforms on The Indian Economy: A Sectoral Analysis. International Journal of Advanced Research in Commerce, Management & Social Science, 08(04(II)),199–206.
https://doi.org/10.62823/IJARCMSS/8.4(II).8429*

ABSTRACT

This paper examines the impact of economic reforms on the Indian economy from a sectoral perspective, focusing on agriculture, industry, and services. Since the initiation of liberalization in 1991, India has gradually transitioned from a state-controlled and inward-looking system to a more market-oriented and globally integrated economy. The study uses secondary data from government reports, Economic Surveys, Reserve Bank of India publications, and international databases to analyze trends in growth, productivity, and investment across sectors. The findings indicate that economic reforms have contributed to higher economic growth, improved macroeconomic stability, and significant structural transformation. India's GDP growth has moved from the earlier 3–4% range to an average of 6–7% or higher in the post-reform period, with recent projections around 7–7.4%. The sectoral analysis shows a declining share of agriculture in GDP to about 15–18%, while industry contributes around 27–28% and services nearly 55%. The services sector has emerged as the main growth engine due to reforms in telecommunications, finance, and digital infrastructure, leading to strong performance in IT and business services. Manufacturing has benefited from deregulation, FDI liberalization, and Production Linked Incentive (PLI) schemes, particularly in electronics and pharmaceuticals, though structural constraints remain. Agriculture has recorded moderate but steady growth, with diversification into allied activities such as livestock and fisheries. Reforms in taxation, insolvency, and financial systems have improved the investment climate and credit discipline. Overall, the study concludes that economic reforms have strengthened India's growth potential and global integration, but uneven sectoral gains highlight the need for more inclusive and employment-oriented reforms to ensure balanced and sustainable development.

***Keywords:** Economic reforms, Sectoral analysis, Structural transformation, FDI liberalization, Production Linked Incentive (PLI).*

Introduction

Economic reforms have been a defining force in shaping the trajectory of the Indian economy over the past three decades. Since the initiation of liberalization in 1991, India has gradually moved from a state-controlled and inward-looking economic framework to a more market-oriented and globally integrated system. These reforms were introduced to address macroeconomic imbalances, low productivity, and slow growth, and they focused on deregulation, trade liberalization, financial sector reform, and the encouragement of private and foreign investment. Over time, the reform process has expanded beyond stabilization measures to include tax reforms, insolvency and bankruptcy frameworks, targeted industrial incentives, and digital and trade policy initiatives. Together, these measures have aimed to improve efficiency, competitiveness, and long-term growth potential.

One of the most visible outcomes of economic reforms has been the acceleration of economic growth. India moved away from the earlier "Hindu rate of growth" of about 3–4% annually to a higher growth trajectory in the post-reform period, often averaging 6–7% or more. Recent official estimates place GDP and GVA growth in the range of about 7–7.4%, positioning India among the fastest-growing major economies. This improvement reflects better resource allocation, a stronger investment climate, and greater integration with global markets. Policy reforms in taxation, such as the introduction of GST, and in financial markets have helped create a more unified and transparent economic environment that supports business expansion and investment.

Economic reforms have also driven structural transformation within the economy. In the early decades after independence, agriculture dominated both output and employment. However, the share of agriculture in GDP has steadily declined to around 15–18%, while industry and especially services have expanded. The services sector now contributes nearly 55% of GDP and has become the principal engine of growth. Liberalization in telecommunications, finance, and digital infrastructure has enabled rapid expansion in information technology, IT-enabled services, trade, tourism, and logistics. These developments have enhanced productivity, exports, and employment opportunities, and have integrated India more closely into the global knowledge economy.

The industrial sector has similarly evolved under the influence of reforms. Delicensing, tariff rationalization, and FDI liberalization have encouraged competition and modernization. More recently, targeted initiatives such as PLI schemes have stimulated manufacturing in sectors like electronics, automobiles, and pharmaceuticals, contributing to higher output and export orientation. While infrastructure and regulatory challenges remain, the sector shows renewed momentum. Agriculture, though less extensively liberalized, has benefited from improvements in credit, infrastructure, and diversification into allied activities such as livestock and fisheries, leading to incremental gains in value added.

A sectoral perspective is essential for understanding how economic reforms influence different parts of the economy. Sector-wise analysis helps identify where reforms have been most effective, where constraints persist, and how policies can promote balanced and inclusive development. This study, therefore, examines the impact of economic reforms on agriculture, industry, and services, with a focus on growth, productivity, and investment patterns. By analyzing sectoral trends and policy linkages, the study seeks to provide a clearer understanding of how reforms have reshaped the Indian economy and what this implies for future development strategy.

Objectives of the Study

1. To examine the overall impact of economic reforms on the growth and structure of the Indian economy.
2. To analyse the sector-wise effects of economic reforms on agriculture, industry, and services.
3. To assess how economic reforms have influenced productivity, investment, and sectoral development in India.

Methodology

This study is based on a secondary data analysis approach to examine the impact of economic reforms on the Indian economy from a sectoral perspective. Data have been collected from reliable and recent sources such as government reports, Economic Surveys, Reserve Bank of India publications, World Bank databases, and research journals. Sector-wise data on agriculture, industry, and services were reviewed to understand trends in growth, investment, and productivity. The study adopts a descriptive and analytical research design, comparing pre- and post-reform developments and recent performance indicators. Relevant statistics, growth rates, and policy documents were systematically analysed to identify sectoral patterns. This method ensures a comprehensive and evidence-based understanding of how economic reforms have influenced different sectors of the Indian economy.

Impact of Reforms on Economic Growth Performance

Economic reforms in India, initiated in 1991 and strengthened through subsequent policy measures, have significantly improved the country's growth trajectory. The shift from a controlled economy to a more market-oriented system reduced licensing requirements, lowered trade barriers, and encouraged private participation. These changes enhanced efficiency and competitiveness across sectors. Post-reform India has generally recorded higher average GDP growth compared to the pre-reform period. The economy moved from the so-called "Hindu rate of growth" of around 3–4% annually before the 1990s to substantially higher growth rates in the decades following liberalization. Reforms in taxation, financial markets, and foreign investment policies improved resource allocation and investor confidence. As a result, India emerged as one of the fastest-growing major economies. Moreover, reforms encouraged entrepreneurship and innovation. The expansion of the private sector, easier access to capital, and regulatory simplification enabled firms to scale operations and integrate with global markets. Although growth has experienced cyclical fluctuations due to global and domestic shocks, the long-term trend reflects a stronger and more resilient economy compared to the pre-reform era.

Structural Transformation of the Indian Economy

A major outcome of economic reforms has been structural transformation the reallocation of output and employment across sectors. Prior to reforms, agriculture accounted for a dominant share of GDP and employment. Over time, the contribution of agriculture to GDP declined, while industry and especially services expanded. The services sector became the primary engine of growth, driven by information technology, finance, telecommunications, education, and healthcare. Liberalization policies allowed greater private and foreign participation in these areas, leading to productivity gains and global competitiveness. India’s IT and business process outsourcing industries are notable examples of reform-enabled structural change. Industry also benefited from delicensing, FDI liberalization, and infrastructure development. Manufacturing diversification, growth in construction, and rising integration into global value chains reflect this transformation. Although employment transition from agriculture to industry has been gradual, the overall production structure of the economy now resembles that of a modernizing developing nation.

Macroeconomic Stability and Investment Climate

Economic reforms strengthened macroeconomic fundamentals by improving fiscal management, external sector stability, and financial sector efficiency. Tax reforms such as VAT and GST rationalized indirect taxation and created a more unified market. Financial sector reforms enhanced banking regulation, capital markets, and credit availability. Foreign Direct Investment (FDI) inflows increased significantly after liberalization due to relaxed caps and improved ease of doing business. Higher investment levels supported capital formation, infrastructure creation, and technology transfer. Reforms in insolvency and bankruptcy frameworks further improved credit discipline and reduced the problem of non-performing assets. Together, these changes created a more stable and predictable economic environment. While challenges such as income inequality and regional disparities remain, the reform process has laid a foundation for sustained growth and structural modernization. To understand the broad changes brought about by economic reforms, it is useful to compare key macroeconomic indicators before and after the reform period. Table 1 presents indicative changes in India’s economic structure and performance during the pre-reform and post-reform periods, highlighting shifts in growth rates, sectoral composition, trade openness, and the role of the private sector.

Table 1: Indicative Changes in India’s Economy

Indicator	Pre-Reform Period (Before 1991)	Post-Reform Trend
Average GDP Growth	3-4% annually	6–7% average in many years
Share of Agriculture in GDP	30–35%	15–18%
Share of Services in GDP	40%	55–60%
FDI Inflows	Very limited	Substantial and rising
Private Sector Role	Restricted	Expanded significantly
Trade Openness	Low	Much higher global integration

Source: World Bank data & Govt. of India, Economic Survey on post-1991 economic reforms.

The above table 1, the post-reform period is characterized by a significant acceleration in GDP growth, a sharp decline in the share of agriculture in GDP, and a corresponding rise in the services sector. The expansion of foreign direct investment and increased trade openness further reflect the success of liberalization policies in integrating the Indian economy with global markets.

Agriculture: Trends and Reform Impact

Economic reforms have not fully liberalized agriculture, but policy changes in trade, credit, and infrastructure have influenced growth. Latest estimates show the agriculture and allied sector contributes around 17–18% of India's GDP (GVA) in the period around FY 2024-25, reflecting its still significant share despite structural shifts toward industry and services. Agricultural growth has been moderate: crop GVA averaged about 4.0 % annually for FY 2020-24, while allied activities such as livestock and fisheries grew faster (6.1 % and 7.2% respectively), indicating diversification within the sector. These data underscore that while reforms improved productivity and market access, agriculture's contribution to overall economic growth remains relatively modest compared with other sectors.

Industry: Manufacturing and Secondary Sector Growth

Economic reforms such as deregulation, tariff rationalization, and targeted incentives (PLI schemes) have supported industrial expansion. Sector estimates indicate that industry (secondary sector) accounts for approximately 27-28% of GDP, with manufacturing around 17–18%. In FY 2025-26, official estimates project manufacturing growth around 9.2%, outpacing overall industry growth, while broader industrial growth has been estimated around 6.2% both reflecting strengthening recovery and investment activity post-reform. This evidence highlights the positive effect of liberalization and supply-side reforms on industrial output and competitiveness.

Services: Dominant Sector and Reform Gains

The services sector continues to be the dominant pillar of India's economy, supported by sustained expansion in information technology, digital services, finance, trade, and logistics. Recent macroeconomic estimates indicate that services account for nearly 55% of India's GDP, underscoring their central role in the country's production structure. The sector has also maintained robust growth momentum; for instance, in the first quarter of FY 2025–26, services activity was a major driver of overall GDP expansion of about 7.8%, with strong contributions from trade, tourism, financial services, and IT-enabled services. Structural reforms in financial markets, telecommunications, and digital public infrastructure have significantly improved efficiency and market connectivity, reinforcing the sector's growth trajectory.

A broader sectoral perspective further highlights the dynamics of India's economic structure. As summarized in Table 2, agriculture and allied activities contribute around 17–18% of GDP, with crop Gross Value Added (GVA) growing at roughly 4% on average, while allied segments such as livestock and fisheries have recorded relatively faster growth of 6–7%. The industrial (secondary) sector accounts for approximately 27–28% of GDP, supported by manufacturing growth of about 9% and overall industrial growth near 6%, reflecting improving capacity utilization and policy support such as production-linked incentive schemes.

Table 2: Sectoral Contribution and Growth Estimates

Sector	Contribution to GDP	Recent Growth Indicators
Agriculture & Allied	17–18% of GDP	Crop GVA 4.0% (avg); allied sectors growing 6–7%
Industry (Secondary)	27–28% of GDP	Manufacturing growth 9%; industrial growth 6%
Services	55% of GDP	Services-led growth; key driver of 7.8% GDP expansion in Q1 FY 2025–26
GDP Growth (Overall Economy)	Economy-wide growth measure	Real GDP growth projected at 7.3–7.4%
Exports (Goods & Services)	18–20% of GDP	Expected to exceed USD 1 trillion

Source: Government of India, Economic Survey 2024–25; MOSPI; RBI.

At the macro level, India's real GDP growth is projected at about 7.3–7.4% in FY 2025–26, positioning the country among the fastest-growing major economies. External sector performance has also strengthened, with exports of goods and services expected to exceed USD 1 trillion, representing roughly 18–20% of GDP and signaling greater global integration. Table 2 consolidates these sectoral contributions and recent growth indicators, illustrating that while agriculture and industry remain important for employment and structural balance, the services sector continues to lead India's growth story, supported by ongoing reforms and digital transformation.

Influence of Economic Reforms on Productivity

Economic reforms have significantly improved productivity in the Indian economy by promoting competition, efficiency, and technological adoption. Prior to liberalization, many industries operated in a protected environment with limited incentives to innovate. The removal of industrial licensing, reduction in import tariffs, and exposure to global markets compelled firms to upgrade technology and improve operational efficiency. In manufacturing, firms adopted modern production techniques and better management practices to remain competitive. Access to imported capital goods and intermediate inputs enhanced production quality and reduced costs.

As a result, total factor productivity (TFP) improved in several industries, particularly automobiles, pharmaceuticals, and electronics. In the services sector, productivity gains have been even more visible. Information technology, digital services, and financial services benefited from deregulation and global integration. The rise of IT-enabled services increased output per worker and positioned India as a global outsourcing hub. However, productivity improvements have been uneven. Large and organized firms gained more than small and informal enterprises, which still face constraints such as limited credit, outdated technology, and regulatory burdens. Despite this, overall productivity levels in the post-reform period are higher than in the pre-reform era, indicating the positive role of reforms.

Impact of Economic Reforms on Investment

Investment growth is one of the most important channels through which reforms have influenced economic development. Liberalization policies improved the investment climate by simplifying procedures, reducing bureaucratic controls, and opening sectors to private and foreign investors. Foreign Direct Investment (FDI) increased substantially after reforms, bringing capital, technology, and managerial expertise. Sectors such as telecommunications, automobiles, infrastructure, and financial services attracted significant foreign investment. Domestic private investment also expanded due to improved business confidence and financial sector reforms. Institutional reforms, including banking sector strengthening and insolvency frameworks, helped in better credit allocation and recovery of stressed assets. Infrastructure investment in roads, ports, airports, and digital connectivity further stimulated economic activity. Nonetheless, investment cycles have shown fluctuations due to global uncertainties and domestic financial stress. Even so, the long-term trend reflects a more open and investment-friendly economy compared to the pre-reform period.

Sectoral Development and Structural Modernization

Economic reforms have contributed to sectoral development by encouraging diversification and modernization. The economy gradually moved from dependence on agriculture to a more balanced structure with stronger industry and services sectors. Manufacturing development has been supported by policy incentives, export promotion, and integration into global value chains. Construction and infrastructure sectors expanded, supporting urbanization and employment. The services sector experienced rapid modernization, particularly in IT, banking, telecommunications, and logistics. These areas generated high-value employment and export earnings. Agriculture also saw development through diversification into horticulture, dairy, and fisheries, though at a slower pace. While regional and sectoral disparities persist, reforms have created a foundation for long-term structural transformation and modernization across sectors.

Beyond output growth, economic reforms have influenced productivity, investment patterns, and long-term sectoral development. Table 3 provides a comparative overview of the pre-reform and post-reform scenarios, focusing on changes in productivity levels, investment flows, technological adoption, and global integration.

Table 3: Reform Impact on Productivity, Investment, and Sectoral Development

Dimension	Pre-Reform Scenario	Post-Reform Outcomes
Productivity	Low competition, limited technology use	Higher efficiency, tech adoption, improved TFP
Investment	Restricted private & foreign investment	Increased FDI, higher domestic private investment
Sectoral Development	Agriculture-dominated economy	Rise of industry & services, diversification
Technology Use	Slow modernization	Rapid digital and industrial technology adoption
Global Integration	Limited trade linkages	Stronger participation in global markets

Source: World Bank and IMF reports on economic reforms

As evident from Table 3, post-reform outcomes show marked improvements in efficiency, investment inflows, and technological modernization across sectors. The transition from an agriculture-dominated structure to a more diversified economy led by industry and services underscores the transformative impact of economic reforms on India's development trajectory.

Results and Discussion

The sectoral analysis indicates that economic reforms have had a substantial impact on India's growth performance, structural transformation, productivity, and investment patterns. Post-1991 reforms shifted the economy from a controlled regime to a market-oriented system, resulting in higher average GDP growth compared to the pre-reform "Hindu rate of growth" of 3–4%. In the post-reform period, growth has generally remained in the 6–7% range, with recent estimates exceeding 7%, reflecting improved efficiency, investor confidence, and global integration.

A major outcome of reforms is structural transformation. Agriculture's share in GDP has declined to about 15–18%, while services now contribute nearly 55% and industry around 27–28%. The services sector has been the primary growth engine, supported by liberalization in telecommunications, finance, and digital infrastructure. IT and business services have enhanced productivity, exports, and employment. Manufacturing has also benefited from deregulation, FDI liberalization, and PLI schemes, with stronger performance in sectors such as electronics, automobiles, and pharmaceuticals. However, infrastructure gaps, logistics costs, and skill constraints continue to limit faster industrial expansion.

Agriculture shows moderate but steady growth. Crop growth remains around 4% on average, while allied activities such as livestock and fisheries grow faster, indicating diversification. Yet, slower agricultural growth relative to other sectors raises concerns about rural incomes and employment, highlighting the need for deeper structural and market reforms.

Reforms have improved the investment climate through deregulation, GST, and financial sector and insolvency reforms. FDI and domestic private investment have increased, supporting capital formation and infrastructure development. Productivity gains are visible in organized manufacturing and modern services due to technology adoption and competition, though small and informal firms benefit less.

Overall, economic reforms have transformed India into a faster-growing and more globally integrated economy. However, uneven sectoral and regional gains suggest that future reforms should emphasize inclusiveness, employment generation, agricultural modernization, and MSME development to ensure broad-based and sustainable growth.

Conclusion

Economic reforms have played a decisive role in transforming the Indian economy from a relatively closed and regulated system into a more open, competitive, and globally integrated one. The evidence from this study shows that post-1991 reforms have supported higher economic growth, improved productivity, and stronger investment flows, moving India from the earlier low-growth phase to a sustained higher growth trajectory. Structural transformation is evident in the declining share of agriculture and the rising contribution of industry and especially services, with the services sector emerging as the main driver of growth due to digitalization, financial liberalization, and expansion in IT and business services. Manufacturing has gained momentum through policy support such as FDI liberalization and PLI schemes, though its full potential in employment generation is yet to be realized, while agriculture remains crucial for livelihoods but requires deeper reforms, better infrastructure, and stronger market linkages. Although reforms have strengthened macroeconomic stability and global integration, their benefits have been uneven across sectors and firm sizes, particularly for small and informal enterprises. Therefore, future reforms should focus on inclusiveness, employment generation, agricultural modernization, and MSME support so that growth remains broad-based, resilient, and sustainable in the long run.

References

1. Aghion, P., Burgess, R., Redding, S., & Zilibotti, F. (2003). *The unequal effects of liberalization: theory and evidence from India*. LSE mimeo. London, UK: LSE.
2. Ahluwalia, M. S. (2019). India's economic reforms: Achievements and next steps. *Asian Economic Policy Review*, *14*(1), 46-62.
3. Amirapu, A., & Subramanian, A. (2015). Manufacturing or services? An Indian illustration of a development dilemma. *Center for Global Development Working Paper*, (408).
4. Basu, D. and D. Das, (2017), Service Sector Growth in India from the Perspective of Household Expenditure, Economic and Political Weekly, December 2, Vol. LII, no. 48, pp. 68-75.
5. Central Statistical Organisation (CSO). (2014). National Accounts Statistics of India, New Delhi: Ministry of Finance, Government of India.
6. Chakraborty, C., & Nunnenkamp, P. (2006). *Economic reforms, foreign direct investment and its economic effects in India* (No. 1272). Kiel Working Paper.
7. Cortuk, O., & Singh, N. (2011). Structural change and growth in India. *Economics Letters*, *110*(3), 178-181.
8. Deb, A. K., & Ray, S. C. (2013). *Economic reforms and total factor productivity growth of Indian manufacturing: An inter-state analysis* (No. 2013-04). University of Connecticut, Department of Economics.
9. Dreze, J., & Sen, A. (2013). An Uncertain Glory: India and Its Contradictions. Princeton University Press. DOI: https://doi.org/10.23943/9781400848775
10. Economic Survey. (2014). Government of India, New Delhi: Ministry of Finance. doi: http://dx.doi.org/10.1787/eco_surveys-ind-2014-en
11. Gajanan, S., & Malhotra, D. (2007). Measures of capacity utilization and its determinants: a study of Indian manufacturing. *Applied Economics*, *39*(6), 765-776.
12. Ghosh, S. M., & Qadeer, I. (2017). Calorie intake and quality of diet in India: 1993–94 to 2011–12. *Social Scientist*, *45*(9/10), 13-34.
13. GOI, D. (2018). Agricultural Statistics at a glance 2018. *Government of India, Ministry of Agriculture & Farmers Welfare, Department of Agriculture, Cooperation & Farmers Welfare, Directorate of Economics and Statistics*.
14. Government of India. (2019). Agricultural statistics at a glance 2018.
15. Kohli, A. (2006). Politics of economic growth in India, 1980-2005: Part I: The 1980s. *Economic and Political Weekly*, 1251-1259.
16. Latha, C. M., & Shanmugam, V. (2014). Growth of service sector in India. *Journal of Humanities and Social Science*, *19*(1), 08-12.
17. Mukherjee, A. (2013), The Service Sector in India, Asian Development Bank Economics Working Paper Series No. 352.
18. Rao, M. (2009). Economic Reforms in India: A 21st-Century Perspective. Academic Foundation.

19. Reserve Bank of India. (2004). *Handbook of statistics on state government finances*. Reserve Bank of India.
20. Sharma, R. (2017). Reforms and the Indian Economy: Challenges and Opportunities. Sage Publications.
21. Siddiqui, K. (2018). India economic reforms and challenges for industrialization. Journal Perspektif Pembiayaan Dan Pembangunan Daerah, 6(1), 1–20. https://doi.org/10.22437/ppd.v6i1.5209
22. Subramanian, A. (2019). Economic survey of India. *Econonic Survey, India*.
23. Topalova, P. (2004). Trade liberalization and firm productivity: The case of India (No. 4-28). *International Monetary Fund*.
24. World Bank (2020). India's Economic Growth: Achievements and Challenges. World Bank.

❑❑❑