India's Economic Transformation: Lessons for Sustainable and Inclusive Growth in Developing Economies

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ABSTRACT

Over the past three decades, India has transformed from a state-controlled, licence-regulated economy into one of the world's fastest-growing major economies, driven by liberalisation, digital infrastructure, financial inclusion and an expanding entrepreneurial ecosystem. This conceptual paper synthesises recent literature to examine the mechanisms underpinning this transformation and to assess its broader relevance for other developing economies. It shows that India's growth has been remarkable in pace and durability, yet has proceeded through services-led expansion rather than the classical manufacturing-driven structural transformation observed elsewhere, leaving income inequality, regional disparities, informality and gender gaps largely unresolved. The paper identifies institutional quality as the recurring factor determining whether policy initiatives, spanning digital governance, manufacturing promotion and infrastructure investment, translate into durable, inclusive development rather than narrowly distributed growth. Ten conditional lessons are drawn for developing economies, alongside differentiated recommendations for governments, policymakers, and international organisations, cautioning against treating India as a replicable template. The paper concludes that India's experience offers valuable but context-dependent insights, and calls for further comparative, sector-specific and climate-integrated research to test the transferability of its growth strategies to other developing-country settings.

Keywords: economic growth; structural transformation; developing countries; institutional quality; inclusive development

INTRODUCTION

Economic growth has long been regarded as a fundamental indicator of national prosperity because it provides the economic foundation for improving living standards, reducing poverty, expanding employment opportunities and enhancing social welfare. In contemporary development discourse, however, economic growth is no longer viewed solely through the lens of increasing gross domestic product (GDP). Instead, policymakers and scholars increasingly recognise that sustained economic progress must be inclusive, resilient and environmentally sustainable to generate long-term societal benefits. This broader understanding reflects the growing consensus that improvements in institutional quality, technological capability, human capital and governance are equally important in determining the quality and durability of economic growth. Consequently, the debate has shifted from how fast economies grow **to** how effectively growth translates into inclusive development and structural transformation (Gruss et al., 2018; Popov & Sundaram, 2018). The significance of economic growth has become even more evident in the aftermath of successive global shocks, including the COVID-19 pandemic, geopolitical tensions, supply-chain disruptions and increasing climate-related risks. These events have demonstrated that resilient economies are characterised not merely by high growth rates but also by their capacity to absorb external shocks while maintaining employment, investment and productivity. Recent development literature argues that sustained economic performance increasingly depends on sound institutions, macroeconomic stability, digital transformation, innovation and integration into global value chains rather than relying exclusively on the traditional accumulation of labour and capital (Gruss et al., 2018).

Despite considerable progress in global development over recent decades, many developing countries continue to experience persistent structural barriers that constrain long-term economic performance. These barriers include weak governance, inadequate infrastructure, low levels of industrial diversification, limited technological capability, financial exclusion and policy uncertainty. Such constraints often discourage private investment, reduce productivity and restrict participation in international markets, thereby slowing structural transformation. Furthermore, several developing economies remain heavily dependent on agriculture or primary commodity exports, making them particularly vulnerable to fluctuations in international commodity prices and external demand. As a result, development outcomes continue to vary considerably across countries despite similar initial resource endowments (Gruss et al., 2018; Popov & Sundaram, 2018). Recent scholarship has increasingly emphasised that successful economic development requires a process of structural transformation, whereby productive resources gradually shift from low-productivity sectors towards higher-productivity manufacturing and modern services. Structural transformation is accompanied by technological upgrading, improvements in labour productivity, innovation and institutional reforms that collectively enhance national competitiveness. However, this transition has become increasingly complex for many developing countries because global production systems have evolved rapidly, automation has altered labour market dynamics and premature deindustrialisation has emerged as a significant challenge. Consequently, several economies have struggled to replicate the export-led industrialisation pathways previously observed in East Asia (Alichi et al., 2018; Lavopa et al., 2018).

Another important dimension of contemporary development concerns technological advancement and digitalisation. The Fourth Industrial Revolution has transformed production systems, financial markets and public service delivery, creating unprecedented opportunities for productivity enhancement and economic inclusion. Nevertheless, many developing countries continue to experience significant digital divides because of inadequate digital infrastructure, insufficient investment in research and development, shortages of skilled human capital and limited institutional capacity. These constraints restrict innovation, reduce business competitiveness and hinder the adoption of digital technologies across both public and private sectors. Consequently, digital transformation is increasingly regarded as a prerequisite for sustained economic growth rather than merely a consequence of development (Alichi et al., 2018). Against this global backdrop, India represents one of the most significant economic transformation stories among emerging economies. Over the past three decades, the country has gradually transitioned from a relatively closed and highly regulated economy into one of the world's fastest-growing major economies. While the economic liberalisation reforms initiated in 1991 laid the institutional foundations for market-oriented development, the acceleration witnessed during the last decade has been driven by complementary reforms promoting financial inclusion, digital governance, entrepreneurship and infrastructure development. Unlike many emerging economies whose growth has been predominantly manufacturing-led, India's development trajectory has been characterised by the rapid expansion of high-value services, information technology and digital innovation, supported by progressive institutional reforms and increasing global economic integration (Alichi et al., 2018). India's experience is particularly noteworthy because it demonstrates that structural transformation can follow multiple development pathways. The country's globally competitive information technology sector, expanding digital public infrastructure and growing entrepreneurial ecosystem illustrate how services-led growth can generate substantial economic dynamism when supported by appropriate institutions and human capital. Simultaneously, recent policy initiatives, including programmes promoting domestic manufacturing, digital payments, financial inclusion and innovation, have attempted to strengthen productivity and improve the investment climate. Although considerable challenges remain, including income inequality, regional disparities and labour market informality, India's experience provides an important opportunity to examine how institutional reforms, technological advancement and policy continuity can collectively contribute to sustained economic development.

Rather than portraying India as a universal model for development, its experience offers valuable conceptual insights into the interaction between economic reforms, structural transformation and institutional evolution within a large and diverse developing economy. As many countries in Asia, Africa and Latin America continue to pursue inclusive growth strategies, understanding the mechanisms that have contributed to India's economic progress may provide useful lessons for policymakers seeking to balance economic expansion with social inclusion, technological advancement and long-term resilience. These issues provide the foundation for the present conceptual study, which examines India's economic transformation and evaluates its broader relevance for developing countries.

LITERATURE REVIEW

Structural transformation and the services-led growth debate

A central theme in the literature is that India's growth has not followed the sequence long observed in industrialised and East Asian economies, whereby labour moves from agriculture into manufacturing before eventually shifting into services. Lamba and Subramanian (2020) characterise India's experience as one of "dynamism with incommensurate development", arguing that the country has achieved sustained macroeconomic growth without the corresponding structural shift of surplus labour into high-productivity manufacturing. Their analysis highlights that this pattern has been accompanied by rising spatial income divergence, uneven human capital formation, and limited absorption of labour into formal, productive employment, even as aggregate output has expanded rapidly. This body of work is important conceptually because it complicates the assumption, embedded in much of the growth literature, that services-led development can substitute seamlessly for industrialisation. Instead, it suggests that the durability of growth depends on whether structural change generates broad-based productivity gains or merely concentrates them within a narrow, skill-intensive segment of the economy.

A second strand of literature situates India's experience within the broader argument that institutions and innovation jointly determine the quality and sustainability of growth in developing economies. Pradhan, Arvin, Nair, Bennett and Brem (2024) provide cross-country evidence that institutional quality and innovation exert long-run causal effects on economic growth, with the strength and direction of short-run relationships varying according to how these variables are measured. Their findings reinforce the view that growth is not solely a function of capital accumulation or labour supply, but is mediated by the credibility of regulatory institutions, the enforceability of property rights, and the capacity of an economy to generate and diffuse innovation. Applied to India, this literature helps explain why episodic reform waves, rather than a single liberalisation event, have been necessary to sustain growth momentum, since institutional improvements tend to unlock the benefits of innovation and investment only gradually and unevenly across sectors and states.

Given the emphasis placed on digitalisation in the introduction, a further important contribution comes from research examining digital financial inclusion as a driver of economic growth in India. Sreenu and Verma (2024) demonstrates that the expansion of digital financial services has had a measurable positive effect on economic growth by broadening access to formal financial services, improving the efficiency of resource allocation, and enabling participation by previously excluded households and micro-enterprises. This finding is significant because it links India's much-discussed digital public infrastructure, including digital payments and identity systems, to tangible macroeconomic outcomes rather than treating digitalisation merely as a policy aspiration. At the same time, this literature implicitly raises questions about uneven digital access across regions and income groups, a concern that connects directly to the structural and distributional themes discussed elsewhere in this review. Given that services-led growth has left manufacturing comparatively underdeveloped, several recent studies have examined whether targeted industrial policy can correct this imbalance.

Ghosh and Pal (2021) evaluate the Make in India initiative and find that, while the programme succeeded in raising policy visibility and improving ease-of-doing-business indicators, its impact on manufacturing value added and export competitiveness has been more limited than intended, reflecting persistent constraints in logistics, land and labour regulation, and skill availability. Complementing this, Nagarjuna (2022) shows that although average foreign direct investment inflows increased following the launch of Make in India, the share of such investment relative to GDP did not rise proportionately, suggesting that the initiative has not yet fundamentally altered India's investment climate. Collectively, these studies caution against treating industrial policy announcements as a substitute for deeper structural reform, a distinction that is particularly relevant when considering whether India's manufacturing strategy offers a transferable model for other developing economies.

Finally, the literature draws attention to the spatial unevenness of India's growth process. Aneja, Barkha and Banday (2021) decompose regional economic growth in India by sector and find that the tertiary sector has been the principal driver of post-reform growth, but that this same sector has also been a significant contributor to widening interstate income inequality, even as inequality within the primary sector has narrowed. This sector-wise decomposition is instructive because it shows that the very engine of India's growth, the services sector, has simultaneously been a source of regional divergence, reinforcing the concerns raised by Lamba and Subramanian (2020) regarding uneven structural transformation. Such findings suggest that growth strategies emphasising high-value services must be paired with deliberate redistributive and regional development measures if inclusive growth is to be achieved.

Read together, this literature converges on a coherent picture: India's growth has been rapid and resilient, but it has been powered disproportionately by knowledge-intensive services, supported by improving digital and financial infrastructure, while remaining constrained by incomplete institutional reform, limited manufacturing competitiveness, and persistent regional and distributional imbalances. What remains comparatively underexplored, however, is a conceptual synthesis that connects these separate empirical strands into a single explanatory framework capable of informing policy discussions in other developing countries. Most existing studies examine structural transformation, institutions, digitalisation, industrial policy, or inequality in isolation, using country-specific or sector-specific data. This conceptual paper addresses that gap by integrating these strands to assess the broader applicability, and the limits, of India's development experience as a reference point for developing economies pursuing inclusive and sustainable growth.

Understanding Economic Growth in Developing Countries

Before India's own experience can be meaningfully assessed, it is necessary to clarify how contemporary scholarship conceptualises growth itself. Economic growth is often treated as a single, uncomplicated phenomenon, yet recent research shows that its meaning, drivers and consequences are contested across several dimensions. This section reviews on six interlinked themes: the conceptual distinction between growth and development, structural transformation, inclusive growth, sustainable development, human capital, and institutional quality. Together, these themes provide the theoretical scaffolding for the conceptual analysis of India's experience that follows in later sections.

A recurring concern in the literature is that growth and development, though frequently used interchangeably in policy discourse, denote conceptually distinct processes. Drăgoi (2020) revisits this distinction and argues that economic growth is essentially a quantitative phenomenon, reflected in the expanding value of goods and services produced within an economy, whereas economic development is a broader and more qualitative construct that encompasses improvements in health, education, living conditions and the overall wellbeing of the population. This distinction matters conceptually because it cautions against treating rising national output as automatically synonymous with improved welfare. Where growth captures the pace of expansion, development speaks to its depth and distribution, a point that becomes especially salient in later discussions of inclusive growth and sustainable development, where the quality rather than merely the rate of expansion becomes the central concern. Structural transformation, understood as the reallocation of labour and capital from low-productivity to high-productivity activities, remains a foundational mechanism through which growth is expected to translate into development. Gomado (2025) provides recent empirical support for the continued relevance of policy-induced structural change, showing that financial, trade and product market reforms significantly stimulate labour productivity growth across a panel of developing countries, primarily by improving within-sector allocative and productive efficiency. Notably, the study does not find robust evidence that such reforms directly induce inter-sectoral structural change, suggesting that productivity gains and structural transformation, while related, do not always move in lockstep. This finding is important conceptually because it implies that reform-driven growth can occur even where the classical Lewisian shift of labour between sectors remains incomplete, a nuance that resonates with debates about whether growth without full structural transformation can still be considered developmentally meaningful.

Where structural transformation concerns the composition of growth, inclusive growth concerns its distribution. Kamran, Rafique, Nadeem and Anwar (2023) examine the relationship between inclusive growth and sustainable development across eleven developing countries and find considerable variation in how far growth has been accompanied by broad-based participation in its benefits, with some economies achieving both a relatively high degree of inclusiveness and stronger sustainable development outcomes, while others lag on one or both dimensions. Their findings reinforce the idea that inclusive growth is not an automatic by-product of rising output but depends on complementary social and institutional arrangements. This is echoed by Oyinlola, Adedeji, Bolarinwa and Olabisi (2020), who show that governance quality and the effective mobilisation of

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domestic resources are important determinants of inclusive growth outcomes in sub-Saharan Africa, indicating that the translation of growth into inclusive outcomes is heavily mediated by the capacity and integrity of domestic institutions rather than by growth rates alone. Closely related to inclusiveness is the question of sustainability, understood in both environmental and socio-economic terms. Kamran et al. (2023) situate inclusive growth explicitly within the framework of the United Nations Sustainable Development Goals, treating sustainable development as a multidimensional outcome that growth strategies must be judged against rather than assumed to deliver. Complementing this, Bekele, Sassi, Jemal and Ahmed (2024) examine the linkage between human capital development and economic sustainability in sub-Saharan Africa and find that investment in education and skills is a significant determinant of whether growth translates into durable, sustainable development outcomes rather than short-lived expansion. Taken together, this literature suggests that sustainability functions less as an automatic consequence of growth and more as a policy objective that requires deliberate integration of environmental, social and educational considerations into growth strategies from the outset. Human capital, encompassing both educational attainment and health outcomes, is consistently identified in recent literature as a central determinant of the quality and durability of economic growth. Sultana, Dey and Tareque (2022), analysing a panel of 141 developing and developed countries, find that both educational and health dimensions of human capital positively influence economic growth in developing countries, with improvements in life expectancy exerting a particularly strong effect, an outcome the authors attribute to the demographic transition many developing economies are currently undergoing. Interestingly, their results diverge for developed economies, where rising life expectancy is associated with a growth-dampening effect linked to population ageing and dependency burdens. This asymmetry underscores an important conceptual point: the growth effects of human capital investment are not uniform across development stages, and policies transplanted from advanced economies may not generate the same effects in developing-country contexts.

Institutional quality has emerged as a unifying theme that connects the other five dimensions of growth discussed in this review. Pradhan, Arvin, Nair, Bennett and Brem (2024) provide evidence from a panel of developing countries that institutional quality and innovation exert long-run causal effects on economic growth, with institutions acting as a catalyst that enables emerging economies to move up the innovation value chain. Their analysis also reveals that short-run relationships between institutions, innovation and growth vary considerably depending on how these constructs are measured, suggesting that institutional effects on growth are neither immediate nor mechanical but unfold gradually as regulatory credibility and enforcement capacity strengthen over time. This finding is consistent with the broader thread running through the literature reviewed above: whether the concern is structural transformation, inclusiveness, sustainability or human capital formation, the capacity of institutions to coordinate, regulate and sustain these processes repeatedly emerges as the binding constraint on whether growth matures into genuine development.

The literature indicates that economic growth in developing countries cannot be adequately understood through output measures alone. Growth must be distinguished conceptually from development; its structural composition matters as much as its pace; its benefits must be distributed inclusively; its trajectory must be environmentally and socially sustainable; its foundations rest on human capital formation; and its translation into development outcomes is consistently mediated by institutional quality. These six themes are not independent but interact recursively, with institutional quality in particular threading through structural, distributional and human capital outcomes alike. This integrated understanding provides the conceptual basis for examining, in the sections that follow, how India's own growth experience has navigated these interlinked dimensions.

Evolution of India's Economic Growth

India's economic trajectory after 1947 was shaped by a deliberate policy choice to pursue state-led industrialisation, import substitution and centralised planning through successive Five-Year Plans, a model intended to build domestic industrial capacity while insulating the economy from external shocks. Lamba and Subramanian (2020) situate this early period within a broader argument about the unusual sequencing of India's development, noting that political democratisation preceded sustained economic growth in India, in contrast to the historical pattern observed in the West and, more recently, in East Asia. This unusual sequencing meant that economic policy in the early decades was shaped as much by distributive and political considerations as by growth objectives, producing a pattern of cautious, state-dominated expansion that later came to be described as the "Hindu rate of growth", a period of persistently modest output growth relative to the country's demographic and resource base. The industrial licensing system, commonly known as the Licence Raj, extended the logic of state control into the day-to-day operation of private enterprise, requiring government approval for establishing new factories, expanding capacity, changing product lines or altering business location. While the classic empirical literature on this period predates the scope of this review, its legacy is directly relevant to the structural transformation debates discussed earlier, since the pervasive licensing and regulatory apparatus of this era is widely understood to have constrained the reallocation of capital and labour towards higher-productivity manufacturing activities. Lamba and Subramanian (2020) argue that the incomplete nature of India's later structural transformation, in which surplus agricultural labour has not moved into manufacturing at the scale observed in comparable East Asian economies, has roots in this earlier period of regulatory rigidity, whose effects persisted well beyond the formal dismantling of licensing controls.

The balance-of-payments crisis of 1991 acted as the immediate catalyst for a decisive shift away from the licensing regime, prompting the government to introduce a package of stabilisation and structural reform measures that reduced industrial licensing requirements, devalued the currency and opened the economy to greater trade and investment flows. Gomado (2025) provides more general, cross-country evidence relevant to interpreting this episode, showing that financial, trade and product market reforms of the type initiated by India in 1991 tend to raise labour productivity growth primarily by improving within-sector allocative and productive efficiency, rather than by directly inducing large-scale inter-sectoral structural change. This finding helps explain why the 1991 reforms are widely credited with accelerating India's aggregate growth rate even though the classical shift of labour out of agriculture into manufacturing remained incomplete in the years that followed. The reforms of 1991 initiated a broader and more sustained programme of liberalisation, privatisation and globalisation, commonly referred to by the acronym LPG, encompassing the progressive reduction of trade barriers, the opening of sectors previously reserved for the public sector, and deeper integration into global capital and trade flows. Lamba and Subramanian (2020) describe the resulting growth performance as remarkable in its pace, durability and stability by the standards of the post-war developing world, while cautioning that this dynamism was not matched by parallel progress in structural transformation, human capital development or the narrowing of regional disparities. This asymmetry between rapid aggregate growth and uneven structural change is a recurring theme that connects the LPG era to the more recent policy initiatives discussed in the remainder of this section.

Launched in 2015, the Digital India programme sought to extend digital infrastructure, connectivity and electronic service delivery across the country, building on earlier investments in identity and payments infrastructure. Asrani and Kar (2022) provide empirical evidence on the diffusion of digital communication services across India, showing that adoption patterns have been shaped by a complex interplay of infrastructure availability, affordability and social factors, with diffusion proceeding unevenly across regions and demographic groups even as aggregate connectivity has expanded rapidly. This uneven diffusion pattern is conceptually significant because it illustrates, at the level of digital infrastructure specifically, the same tension between rapid aggregate expansion and uneven distribution that characterises India's broader growth experience. Launched in 2016, the Startup India initiative sought to catalyse domestic entrepreneurship through tax incentives, simplified regulatory compliance and dedicated funding mechanisms, contributing to a marked expansion in the number of registered startups and venture-backed firms over the following decade. Soni, Schimmel, Slack and Nicholls (2025) examine this entrepreneurial expansion within the context of India's wider geopolitical and policy environment, arguing that Startup India has interacted with complementary initiatives, including Make in India and the broader digitalisation drive, to help position India as an emerging entrepreneurial hub, even as the authors caution that only a small proportion of new ventures have achieved the scale associated with globally competitive firms. Their analysis situates entrepreneurship policy as one strand within a wider effort to diversify India's growth model beyond its traditional reliance on a narrow set of knowledge-intensive services.

Recognising the comparatively limited role of manufacturing in India's growth story, the government launched Make in India in 2014 with the explicit aim of raising the sector's share of GDP and generating large-scale employment. Ghosh and Pal (2021) evaluate this initiative and find that while it succeeded in improving ease-of-doing-business indicators and raising the policy profile of manufacturing, its measurable impact on manufacturing value added and export competitiveness has been more limited than intended, reflecting persistent constraints in land acquisition, labour regulation and logistics infrastructure. Nagarjuna (2022) offers a complementary empirical assessment, showing that although average foreign direct investment inflows increased following the launch of Make in India, the share of such investment relative to GDP did not rise proportionately, suggesting that the initiative has yet to fundamentally reshape India's investment climate for manufacturing. Infrastructure investment, spanning highways, railways, power and logistics networks, has been a consistent policy priority across successive governments, reflecting the widely held view that inadequate physical infrastructure constrains productivity and competitiveness. Unnikrishnan and Kattookaran (2020) provide empirical support for this view, finding that both public and private infrastructure investment have exerted a significant positive impact on India's economic growth over an extended historical period, with the effect of infrastructure investment on output found to be robust across estimation techniques. Their findings lend empirical credibility to the substantial infrastructure expenditure undertaken by recent Indian governments, while also implying that continued growth performance will depend on sustaining, rather than merely announcing, high rates of infrastructure investment.

Efforts to broaden access to formal financial services, particularly through the expansion of digital financial infrastructure, have been a defining feature of India's growth strategy over the past decade. Sreenu and Verma (2024) demonstrates that the growth of digital financial inclusion in India has had a measurable positive effect on economic growth, operating primarily through expanded access to credit and financial services for previously underserved households and micro-enterprises, and through improved efficiency in the allocation of financial resources. This finding provides an important complement to the manufacturing and infrastructure initiatives discussed above, since it indicates that financial inclusion has functioned as a distinct, technology-enabled channel through which recent growth has been generated, rather than a mere by-product of aggregate expansion. Taken together, the initiatives reviewed in this section indicate that India's contemporary growth model rests on a combination of digitally enabled services, expanding financial inclusion, incremental progress in manufacturing competitiveness and sustained infrastructure investment. Pradhan, Arvin, Nair, Bennett and Brem (2024) offer a useful lens for interpreting the durability of this trajectory, showing that the long-run growth effects of policy initiatives in developing countries are mediated by institutional quality and innovation capacity, implying that the ultimate success of programmes such as Make in India, Digital India and Startup India will depend less on their initial design than on the strength of the institutions responsible for their sustained implementation. Read alongside Lamba and Subramanian's (2020) characterisation of India's growth as dynamic but structurally incomplete, this suggests that India's current growth trajectory, while historically remarkable in pace, remains a work in progress with respect to the structural transformation, human capital development and institutional deepening required to convert growth into broad-based development.

Drivers Behind India's Economic Success

The 1991 liberalisation and subsequent reform waves progressively dismantled licensing controls and opened India to trade and investment. Lamba and Subramanian (2020) show this produced growth rarely matched among post-war developing economies, even as structural transformation remained incomplete. Investment in education and health has underpinned productivity gains. Sultana, Dey and Tareque (2022) find both dimensions of human capital significantly raise growth in developing economies, with health gains particularly influential given India's ongoing demographic transition. India's growth has been disproportionately services-led, driven by knowledge-intensive IT and business services. Lamba and Subramanian (2020) note this sector has powered aggregate expansion despite limited absorption of surplus agricultural labour into manufacturing. Expanding digital infrastructure has reshaped economic participation. Asrani and Kar (2022) show adoption of digital communication services across India has been rapid, though shaped unevenly by infrastructure access, affordability and social factors. Startup India and related initiatives have catalysed a large venture ecosystem. Soni, Schimmel, Slack and Nicholls (2025) argue this entrepreneurial expansion, interacting with digitalisation and manufacturing policy, has helped position India as an emerging global entrepreneurial hub.

Digital financial services have broadened access to credit and formal banking. Sreenu and Verma (2024) demonstrates that digital financial inclusion significantly enhances economic growth by improving resource efficiency and extending services to underserved households and enterprises. Regulatory and structural reforms have improved allocative efficiency. Gomado (2025) finds financial, trade and product market reforms raise labour productivity growth in developing countries primarily through within-sector efficiency gains. Sustained expenditure on transport and energy networks has supported output growth. Unnikrishnan and Kattookaran

(2020) find both public and private infrastructure investment exert a significant, robust positive effect on India's economic growth. A favourable working-age population share has contributed measurably to growth. Jain, Goli and Jana (2025) estimate India's demographic dividend at approximately 1.9 percentage points annually, though realisation depends on healthcare and employment conditions.

Liberalised FDI norms have aimed to attract capital into manufacturing. Nagarjuna (2022) finds average FDI inflows rose after Make in India's launch, though its share relative to GDP has not increased proportionately. Institutional quality and innovation jointly shape long-run growth potential. Pradhan, Arvin, Nair, Bennett and Brem (2024) show both exert significant long-run causal effects on growth across developing economies, reinforcing India's innovation-policy push.

India's Challenges

Rapid aggregate growth has not been evenly shared. Aneja, Barkha and Banday (2021) find that India's tertiary sector, the principal driver of post-reform growth, has simultaneously widened interstate income inequality, even as disparities within the primary sector have narrowed, complicating claims that growth is automatically equalising. Despite strong GDP recovery, joblessness has proven persistent. Dhingra and Kondirolli (2022) show long-term unemployment constitutes a substantial share of joblessness among India's working-age population, disproportionately affecting young workers, with scarring effects on future earnings and wellbeing that growth alone has not resolved. Growth has been spatially uneven. Aneja, Barkha and Banday (2021) demonstrate that services-led expansion has widened, rather than narrowed, income gaps between states, suggesting that national growth figures obscure considerable divergence in regional development outcomes across India.

Despite economic diversification, agriculture remains a major source of livelihoods. Krishna and Meenakshi (2022) finds that employment-output shares in rural India have not narrowed sufficiently, meaning labour productivity gains have been slow to translate into reduced reliance on low-productivity farming, particularly among women workers. Formalisation has progressed unevenly. Mehrotra and Giri (2023) document a pronounced "missing middle" in India's enterprise structure, with policy-induced informality entrenched by regulatory gaps, constraining both firm growth and the generation of higher-quality employment. Rapid industrialisation and urbanisation have imposed considerable ecological costs. Pandey et al. (2021), using Global Burden of Disease data, find that air pollution across Indian states carries substantial mortality and economic costs, threatening the human capital gains needed to sustain future growth. Women's economic participation remains strikingly low relative to India's growth performance. Costagliola (2021) argues that persistent gender norms, rather than economic development alone, explain the continued decline in female labour force participation, challenging assumptions that growth naturally narrows gender gaps.

Rapid urbanisation has strained city infrastructure. Nair, Bherwani, Mirza, Anjum and Kumar (2021) find considerable premature mortality and welfare losses concentrated in India's large, congested cities, indicating that urban growth has outpaced the infrastructure needed to manage its consequences. Institutional capacity remains a binding constraint on translating policy into outcomes. Pradhan, Arvin, Nair, Bennett and Brem (2024) show that governance and institutional quality mediate the growth effects of reform and innovation, implying that weak institutional implementation limits the realisation of India's growth potential.

Lessons for Third-World Countries

India's growth accelerated not through a single decisive rupture but through sequential liberalisation beginning in 1991. Gomado (2025) shows that financial, trade and product market reforms raise productivity primarily through within-sector efficiency gains rather than abrupt structural overhaul, while Lamba and Subramanian (2020) note that India's dynamism, though remarkable, has coexisted with incomplete structural transformation. The lesson for other developing countries is that sequenced, sustained reform can generate durable growth, but reform pacing alone does not guarantee that gains will be evenly distributed across sectors. Digital infrastructure has enabled India to leapfrog certain conventional bottlenecks in service delivery. Asrani and Kar (2022) find that diffusion of digital communication services across India has been rapid in aggregate, though shaped unevenly by infrastructure access and affordability. This suggests digital governance can extend state capacity efficiently, but developing countries must invest deliberately in last-mile connectivity to avoid replicating India's uneven diffusion pattern. Digital financial services have meaningfully expanded access to credit for underserved

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populations. Sreenu and Verma (2024) demonstrates that digital financial inclusion has a measurable positive effect on India's economic growth, operating through improved resource allocation and access. This indicates that low-cost, technology-enabled financial infrastructure can be a comparatively fast route to inclusion for economies lacking dense traditional banking networks.

Sustained productivity gains require complementary investment in education and health. Sultana, Dey and Tareque (2022) find both dimensions significantly raise growth in developing economies, with health gains particularly salient during demographic transitions. For countries approaching their own demographic window, the implication is that human capital investment must precede or accompany the transition, not follow it. Perhaps the most consistent theme across this review is that policy design matters less than institutional capacity to implement it. Pradhan, Arvin, Nair, Bennett and Brem (2024) show that institutional quality and innovation exert significant long-run causal effects on growth, with short-run effects contingent on measurement and context. This implies that developing countries cannot simply import India's programmes; they must first assess whether their institutions can sustain implementation over time. India's Startup India initiative illustrates how policy can catalyse entrepreneurial activity when paired with complementary reforms. Soni, Schimmel, Slack and Nicholls (2025) argue this expansion has interacted with digitalisation and manufacturing policy to position India as an emerging entrepreneurial hub, though only a small share of ventures have reached global scale. This cautions against equating a large volume of new ventures with deep economic transformation. Infrastructure financing constraints are common across developing economies, and PPPs offer one route to bridging them. Patil, Thounaojam and Laishram (2021) find that India's PPP procurement process has suffered from sustainability shortfalls, proposing strategies including clearer risk-sharing and stakeholder engagement. The lesson is that PPPs can mobilise capital effectively, but only where procurement design explicitly addresses long-term sustainability rather than short-term project delivery.

Unnikrishnan and Kattookaran (2020) find both public and private infrastructure investment exert a significant, robust positive effect on India's growth. This underscores that infrastructure investment is not merely a growth facilitator but a growth driver in its own right, reinforcing its priority status for resource-constrained governments. Kamran, Rafique, Nadeem and Anwar (2023) show considerable variation across developing countries in how far growth has translated into inclusive, sustainable outcomes. India's own experience, discussed earlier, illustrates that services-led growth can widen regional and income disparities even while raising aggregate output. The lesson is that inclusiveness requires deliberate policy design rather than passive reliance on growth spillovers. Finally, Asrani and Kar (2022) illustrate that even successful technology diffusion, as with India's digital communications expansion, proceeds unevenly across social and geographic lines. Developing countries pursuing rapid technology adoption should anticipate and plan for this unevenness rather than treating adoption curves as automatically self-correcting.

Taken together, these ten lessons suggest that India's experience offers not a single replicable model but a set of conditional insights: reform sequencing, institutional capacity, and deliberate inclusiveness measures consistently determine whether growth-enabling initiatives translate into broad-based development.

Conceptual Framework

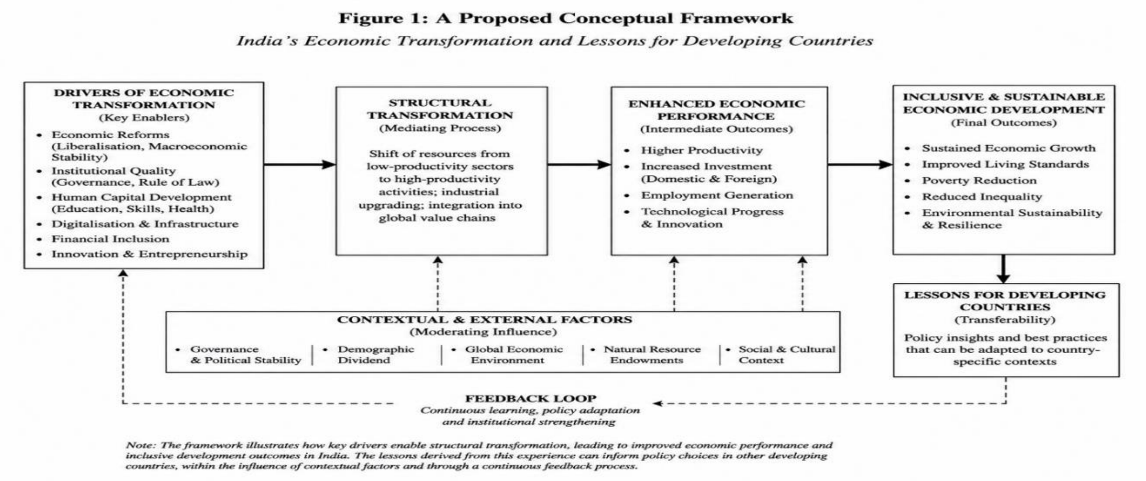

Figure 1: A Proposed Conceptual Framework

India's Economic Transformation and Lessons for Developing Countries

Note: The framework illustrates how key drivers enable structural transformation, leading to improved economic performance and inclusive development outcomes in India. The lessons derived from this experience can inform policy choices in other developing countries, within the influence of contextual factors and through a continuous feedback process.

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Policy Implications

The lessons drawn from India's growth experience carry different weight depending on which actor is positioned to act on them. This section separates policy implications by audience, recognising that governments, policymakers, developing economies more broadly, and international organisations each face distinct constraints and levers. National governments considering India-style growth strategies should prioritise sustained infrastructure investment over one-off announcements. Unnikrishnan and Kattookaran (2020) find that both public and private infrastructure investment exert a significant, robust effect on economic growth, implying that governments should treat infrastructure spending as a continuous fiscal commitment rather than an episodic stimulus. Where public-private partnerships are used to finance this investment, Patil, Thounaojam and Laishram (2021) caution that procurement design must explicitly build in sustainability safeguards, since India's own PPP experience has been undermined by governance and risk-sharing shortfalls. Governments should therefore pair infrastructure ambition with procurement reform rather than treating financing mechanisms as neutral delivery vehicles. For policymakers designing specific interventions, the central implication is that policy sequencing and institutional readiness matter more than the novelty of any single scheme. Gomado (2025) shows that structural reforms raise productivity primarily through within-sector efficiency gains, suggesting policymakers should calibrate expectations about how quickly reforms will generate visible structural change. Pradhan, Arvin, Nair, Bennett and Brem (2024) reinforce this by demonstrating that institutional quality mediates the long-run growth effects of innovation and reform, meaning policymakers should invest as much in implementation capacity and regulatory credibility as in the design of flagship programmes themselves.

For developing economies more broadly, India's experience suggests that growth strategies must be evaluated against inclusiveness and sustainability criteria from the outset, not retrofitted afterwards. Kamran, Rafique, Nadeem and Anwar (2023) find considerable cross-country variation in whether growth translates into inclusive, sustainable outcomes, indicating that inclusiveness is not a natural by-product of expansion. Complementing this, Sultana, Dey and Tareque (2022) show human capital investment significantly raises growth in developing economies, particularly through health gains during demographic transitions, implying that countries approaching a favourable demographic window should prioritise education and healthcare spending well in advance. International organisations, including multilateral lenders and development agencies, have a distinct role in strengthening the governance conditions that determine whether national reforms succeed. Oyinlola, Adedeji, Bolarinwa and Olabisi (2020) find that governance quality and domestic resource mobilisation are significant determinants of inclusive growth outcomes in developing regions, suggesting that technical assistance and lending conditionality should prioritise institutional capacity-building alongside financing. Rather than promoting standardised policy templates, international organisations are better positioned to support context-specific institutional strengthening, recognising that identical reforms produce divergent outcomes depending on the governance environment in which they are implemented.

Future Research Directions

Much of the literature on India's growth, including Lamba and Subramanian's (2020) influential account of its "incommensurate development", is framed primarily as a single-country narrative rather than a systematic comparison. Cross-country panel approaches, such as that used by Pradhan, Arvin, Nair, Bennett and Brem (2024) to assess institutional quality and innovation across developing economies, suggest a promising template. Future research could apply similarly structured comparative designs specifically to contrast India's services-led trajectory against manufacturing-led paths in Southeast Asia, to clarify which elements of India's experience are genuinely transferable rather than context-specific. Existing sector-level evidence, such as Krishna and Meenakshi's (2022) work on agricultural productivity and Mehrotra and Giri's (2023) analysis of enterprise informality, remains fragmented across disciplines and datasets. A more integrated, sector-by-sector research agenda, tracking productivity, formalisation and employment quality simultaneously across agriculture, manufacturing and services, would help clarify where structural transformation is genuinely occurring and where growth is merely reallocating output without improving job quality.

While Asrani and Kar (2022) and Sreenu and Verma (2024) provide valuable evidence on digital diffusion and financial inclusion respectively, longitudinal research tracking how digital adoption affects productivity, informality and inequality over time remains limited. Future studies could usefully examine whether digital-economy gains are being captured disproportionately by already well-connected regions and firms, extending the uneven-diffusion concerns raised by Asrani and Kar (2022) into a more dynamic, multi-year framework. Climate considerations remain comparatively underintegrated into the growth literature reviewed in this paper. Arif, Latif Rana, Azhar, Ahmad and Shaukat (2025) demonstrate that climate vulnerability exerts a significant negative direct effect on economic growth in developing economies, partially mediated by adaptive capacity. Future research should examine how India's infrastructure and industrial policies interact with climate vulnerability specifically, since growth strategies emphasising energy-intensive manufacturing expansion could conflict with adaptation and mitigation priorities if not designed jointly. Finally, India's growth experience has increasingly been packaged and exported through development partnerships with other countries in the Global South. Venkatachalam and Banik (2025) offer a critical account of this process, arguing that India's development cooperation with Africa has been shaped by assumptions of Indian exceptionalism that warrant closer scrutiny. Future research could examine empirically whether India's development partnerships genuinely transfer applicable lessons, or whether, as this critique suggests, they primarily project a narrative of Indian success that may not withstand contextual scrutiny in recipient countries.

CONCLUSION

This paper has traced India's economic transformation from a state-controlled, licence-regulated economy into one of the world's fastest-growing major economies, characterised by services-led expansion, deepening digital infrastructure and an increasingly ambitious policy agenda spanning manufacturing, entrepreneurship and financial inclusion. Drawing on recent literature on developing-country growth, the review has shown that this growth has been genuinely remarkable in pace and durability, yet has proceeded without the complete structural transformation, inclusive distribution or institutional depth that would normally be expected to accompany growth of this scale. Recurring across every dimension examined, from human capital and infrastructure to innovation, is the finding that institutional quality mediates whether policy initiatives translate into durable development outcomes. The principal conceptual contribution of this paper lies in synthesising strands of literature, on structural transformation, digital and financial inclusion, industrial policy, human capital and institutional quality, that are typically examined in isolation, into a single integrated account of India's development trajectory. In doing so, the paper moves beyond treating India as either an unqualified success story or a cautionary tale, instead framing its experience as a conditional case from which specific, mechanism-level lessons can be drawn for other developing economies. This conceptual synthesis, structured around ten distinct policy lessons and differentiated recommendations for governments, policymakers, developing economies and international organisations, represents a novel organisational contribution rarely offered in single-country reviews of this kind.

As a conceptual review, this paper does not generate new primary data and instead relies on the interpretation and synthesis of existing empirical studies, meaning its conclusions are only as robust as the underlying literature reviewed. Several of the sources drawn upon examine developing countries as a broad category rather than India specifically, meaning some generalisations require cautious interpretation. Additionally, the rapidly evolving nature of India's digital and entrepreneurial policy landscape means that empirical evidence, particularly regarding recent initiatives, may lag behind policy developments themselves. Building on the future research directions identified earlier, subsequent work should prioritise longitudinal, sector-disaggregated and comparative empirical studies capable of testing the conceptual propositions advanced in this paper, particularly regarding the interaction between institutional quality and the durability of growth. As India's own trajectory continues to evolve, and as other developing economies pursue comparable digital and entrepreneurial strategies, continued conceptual and empirical scrutiny of this kind remains essential to distinguishing genuinely transferable lessons from context-specific outcomes.

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