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Original Article

INDIAN ECONOMIC GROWTH TRAJECTORY AND ITS POTENTIAL IN THE FUTURE

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ABSTRACT
The Indian economy was stagnant during the time of independence. The country adopted a protective trade and import-substitution policy till the introduction of economic reforms. The growth rate was constrained to around 3.5 per cent per annum, but after economic liberalisation, it increased. The agricultural sector contributed the highest share to the country's GDP for around three decades after independence. However, since then, the service sector has become dominant as far as its contribution to GDP is concerned. Its GDP has a huge probability to surpass other big economies as it has enormous potential to maintain its growth rate. This paper analyses the trajectory of GDP growth, sectoral contribution and potentiality by using time series data from the RBI and the World Bank.

Keywords: Protective Trade, Economic Reforms, Sectoral Contribution and Potentiality

INTRODUCTION

The journey of Indian economic growth from a British-ruled, stagnated agrarian economy to a service-dominant, highly growing economy was the result of various structural reforms undertaken by the government since independence. Many developed countries had a clear history of a paradigm shift from an agrarian to an industrial economy before transitioning to a service-dominant economy. The Industrial Revolution began in the UK in the 1760s, spreading to other parts of Europe and the United States, and increased industrial output, ultimately transforming the economic structure from an agrarian to an industrial one. However, in the case of India, this track is not clearly visible as in other developed countries. It seems the economy jumped from an agrarian to a service-dominant economy as far as its contribution to GDP is concerned. "In 1950-51, the contributions of agriculture and allied services, industry and the service sector to GDP were 55.4%, 15.0% and 29.6% respectively" Datt and Mahajan (2011). Here, even though the share of agriculture was highest as far as its contribution to GDP was concerned, it does not mean that agricultural productivity was spectacularly high. Rather, the condition of agriculture was pathetic, grappling with low productivity and inefficient use of resources. The farmers relied on subsistence farming. The clear shift from subsistence farming to commercial farming was seen when the Green Revolution spread in India in the 1960s. The introduction of HYV seeds, the use of chemical fertilisers and the facilities of irrigation have changed the picture of Indian agriculture. The green revolution was initiated to increase food production, alleviate extreme poverty and malnutrition in the country Nelson et al. (2019). The percentage of sector-wise contribution to GDP has gradually changed. The policies of liberalisation and globalisation have opened new avenues for agricultural modernisation Wagh and Dongre (2016). In 2024-25, the shares of agriculture and allied activities, industry and service sector to GDP are 17.94%, 18.38% and 63.68% respectively. The government prioritised the development of the heavy and capital goods industry in its Second Five-Year Plan under

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the Mahalanobis Model. It benefited in the formation of an industrial base, even though industrial development couldn't increase as expected. The policy of import-substitution, restrictive trade, had contributed to strengthening the country's infant industries initially, but it could not increase as expected. The high economic growth occurred a decade before economic reforms Rodrik and Subramanian (2004). The government introduced its new economic policy in 1991 through the policy of liberalisation, privatisation and globalisation. India was a latecomer to economic reforms embarked upon in 1991 Ahluwalia (2002). It provided a break from the low growth trap that had been caught for four decades Papola (2012). New economic reforms have followed an exogenous growth model that has raised the growth rate to near double-digit Pangannavar (2018). The FDI increased during the post-reform period Chakraborty and Nunnenkamp (2006). From 1980 to 2000 was quite special in the course of Indian economic development Kotwal et al. (2010). The reforms between 1991 and 2004 have led to rapid economic growth Bajpai and Biberman (2020).

DATA AND METHODOLOGY

The data used for analysing this article is time series data taken and compiled from the Handbook of Statistics on Indian Economy, RBI and the World Bank data. The study has looked into the data related to GDP and investigated the economic policies related to the economy. The study is divided into five parts: (I) Pre-liberalisation Period, (II) Liberalisation Period, (III) Sectoral Contribution, (IV) Potentiality in the economy and (V) Recommendations.

PRE-LIBERALISATION PERIOD

The government of India established the Planning Commission in 1950 as a strategy for the country's development. It started the First-Five-Year plan in 1951, and adopted the Harrod-Domar Model to increase capital accumulation in the low-saving, poverty-ridden economy. In its Second-Five-Year plan, development for heavy and capital goods industries was adopted under the Mahalanobis development model. The government prioritised the nationalisation of industry, self-reliance and adopted a protective trade and import substitution policy for strengthening the economic base. However, the policies could not yield satisfactory results as expected by many policymakers. The growth rate could not increase, constrained at around 3-4% which described it as the "Hindu Rate of Growth" by Raj Krishna. The licensing system, heavy regulations on economic activities had constrained both foreign direct investment (FDI) and foreign portfolio investment (FPI). Bureaucratic hurdles and limited integration with the global economy crippled the economy. As far as agricultural development is concerned, the Green Revolution in the 1960s had a huge positive impact on its productivity. It led to agricultural independence from the country's vulnerable agricultural conditions.

POST-LIBERALISATION PERIOD

The balance of payment crisis in 1991 was the core reason for introducing the Liberalisation, Privatisation and Globalisation (LPG) policy. The deep-seated roots of the crisis of 1991 were mainly fiscal laxity, growing reliance on external borrowing, a weak financial sector, and heavy-handed regulation of trade and industry Acharya (2002). In the reforms, state monopoly has been abolished in virtually all sectors Panagariya (2001). The market became a central actor governing economic activity during the 1990s Venkatanarayanan (2015). The economic reform was the turning point for Indian economic growth. The abolition of the License Raj system accelerated private investment, both domestic and foreign, boosting employment and the production of goods and services. The government reduced import tariffs and removed trade restrictions to increase exports and foreign direct investment, thereby expanding the market. The new economic policy resulted higher average growth than its pre-reform or pre-liberalisation period. During the first socialist phase, the economy grew at 3.5 % per annum, and growth accelerated to an average of 5.7% per annum during the market reform phase Virmani (2005). The economic reforms provided various economic opportunities in the country. It opened business scope for MNCs. The MNCs were influenced by openness, growth prospects, macroeconomic stability and the government’s positive attitude towards foreign investment Anand (2020). The economic growth in the post-reforms period removed the balance payment crisis Bhattarai and Kulkarni (2012). The GDP growth during the pre-reforms and post-reforms periods is shown in Figure 1.

Figure 1

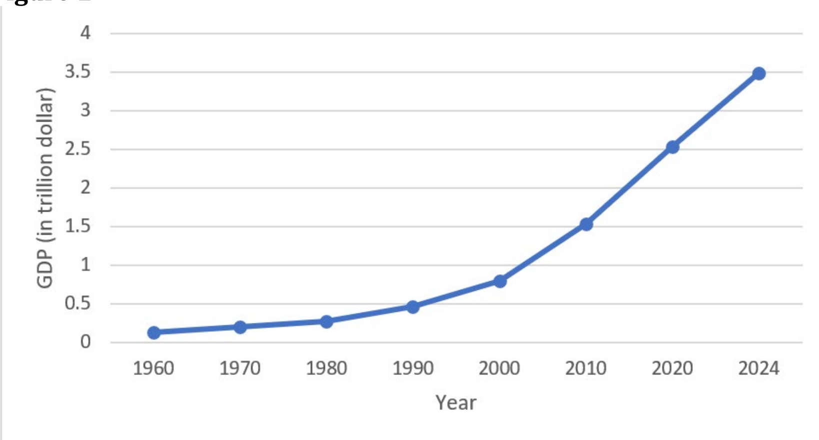

Figure 1 India's GDP (in Trillion Dollar)
Source World Bank

SECTORAL CONTRIBUTION

The colonial government left the Indian economy devastated when India gained independence from their hands. The colonial government established industries, such as the jute, cotton textile, and coal industries, as well as railways, to extract resources. The country had an agrarian economy that relied on subsistence farming when it gained independence from the British Raj in 1947. Agriculture accounted for the highest share of GDP. "In 1950-51, the shares of agriculture and allied activities, industry and service were 55.4%, 15.0% and 29.6% respectively" Datt and Mahajan (2011). However, its dominance started to fall after around three decades. The service sector has been dominating since then. The Sectoral contributions to GVA at current prices from 2014-15 to 2024-25 were given in Figure 2.

Figure 2

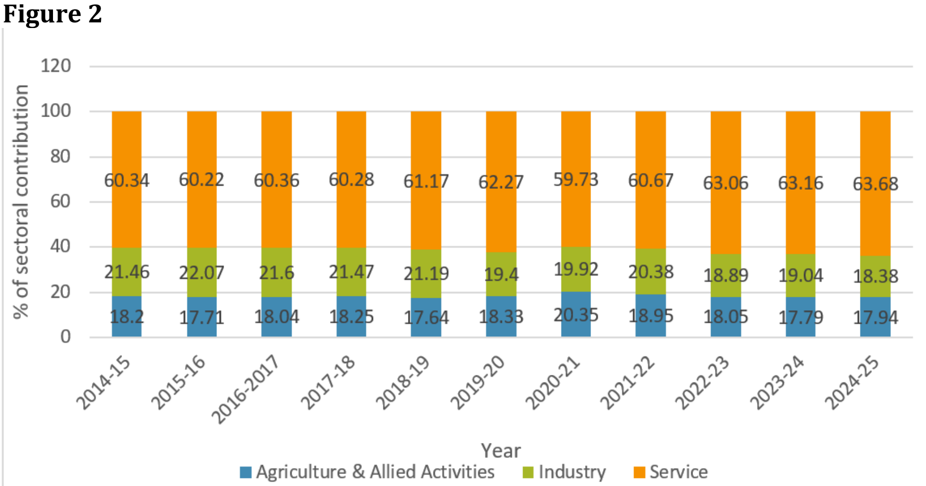

Figure 2 Percentage of Sectotal Contribution to GVA at Current Price
Sources Calculated from Handbook of Statistics on the Indian Economy, RBI, 2020-21 and 2024-25

POTENTIALITY IN THE ECONOMY

- **High Domestic Demand**

Domestic demand for goods and services has been the main driver of Indian economic growth. Consumption drives both investment and export, and creates the cycle of expansion Sinha (2024). A decreasing number of people living below the poverty line, on the one hand, and an increasing number of middle classes, on the other hand, increase aggregate demand for goods and services. The share of Private Final Consumption Expenditure (PFCE) in GDP at current prices is represented in Figure 3. From 2018-19 to 2024-25, the percentage of PFCE ranges between 59-62 per cent.

Figure 3

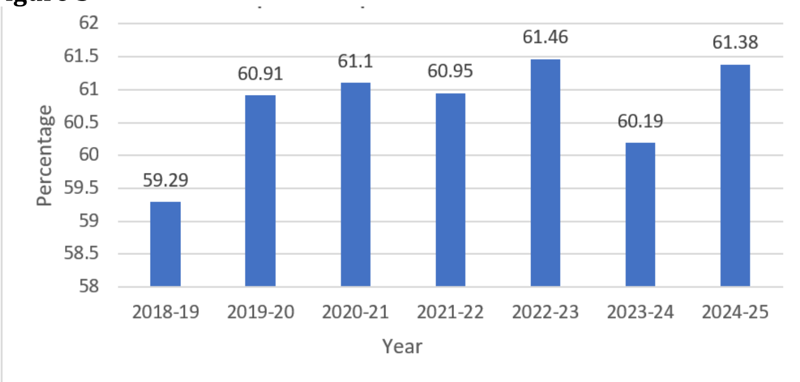

Figure 3 Percentage of Private Final Consumption Expenditure in GDP
Source Calculated from Handbook of Statistics on the Indian Economy, Reserve Bank of India (2025)

- **Demographic Dividend**

India is one of the world's largest and youngest working-age population countries. The proper utilisation of this population can have a huge impact on its economic growth. The median age of the country is 28 years Silver et al. (2023).

- **Structural Reform**

Structural reforms, like simplification of tax systems, both direct and indirect tax, labour laws and digitisation push through Digital India launched in 2015, have impacted consumption, production and overall economic efficiency. Today, most payments are made through using Unified Payment Interface (UPI). The UPI payments are used by small street vendors to big corporations.

- **Capital Expenditure (CAPEX)**

The public expenditure on construction and manufacturing activities has been a driving force for expanding other economic activities. The government initiatives, like Make in India, launched in 2014, and Atmanirbhar Bharat, introduced in 2020, have encouraged the manufacturing sector to build industries in India. The Production Linked Incentive (PLI) scheme has benefited many production units, which helps in its supply chain.

- **Green Energy**

The energy consumption in India has been increasing with economic growth. As India is not self-sufficient in its production, it is obliged to depend on foreign countries for a significant portion of its energy needs. Therefore, the government's push for renewable energy production and consumption will reduce energy imports. Reducing energy imports will lower foreign currency demand, helping maintain the external value of the national currency. There is a need for a transition to renewable energy from petroleum-based energy in order to decrease reliance on the depleting fossil fuels Lalwani and Singh (2010).

RECOMMENDATIONS

India is one of the fastest-growing economies in the world, and it has great potential to continue growing in the future. Its huge population should be converted into human capital by skilling the people through spreading innovations to the masses. The focus on green energy should be accelerated in order to attain self-reliance in energy. This focus will reduce dependence on foreign countries for energy and help maintain economic stability. India should expand its market in all growing economies rather than solely looking at a few big economies. Solely concentrating its trade in a few big economies might destabilise our economy someday. The freebie schemes implemented by most state governments should be properly investigated and evaluated so that they do not affect work culture among the people. The colleges and universities' courses should be timely evaluated so that they are relevant with the passage of time.

CONCLUSION

The Indian economy jumped from an agrarian to a service-dominant economy, bypassing the industrial economy. Up to around two and a half decades from the time of independence, the primary sector was the dominant one as far as its contribution to GDP was concerned. However, later, the contribution of the service or tertiary sector surpassed the primary sector, and at present its share is highest in GDP. Till 1990, as the economy was protective and based on an import-substitution policy, it could not grow as expected. However, as the economy opened through its economic reform in 1991, its growth increased as expected, and from then on, the growth journey has been satisfactory for the nation. India has great potential to keep its growth high in future. The country's human resources have great potential to contribute to the production and consumption of goods and services that increase economic efficiency. Moreover, the policies undertaken by the government for structural change have shown effective results in its growth.

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