

Structural Transformation and Economic Development in India: Trends, Challenges and Policy Perspectives

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ABSTRACT

Structural transformation is a fundamental process through which an economy moves from dependence on low-productivity agricultural activities towards higher-productivity manufacturing and service activities. It is closely associated with economic growth, employment generation, productivity improvement, urbanisation, human capital development and changes in the occupational structure of the labour force. India has experienced substantial structural transformation since Independence, particularly after the economic reforms of 1991. The relative contribution of agriculture to national output has declined, while industry and services have expanded significantly. However, the transformation of employment has not progressed at the same pace as the transformation of output.

Keywords: *Structural Transformation, Economy, Agricultural Activities, Economic Growth, Employment Generation, Productivity Improvement, Urbanisation, Human Capital Development*

Economic development is a multidimensional process involving sustained growth in income, improvement in productivity, expansion of employment opportunities, reduction in poverty and inequality, improvement in human capabilities and transformation of the structure of production. One of the most important characteristics of economic development is structural transformation.

Structural transformation refers to the long-term change in the composition of an economy from agriculture towards manufacturing and services, accompanied by changes in employment, productivity, technology, consumption patterns and spatial distribution of economic activity. NITI Aayog describes structural transformation as involving a declining share of agriculture in national income and employment alongside the expansion of secondary and tertiary sectors, together with rural-to-urban migration.

India's economic structure has changed considerably since Independence. In the early decades after 1947, agriculture dominated national income and employment. The economy was characterised by low agricultural productivity, limited industrialisation, inadequate infrastructure and widespread rural poverty. The development strategy subsequently placed considerable emphasis on industrialisation, public investment, agricultural development and later economic liberalisation.

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Received: July 15, 2025; Revision Received: August 15, 2025; Accepted: September 30, 2025

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The economic reforms initiated in 1991 represented an important turning point. Liberalisation, privatisation and globalisation increased the role of market forces, private investment, international trade, foreign investment and technological change. During the post-reform period, services emerged as a major engine of growth, while the relative share of agriculture declined.

However, India's transformation differs from the classical development path experienced by several industrialised economies. In many countries, workers moved substantially from agriculture into manufacturing before the economy became predominantly service-oriented. In India, services expanded rapidly without a comparable expansion of employment in organised manufacturing.

CONCEPT OF STRUCTURAL TRANSFORMATION

Structural transformation can be understood as a change in the relative importance of different sectors of an economy.

Traditionally, the economy is divided into:

I Primary Sector

- Agriculture
- Forestry
- Fishing
- Mining and allied activities

II Secondary Sector

- Manufacturing
- Construction
- Electricity
- Gas and water supply

III Tertiary Sector

- Trade
- Transport
- Communication
- Banking
- Finance
- Education
- Health
- Information technology
- Professional services
- Public administration
- Other services

In the early stage of development, agriculture generally contributes a large proportion of output and employment. As productivity increases and industrialisation proceeds, labour and resources gradually move towards manufacturing and services.

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Structural transformation therefore involves several interconnected changes:

1. Declining relative importance of agriculture in output.
2. Movement of workers from agriculture to non-farm activities.
3. Expansion of manufacturing and services.
4. Increasing labour productivity.
5. Urbanisation.
6. Changes in consumption patterns.
7. Technological advancement.
8. Growth of human capital.
9. Expansion of infrastructure.
10. Greater integration with national and international markets.

OBJECTIVES OF THE STUDY

The study has the following objectives:

1. To examine the concept and process of structural transformation.
2. To analyse changes in India's sectoral economic structure.
3. To examine changes in agricultural, industrial and service-sector contributions.

STRUCTURAL TRANSFORMATION OF THE INDIAN ECONOMY

India's economic transformation can broadly be divided into different phases.

1 Pre-Reform Period

After Independence, agriculture played a dominant role in the Indian economy. The country faced food shortages, low agricultural productivity, inadequate infrastructure and widespread poverty. The government adopted planned economic development with emphasis on.

- Agricultural development
- Public-sector industrialisation
- Infrastructure
- Heavy industries
- Rural development
- Poverty reduction

The Green Revolution subsequently increased agricultural productivity in several regions and contributed to food security.

2 Post-1991 Reform Period

Economic reforms changed the structure of the Indian economy significantly.

Important changes included:

- Industrial delicensing
- Trade liberalisation
- Financial-sector reforms
- Increased private investment
- Foreign investment

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- Technological integration
- Expansion of information technology
- Growth of private services

3 Contemporary Period

India has now become a predominantly service-oriented economy in terms of output, while agriculture continues to employ a large proportion of workers. This creates a structural imbalance between: Sectoral contribution to output and Sectoral contribution to employment. NITI Aayog's recent research identifies this output–employment disconnect as a central challenge for India's services-led development.

AGRICULTURE AND STRUCTURAL TRANSFORMATION

Agriculture remains a crucial component of India's economy despite its declining relative contribution to output.

Agriculture performs several important functions:

- Provides employment
- Ensures food security
- Supplies raw materials
- Supports rural livelihoods
- Creates demand for industrial goods
- Supports agro-processing
- Contributes to exports

Structural transformation does not mean eliminating agriculture. Instead, it requires increasing agricultural productivity and creating productive non-farm opportunities.

MANUFACTURING AND STRUCTURAL TRANSFORMATION

Manufacturing traditionally plays a critical role in structural transformation because it can absorb workers moving out of agriculture while increasing productivity and exports.

India's manufacturing sector includes:

- Textiles
- Garments
- Food processing
- Automobiles
- Electronics
- Chemicals
- Pharmaceuticals

However, India's manufacturing employment share has remained comparatively limited.

SERVICES SECTOR AND INDIA'S ECONOMIC TRANSFORMATION

The most distinctive feature of India's structural transformation is the rapid expansion of services.

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Major service activities include:

- Information technology
- Banking
- Finance
- Insurance
- Telecommunications
- Transport
- Trade
- Education
- Healthcare
- Tourism
- Professional services
- Business services

Services have become a major source of India's output and exports .NITI Aayog's recent analysis states that services contribute more than half of national output, while the sector employs less than one-third of workers.

STRUCTURAL TRANSFORMATION AND EMPLOYMENT

Employment is perhaps the most important dimension of structural transformation. A development process becomes inclusive when workers can move from low-productivity activities into productive and better-paying employment. However, India has experienced a divergence between output and employment.

Recent NITI Aayog evidence indicates that in 2023–24 services employed nearly 188 million workers. It also shows substantial differences between rural and urban employment patterns. In rural India, agriculture remains particularly important, while services have a much larger employment share in urban areas.

NITI Aayog's recent service-sector research specifically examines whether states with lower initial service-sector shares are catching up with more advanced states and highlights the uneven spatial diffusion of service-led growth.

TECHNOLOGY AND STRUCTURAL TRANSFORMATION

Technology is changing the nature of structural transformation. Digital technology has influenced:

- Banking
- Retail
- Education
- Healthcare
- Transport
- Agriculture
- Manufacturing
- Government services

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Digital public infrastructure has also increased the potential for financial inclusion and access to services. At the same time, technological change may create challenges for workers with limited skills.

MSMEs AND STRUCTURAL TRANSFORMATION

Micro, Small and Medium Enterprises are important for employment generation and regional economic development.

MSMEs contribute through:

- Employment
- Entrepreneurship
- Local production
- Exports
- Innovation
- Rural industrialisation
- Supply-chain linkages

CHALLENGES TO STRUCTURAL TRANSFORMATION IN INDIA

1 Employment Challenge

A major challenge is creating sufficient productive employment for India's large working-age population.

2 Low Manufacturing Employment

Manufacturing has not absorbed labour on the scale expected from a conventional development trajectory.

3 Agricultural Dependence

A large proportion of workers continue to depend on agriculture despite agriculture's relatively lower contribution to national output.

4 Skill Mismatch

There is a gap between available labour skills and the requirements of emerging sectors.

5 Regional Inequality

Economic transformation is concentrated in selected states and urban centres.

CONCLUSION

Structural transformation is one of the central processes through which developing economies achieve sustained economic development. India has experienced significant changes in the composition of output, employment and economic activity since Independence. The transformation accelerated considerably after the economic reforms of 1991, with services emerging as a major contributor to national output. However, India's structural transformation is distinctive because the expansion of services has occurred without a proportionate movement of workers away from agriculture. Recent evidence from NITI Aayog and the World Bank

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confirms the persistence of a significant gap between sectoral contributions to output and employment. The future of India's structural transformation will also depend on human capital. Education, vocational training, digital skills, entrepreneurship and lifelong learning will determine whether workers can participate effectively in emerging sectors. The role of government is therefore not simply to encourage a shift from agriculture to industry and services. It is to create an enabling environment in which workers, enterprises and regions can move towards higher productivity. This requires coordinated policies covering infrastructure, finance, skills, technology, urbanisation, social protection, gender equality and regional development.

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Acknowledgments

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Conflict of Interest

The author declared no conflict of interest.

How to cite this article: Shaikh, P.M (2025). Structural Transformation and Economic Development in India: Trends, Challenges and Policy Perspectives. *International Journal of Social Impact*, 10(3), 919-925. DIP: 18.02.102/20251003, DOI: 10.25215/2455/1003102