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## “Legal Reforms and Economic Growth: Strengthening India’s Business Environment through Effective Legislation.”

~Asmita Kumari

### ABSTRACT

India has made significant progress in innovation and economic growth. In the Global Innovation Index 2024, it ranked 39th among 133 economies, a major improvement from 81st in 2015. India is also the third-largest contributor to scientific publications globally. Economically, the country has shown resilience, with its nominal GDP nearly doubling in a decade, making it the fifth-largest economy in terms of Purchasing Power Parity (PPP).

After the independence in 1947, India had been facing many problems such as low literacy rate and investment rate. From the 1950s to the 1970s, economic growth stagnated at around 3.5 percent annually, known as the "Hindu rate of growth." However, from the late 1970s, growth accelerated, averaging 6 percent from 1980 to 2005. India's GDP per capita ranking improved steadily, reflecting its transition into sustained economic progress.

Legal reforms play an important role in shaping a nation’s economic landscape, ensuring stability, fostering investor confidence, and driving business growth. It refers to changes in laws and regulations aimed at improving governance, reducing regulatory burdens, and ensuring a fair business environment. As per Economic Survey of the Finance Ministry, 2017\_\_” Slow resolution of economic and commercial cases was one of the stumbling blocks in reviving the investment cycle in the country. Reiterating the contribution of legal institutions to the economy, Desmond Tutu (Spokesperson for World Justice Project 2020) stated “Development of Rule of Law is the prerequisite for a country’s social and economic development”.

The legal framework is essential for economic development, as highlighted by Pistor and Wellons (1998), and can be examined through two dimensions: allocative and procedural. The allocative dimension focuses on how laws distribute resources, ensuring market efficiency. The

procedural dimension evaluates legal enforcement and institutional coherence with economic goals. A balanced legal system must integrate discretionary authority with rule-based governance to support economic growth.

The impact of legal reforms on India's economy, highlighting key growth drivers and major challenges. It contextualizes India's \$4 trillion GDP milestone and the goal of reaching \$5 trillion while identifying critical hurdles in infrastructure, regulations, bureaucracy, taxation, skills development, and intellectual property rights. The growth factors like a rising middle class, digital connectivity, the Make in India initiative, and increased foreign direct investment, as well as India's potential as a manufacturing hub under the China Plus One strategy. Challenges such as infrastructure deficits, bureaucratic inefficiencies, labour laws, land acquisition issues, unstable policies, skill mismatches, and weak intellectual property enforcement are explored.

The inefficiency of India's judicial system in delivering economic justice has contributed significant loss of approximately 9% of the country's GDP. Former Solicitor General Harish Salve criticized the Supreme Court for its role in economic decline, which experts have linked to judgment of 2G Spectrum Case (2008): The Supreme Court revoked 122 telecom licenses due to alleged irregularities. However, no substantial evidence was found against the accused, including former Telecom Minister A. Raja and MP Kanimozhi. This decision led to losses of around ₹7 lakh crore, severely impacting the telecom sector and the overall economy. Coal Scam Judgment (2014): The Supreme Court declared over 200 coal block allocations between 1993 and 2011 illegal, revoking most of them. This further worsened India's economic condition.

### **Historical context of legal reforms and economic growth**

The East India Company, initially a trading entity, became a dominant political and military force in India by the 18th century. It controlled trade in key commodities like cotton, silk, tea, and opium, exploiting India's economy by extracting raw materials at low prices and selling finished goods at high rates. British taxation policies, including the Zamindari System and the Permanent Settlement Act (1793), impoverished Indian peasants and devastated agriculture. The Company dismantled local industries, particularly textiles, to promote British goods, leading to economic decline. Additionally, exploitative policies and forced exports contributed

to famines. While British rule was primarily for their own benefit, it also introduced some lasting legal and administrative reforms<sup>1</sup>.

The Regulating Act of 1773 aimed at regulating the affairs of the East India Company and reducing its power over Indian territories. It established a Governor-General of India and a Council of India to supervise the Company's administration.<sup>2</sup> The Pitt's India Act (1784) placed the Company under direct control of the British government, creating a dual system of control where the Company handled day-to-day administration, while the British government oversaw it.<sup>3</sup> The Charter Act of 1813 ended the East India Company's monopoly on trade with India, except for trade in tea and opium. It also allowed Christian missionaries to work in India. The Charter Act of 1833, the most significant legal reform aimed at increasing India's economic growth was the abolition of the East India Company's trade monopoly, which allowed for free trade and competition in the Indian market, effectively ending the Company's exploitation of Indian trade and paving the way for a more open economic system; alongside this, the Act also established a Law Commission to codify Indian laws, creating a more structured legal framework that could facilitate business transactions and economic developments.<sup>4</sup> The act stipulated that government jobs should be awarded based on merit, regardless of race or religion, and opening up opportunities for Indians in administrative roles. The Third Law Commission introduced laws for the development of the economic and business environment, such as the Indian Companies Act, the Land Acquisition Act, and the Indian Contract Act.<sup>5</sup> Companies Act (1866) was established to clear guidelines for company formation, promote transparency in financial and operational activities, protect the interests of stakeholders, and foster business growth by providing a structured legal framework that encourages entrepreneurship and accountability<sup>6</sup>. The Land Acquisition Act (1870) was introduced to allow the government to acquire land for public purposes like infrastructure development. It aimed to ensure fair compensation for landowners and establish a legal process for land

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1 M.P. Jain, *Indian Legal and Constitutional History* (8th edn., Yasobant Das & Rita Das, Central Law Agency 2023) pp. 15–45.

2 Central Bureau of Communication, “Regulating Act, 1773”, available at: <https://cbc.gov.in/regulating> (last accessed 06 October 2025).

3 Vajiram & Ravi, “Pitt’s India Act, 1784”, available at: <https://vajiramandravi.com/pitts> (last accessed 06 October 2025)

4 M.P. Jain, *Indian Legal and Constitutional History* (8th edn., Yasobant Das & Rita Das, Central Law Agency 2023) pp. 15–45.

5 Ministry of Law and Justice, “Law Commission of India”, available at: <https://legalaffairs.gov.in/law> (last accessed 04 October 2025).

6 Ministry of Corporate Affairs, “Enactment of Companies Act”, available at: <https://www.mca.gov.in> (last accessed 04 October 2025).

acquisition<sup>7</sup>. The Indian Contract Act (1872) was introduced to define and regulate contracts in India, providing a legal framework for forming and enforcing agreements. It aimed to ensure fairness by clarifying contractual obligations, rights, and remedies for breaches, promoting clear and legally binding business transactions.<sup>8</sup>

During independence period India's economy was primarily agrarian, with a significant portion of its population involved in agriculture. Colonial policies, particularly under British rule, often hindered industrialization and economic growth. Economic growth was slow and stagnant. After independence, India adopted a socialist model with state intervention in key sectors. The government focused on industrialization through Five-Year Plans. However, the economy grew slowly at about 3.5 percent per year, with limited industrial development and widespread poverty. India faced a severe balance of payments crisis in 1991 led to major economic reforms. Under Prime Minister Narasimha Rao and Finance Minister Manmohan Singh, India transitioned to a market-driven economy. The reforms included trade liberalization, privatization of state-owned enterprises, and increased foreign direct investment (FDI). These changes spurred rapid economic growth, with GDP expanding by 6-7 percent annually.<sup>9</sup>

### **Contemporary trends of legal reforms in Indian economy**

Recently, the Indian government has implemented several legal reforms to enhance the ease of doing Business (EoDB). In 2014, the Government of India launched an ambitious program of regulatory reforms aimed at making it easier to do business. The program represents a great deal of effort to create a more business- friendly environment. According to world bank's ease of doing Business report 2020, India was ranked 63<sup>rd</sup> out of 190 countries.<sup>10</sup> For the improvement of EoDB, Government of India launched The PM MUDRA Yojana in April 2015, provides loans of up to ₹10 lakh to micro-enterprises in manufacturing, trading, and services. Since its inception, 37.76 crore loans totalling ₹20.43 lakh crore have been disbursed, generating 1.12 crore additional jobs in nearly three years. The scheme significantly improved

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<sup>7</sup> Maupatra Articles, "Land Acquisition Act", available at: <https://articles.maupatra.com> (last accessed 04 October 2025).

<sup>8</sup> Government of NCT of Delhi, "Department of District Session Judge", available at: <https://session.delhi.gov>. (last accessed 04 October 2025)

<sup>9</sup> Aniruddha Vithal Babar, "Critical Analysis of Legal Reforms, Economic Development and Social Justice in the Context of India's Neo-Liberal Economic Policy" *Journal of Poverty, Investment and Development*, Vol. 44, pp. 1-9 (2018)

<sup>10</sup> U.S. Chamber of Commerce, "Ease of Doing Business Reforms in India", available at: <https://www.uschamber.com> (last accessed 04 October 2025).

India's ranking to 25th in getting credit, fostering an investor-friendly ecosystem.<sup>11</sup> To further enhance the ease of doing business in the country more than 39,000 compliances have been reduced and more than 3,400 legal provisions have been decriminalized. Positive changes have led to this impressive improvement in India's ranking in the EoDB index. Promoting trust-based governance at all levels, Hon'ble Finance Minister Nirmala Sitharaman introduced the Jan Vishwas Bill to amend 42 Central Acts. An integrated system of unified filing processes at the central and state-level departments will be set up to avoid repeated submission of documents, ensure the authenticity of the same and lead to quicker processing of requests.<sup>12</sup>

Legal reform such as labour laws, corporate governance, the companies act, intellectual property laws, Goods and services tax, Insolvency and bankruptcy code, Banking and financial sector reforms are primarily responsible for enhancing the ease of doing business.<sup>13</sup> Labour law supports economic growth by protecting worker rights, promoting industrial peace, encouraging investment, enhancing productivity, and reducing exploitation and inequality. It ensures fair wages, safe conditions, and job security, fostering a skilled and motivated workforce while providing stability for businesses and investors.<sup>14</sup> Corporate governance enhances the business environment by promoting transparency, accountability, and efficiency. It builds investor confidence through ethical decision-making and financial transparency. Regulatory compliance reduces legal risks and prevents fraud, while efficient decision-making structures ensure agility and prevent mismanagement. Overall, strong governance fosters a stable, trustworthy business environment, making it easier for companies to operate and grow.<sup>15</sup> Intellectual Property (IP) laws enhance the business by protecting innovations, fostering investments, and ensuring fair competition. They encourage entrepreneurship and R&D, attract investors by securing business assets, and prevent counterfeiting to safeguard market advantage. Strong IP protection facilitates global trade, supports brand value, and boosts consumer trust, creating a stable and innovation-friendly business environment.<sup>16</sup> Banking and financial sector reforms enhance the ease of doing business by improving access to credit,

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<sup>11</sup> India Foundation, "Economic Reforms", available at: <https://indiafoundation.in> (last accessed 04 October 2025).

<sup>12</sup> Azim Premji University, "Understanding Post COVID-19 Governance Challenges in India", available at: <https://azimpremjiuniversity> (last accessed 06 October 2025).

<sup>13</sup> Advocate Tanwar, "Legal Issues in India", available at: <https://advocatetanwar.com> (last accessed 06 October 2025).

<sup>14</sup> Ministry of Labour and Employment, "Labour Law Reforms", available at: <https://labour.gov.in> (last accessed 04 October 2025).

<sup>15</sup> YouMatter, "Corporate Governance", available at: <https://youmatter.world> (last accessed 04 October 2025).

<sup>16</sup> Iqra Mir, "Legal System and Economic Development of India" *Journal of Multi-Disciplinary Legal Research*, ISSN: 2582-9947, Vol 2, pp. 1-7 (2022).

promoting digital banking, and simplifying regulations. Insolvency and bankruptcy code (IBC), 2016 was enacted to provide a time-bound resolution process for insolvent companies and individuals, improving India's business climate. The Code mandates resolution within 180 days, involving negotiations between debtors and creditors to draft a resolution plan. Licensed Insolvency Professionals (IPs) oversee the process, ensuring structured and efficient exits. IBC has enhanced investor confidence by offering clear exit mechanisms, contributing to India's improved ranking in resolving insolvency (52nd position) and making the country more attractive for global investment. These reforms attract foreign investment, facilitate trade, and ensure financial stability through risk management measures. By making financial services more accessible, efficient, and transparent, they support entrepreneurship, investment, and economic growth, creating a business-friendly environment.<sup>17</sup>

### **Impact of legal reforms on foreign direct investment**

The world's most populous nation, India was also the fastest growing large economy in the world in 2024. Economists predict the country will become the third largest economy globally by 2030, behind China and the US, overtaking Germany and Japan by the end of this decade.<sup>18</sup> Foreign direct investment refers to investment made by foreign entities in Indian Businesses or assets for long term growth. It plays major role in economic growth and development. In recent years, the Indian government has liberalized the FDI norms in various sectors, such as defence, construction, and retail, allowing more investments through automatic route. Some sectors, like retail and defence, the Indian government has mandated local sourcing requirements for foreign investors to boost domestic manufacturing. India has signed several bilateral investment treaties with other countries to protect and promote foreign investments and facilitate dispute resolution. Recently, The Indian government has introduced several policy changes to make the investment climate more investor-friendly Such as Liberalization of FDI norms, Tax reforms including reduced corporate tax rates and GST implementation, Atmanirbhar Bharat Abhiyan for promoting local manufacturing and reducing import dependence.<sup>19</sup>

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<sup>17</sup> India Foundation, "Economic Reforms", available at: <https://indiafoundation.in> (last accessed 08 October 2025).

<sup>18</sup> Sanjeev Sanyal, "Improving Legal System Is the Best Investment India Can Make", *The Economic Times*, 2019.

<sup>19</sup> StrictlyLegal, "Foreign Investment in India: Legal Framework and Policy Change", available at: <https://strictlylegal.in> (last accessed 24 October 2025).

## **Challenges to effective legal reforms**

India's legal system, faces several challenges that require urgent attention and reform such as Judicial Delays: Over 40 million cases are pending due to insufficient infrastructure, a lack of judges, and slow legal procedures, delaying justice. Corruption: Bribery and political interference undermine the judiciary and law enforcement, affecting marginalized communities. The most Outdated Laws; Environmental Protection: Weak enforcement of environmental laws leads to pollution and ecological damage. Cybercrime and Data Protection: Rising cyber threats necessitate stronger data protection laws with the Personal Data Protection Bill under review. Labor Laws: Informal sector workers face exploitation, despite new labour codes aimed at simplifying labour laws. While India has made progress in legal reforms and continued efforts are needed to ensure justice, equity, and effective governance.<sup>20</sup>

## **Bandhua Mukti Morcha v. Union of India (1984)**

This case is a landmark judgment in labour rights and bonded labour abolition in India. It had a profound impact on legal reforms in areas such as human rights, labour laws, judicial activism, and public interest litigation (PIL). It reinforced the Bonded Labour System (Abolition) Act, 1976, leading to better identification and rehabilitation of bonded labourers. It broadened locus standi, allowing NGOs and activists to approach courts on behalf of marginalized groups. It strengthened Article 21, 23, and 24, ensuring the right to dignity, prohibition of forced labour, and protection against child labour.<sup>21</sup> It emphasized the State's duty to protect and rehabilitate labourers, leading to improved enforcement of social welfare schemes. It influenced labour law reforms, including minimum wages, improved working conditions, and abolition of child labour and manual scavenging. This case is a cornerstone in India's labour law reforms and human rights protections.

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<sup>20</sup> Bibek Debroy, "Some Issues in Law Reform in India" in J. Rose (ed.), *Governance, Decentralization and Reform in China, India and Russia* (Kluwer Academic Publishers, Boston 2005).

<sup>21</sup> Indian Kanoon, available at: <<https://indiankanoon.org>> (last accessed 08 October 2025).

### **Satayam Scam Case (2009)**

The 2009 Satyam Scam, one of India's largest corporate frauds, involved chairman B. Ramalinga Raju manipulating financial statements to inflate revenues and profits by ₹7,136 crore. This fraud severely impacted investor confidence and exposed regulatory loopholes. It involved violations of the Companies Act, 1956, SEBI regulations, and the Indian Penal Code (Sections 406, 420, and 467). Additionally, it highlighted lapses under the Chartered Accountants Act, 1949, regarding the auditors' role. In 2015, a special court convicted Ramalinga Raju and others. The scam prompted significant reforms, including the enactment of the Companies Act, 2013 (Replaced Companies Act, 1956), Stronger Corporate Governance, mandated independent directors to oversee company decisions and defined corporate fraud as a criminal offence. Serious Fraud Investigation Office (SFIO) empowered and given more investigative powers to handle large corporate fraud cases. The National Financial Reporting Authority (NFRA) Created under the Companies Act, 2013, NFRA was empowered to oversee audit quality and compliance. Stricter Auditor Regulations (Revised Chartered Accountants Act) Mandatory rotation of auditors to prevent long-term associations leading to fraud. Penalties for negligent auditors increased, ensuring accountability. Despite the initial crisis, these reforms strengthened India's corporate governance framework, leading to long-term benefits: such as Increased Investor Confidence With stricter compliance laws, investors became more confident in Indian companies. India saw a rise in Foreign Direct Investment (FDI) post-2013 due to improved transparency. Strengthened Corporate Governance, Boards of directors are now more accountable with independent oversight. Ethical business practices improved, reducing corporate fraud cases<sup>22</sup>.

The risk of corporate fraud decreased, attracting more domestic and global investors. While the Satyam Scam initially hurt India's corporate reputation, it led to major legal reforms that ultimately strengthened the business environment, corporate governance, and investor trust. These reforms positioned India as a more transparent and stable market for global investments.

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<sup>22</sup> Indian Kanoon, available at: <<https://indiankanoon.org>> (last accessed 08 October 2025).

## **The Role of Technology and Digital Transformation**

Technology is revolutionizing legal systems by enhancing efficiency, transparency, and accessibility. Court digitization enables e-filing, virtual hearings, and automated case tracking, reducing delays. Online business registration platforms simplify processes, automate compliance checks, and integrate with regulatory bodies. Transparency and anti-corruption measures like blockchain, Artificial Intelligence (AI)-driven legal research, and open data portals ensure security and accountability. Legal process acceleration through smart contracts, AI legal assistants, and predictive analytics streamlines decision-making. According to Ernst and young report on India, Artificial Intelligence is set to transform India's workforce and economy, predicting a revolutionary impact by 2030. It could reshape 38 million jobs, boosting productivity by 2.61% in the organized sector and an additional 2.82% in the unorganized sector.<sup>23</sup> These advancements create a more business-friendly environment, attract investment, and modernize governance for economic growth.

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<sup>23</sup> Press Information Bureau, Government of India, available at: <<https://pib.gov.in>> (last accessed 08 October 2025).

## **CONCLUSION**

In this above analysis, India has made remarkable growth in the recent decades, from deregulating domestic industries to established the system of industrial licensing. The introduction of systematic diverse policies to regulate the structure and system of the trade and businesses in India which has made the assistance to establish the India's economic strength in the global market. This study shows the concern of India's economic development through the various legal reforms and ultimate aim of the legal reforms to revolutionized the essential quality of the economy that is from strict one to liberalized one. A great many reforms and policies were introduced which have been consisting the various different aspect of the economy. For instance; the New Economic Policy 1991 was a market-oriented policy that aimed to reduce poverty and attract the foreign investment.

In this analysis, there is discussion on the relationship between the legal reforms and the economic growth in India. The laws and legal systems are an essential factor of the economic development of a country. The interchange between the allocative and procedural dimensions of the legal systems brings out positive economic transforms. In India, law has played a pivotal role in economic development. legal system in India determines the access of unit to finance, which is one of the essential for economic development, and the origin of the legal system is essential to judge the adaptability of the law. India's economic developments and loopholes have been linked to the virtue of the legal system, and its inadequacy.

Therefore, there is need to improve the legal reform system of India to boost the economic growth of the nation. The essential factors are the accountability of the governance, transparency of policies, strong codification, efficient mechanism of policies and simplifying or streamlined the procedure of the new established laws would help to enhance the economy.

