CHAPTER 16

PART-II

BUILDING STRATEGIC RESILIENCE AND STRATEGIC INDISPENSABILITY: THE ROLE OF THE STATE, THE PRIVATE SECTOR AND THE CITIZENS

कर्मण्येवाधिकारस्ते मा फलेषु कदाचन ।
मा कर्मफलहेतुर्भूर्मा ते सङ्गोऽस्त्वकर्मणि ॥

You have a right to action alone, not to the fruits of your labour.
Do not let the fruits of action be your motive, nor allow yourself to fall into inaction.

–Bhagavad Gita, Chapter 2, Verse 47

Why is State Capacity the binding constraint today?

16.80. India's economic development over the past three decades has unfolded within an institutional setting that is distinctive in both comparative and historical terms. It is a rare example of a large, diverse, low-middle-income country that has combined sustained growth with democratic continuity, periodic macroeconomic consolidation, and incremental yet cumulative policy reform. This achievement has rested not only on markets and entrepreneurship, but also on a State that has gradually learned to reconcile stability with change in a society marked by plural preferences and high expectations of public provision. Any discussion of state capacity must therefore begin from this vantage point, not of institutional failure, but of demonstrated resilience and adaptive competence.

16.81. As discussed in the first part of this chapter, India is now entering a phase of development qualitatively different from that experienced since the early 1990s. Structural economic transformation at home is unfolding against a backdrop of persistent and profound geopolitical reconfiguration. The global economy is shifting towards a more segmented form of globalisation, in which trade is increasingly organised around blocs, capital flows are shaped by strategic and security considerations, access to technology is selectively restricted, and geopolitical risk premiums are embedded in economic decisions.

16.82. In this setting, the demands placed on the State have not diminished; they have changed in character. Stability, prudence, and democratic legitimacy remain indispensable, but they are no longer sufficient on their own. They must now be complemented by a greater capacity to coordinate across institutional boundaries, to act with confidence under conditions of uncertainty, and to change course when learning exposes the limits of prior assumptions. The central question is therefore no longer whether India has the right policies or the right institutions, but whether it possesses sufficient state capacity - institutional, administrative, social, and cognitive to operate effectively in a world that is less forgiving of disorder, indiscipline, and short-termism.

16.83. State capacity, in this chapter, is understood in the sense articulated by Somanathan and Natarajan (2022)[1], as the ability of the government to "get the right things done." It refers not merely to the availability of resources or formal authority, but to the institutional capability of the State to effectively design policies, implement them, and deliver on commitments made to citizens. State capacity, in this conception, spans both policymaking and execution, and rests on administrative judgement, technical competence, and organisational arrangements that allow the State to act under constraints and uncertainty. Weak development outcomes, in this view, arise less from a lack of ideas or intent than from deficiencies in the State's ability to translate decisions into sustained and reliable action.

16.84. In what follows, this part of the chapter advances a simple but central argument. India's most consequential constraint today is no longer the absence of policy intent, ideas, or resources, but the incentive structures within institutions that shape how decisions are taken under uncertainty. This core constraint manifests across multiple domains: bureaucratic risk aversion, organisational design, regulatory practice, private-sector behaviour, and citizen expectations. The sections that follow examine these manifestations in turn, not as independent weaknesses, but as interlinked expressions of the same underlying incentive problem. The chapter then examines ongoing efforts at deregulation and compliance reduction as a practical test of whether institutional alignment can be restored in practice.

Why entrepreneurial governance is hard

16.85. The first part of this chapter argued that a world of deep uncertainty requires a shift towards an entrepreneurial state, not to replace markets, but to act under uncertainty, structure risk, and learn systematically. Accepting this diagnosis, however, raises a more difficult question: if such a state is conceptually necessary, why has it proven so difficult to realise in practice? The answer lies not in intent or ambition, but in the institutional mechanisms through which risk, failure, and accountability are processed.

1 Somanathan, T. V., & Natarajan, G. (2022). State capability in India. Oxford University Press.

16.86. For starters, India's difficulty lies in the fact that its institutional environment has evolved in ways that place an asymmetric burden on visible action relative to procedural continuity, especially under conditions of uncertainty. Temporary measures have often become permanent through what might be called irreversibility creep, raising the stakes of any experiment. Good-faith decisions are subjected to retrospective scrutiny through audits, vigilance processes, and judicial review, often without adequate recognition of the uncertainty under which they were taken. Entrepreneurial initiatives are evaluated using metrics suited to routine administration, such as compliance, revenue collection, and procedural correctness, rather than learning, capacity creation, or long-term impact.

16.87. No country that has successfully navigated structural transformation attempted to make its entire bureaucracy entrepreneurial. Equally, it may not be possible for the bureaucracy to be entrepreneurial all the time, because stability and predictability too are necessary traits of good administration. Instead, successful states created bounded institutional spaces - zones where experimentation was permitted, accountability rules were differentiated, and learning was explicit. Japan's sectoral desks, Korea's planning agencies, and Singapore's regulatory institutions all functioned as such safe spaces.

16.88. For India, entrepreneurial safe spaces could take several forms: mission-based cells focused on manufacturing, energy, logistics, or urbanisation; regulatory sandboxes extending beyond fintech into labour, environmental, and trade regulation; explicit legal protection for good-faith decisions; and independent ex-post review mechanisms that prioritise learning over blame. Such spaces are not exempt from accountability, but are legally bounded domains in which accountability recognises ex-ante and real-time uncertainty rather than retrospective certainty. What matters is not the specific institutional form, but the underlying principle: experimentation must be bounded, reversible, and accountable in a manner appropriate to uncertainty.

16.89. Democracy adds a layer of complexity. In democratic systems, politicians are often closer to lived realities and public sentiment, while bureaucracies provide continuity, memory, and procedural integrity. The risk, of course, is that politicians drift into populism while bureaucracies drift into insularity. An entrepreneurial state requires a more subtle division of labour. Political leadership must set direction and articulate priorities. Bureaucracies must discover pathways, solve problems, and adapt instruments. Institutions must absorb error without collapsing into either paralysis or permissiveness. Whether a bureaucracy is becoming entrepreneurial can only be assessed through its learning capacity.

16.90. Moving from diagnosis to action requires reform on several fronts. Legal and institutional frameworks must codify protection for good-faith decision-making and clearly separate error from corruption. Incentive systems must reward problem-solving and capacity-building rather than mere procedural compliance, and rotation policies must allow for continuity when learning is cumulative. Accountability mechanisms must shift away from hindsight-driven punishment towards context-aware review, while visibly penalising inertia where damage is clear. Above all, political leadership must send consistent signals that reversible failure is acceptable, experimentation is necessary, and course correction is a mark of competence rather than weakness.

16.91. A useful contrast is provided by the experience of the Republic of Korea,[2] which illustrates how entrepreneurial state capacity was built not through bureaucratic boldness alone, but through carefully designed institutional sequencing. Korea's early export-led industrialisation forced firms to comply with demanding foreign standards, initially as adopters rather than setters. This created an external discipline that reduced discretion while simultaneously compelling learning. Over time, the Korean state invested systematically in national standards bodies, metrology, and conformity assessment, treating them not as peripheral technical functions but as core instruments of industrial strategy. Crucially, these institutions operated as bounded spaces in which technical judgment, experimentation, and feedback from firms were encouraged, while accountability remained aligned to ex ante objectives rather than ex post outcomes.

16.92.The broader lesson is not one of institutional replication, but of design logic. Accountability mechanisms focused on whether decisions were reasonable given the information available at the time, rather than on whether all outcomes succeeded. This architecture allowed the state to act under uncertainty without paralysing fear of error, and to evolve from a rule-taker to a rule-shaper in global markets. For India, the relevance lies in the principle that entrepreneurial governance emerges when experimentation is disciplined, incentives are aligned to learning, and institutional design explicitly distinguishes good-faith error from malfeasance.

16.93. The opportunity before India is considerable. Few countries possess India's scale, diversity, institutional depth, and democratic legitimacy. If these assets are combined with a bureaucracy that is capable of acting entrepreneurially (disciplined, reversible, and learning-oriented), the state can move beyond being a regulator of economic activity to a catalyst for structural transformation. In a world defined by uncertainty, it is not the most controlling states that will succeed, but those that learn fastest, adapt most intelligently, and retain the confidence to correct course. India has the institutional foundations to do so. The task now is to align mindset, incentives, and accountability with that possibility.

2 Lee, H., & Kim, M. J. (2025). From Standards Adopter to Standards Author: The Case of the Republic of Korea. Background paper for World Development Report. https://tinyurl.com/42arcdst

Box XVI.3: Bureaucratic Integration, the Entrepreneurial State, and Mobilising Culture for Scale in India

In India's social and business life, trust tends to be strongest within families, castes, communities, and familiar networks, and much weaker outside them. Inside these circles, people rely on reputation, social pressure, and mutual support to manage risk and enforce good behaviour. Beyond them, transactions become more uncertain, more costly, and harder to scale. As a result, individuals and firms often stick to familiar networks, not out of preference alone but because dealing across social boundaries carries greater risk and higher penalties when things go wrong. In this way, culture limits how far economic activity can easily expand at any given moment.

Over time, state-led efforts at bureaucratic integration have eased this constraint by replacing personal connections with predictable rules and procedures. When authority is impersonal and reliable, people can transact with strangers without having to rely on trust built through kinship or community. After Independence, national examinations and public-sector career ladders produced cross-regional élites with portable credentials; land reforms in parts of the country weakened entrenched hierarchies; and the creation of national financial and regulatory institutions enabled firms to engage the state as formal entities rather than through local intermediaries. More recently, platforms such as Aadhaar, the Unified Payments Interface, GST, and digitised land and property records have reduced dependence on relational credit and informal verification, allowing small entrepreneurs and migrants to transact beyond their immediate circles. In logistics and exports, the standardisation of customs and port procedures has begun to weaken historically entrenched commission networks. Culture continues to matter, but its ability to limit cooperation beyond close networks is weakened.

The entrepreneurial state complements this institutional integration by coordinating expectations and bearing risk in sectors where fragmented private actors would otherwise hesitate to act. In automotive components in Tamil Nadu, pharmaceuticals in Gujarat and Hyderabad, and more recently electronics manufacturing clusters in Noida and Sriperumbudur, public policy has not only regulated but convened and aggregated: facilitating cluster formation, underwriting early investment, shaping procurement and export pathways, and making global standards attainable for small and mid-sized firms. In renewables, space, defence manufacturing, and select digital infrastructure, public institutions have signalled technological direction in advance of market consensus.

These initiatives have worked not by negating cultural repertoires but by selectively mobilising them. Industrial upgrading and strategic manufacturing have been framed as projects of national dignity, technological self-respect and upward mobility. This narrative function is particularly important in a low-trust environment, as it legitimises collaboration with unfamiliar partners, compliance with common standards, and the transition from informal networks to formal systems, without requiring individuals to disavow their local loyalties. Culture thus becomes partially endogenous to policy.

The Indian experience also underscores the limits of this endogeneity. Hierarchy, insider advantage and patronage frequently re-embed themselves within new institutional shells. Yet, where bureaucratic integration has reduced uncertainty and the entrepreneurial state has provided visible ladders of mobility — as in segments of the automobile, pharmaceutical, and electronics industries — kinship-based constraints have become less binding, and coordination has scaled without cultural rupture.

Seen this way, state capacity is not about overriding culture but about making it less binding. The task is to lower the penalty for stepping outside one's circle through fair and predictable institutions, and to raise the reward for doing so through credible pathways to technological and economic upgrading. When that occurs, elements of the same cultural repertoire, such as aspiration, thrift, perseverance, status ambition, and pride, can be mobilised as assets for development and scale rather than as barriers to them.

16.94. As the State takes on a more active coordinating role of integrating markets, convening actors, and shaping expectations, the nature of institutional risk also changes. Actions taken to reduce uncertainty and facilitate activity can gradually harden into expectations and routines, raising the cost of adjustment over time. For an entrepreneurial state, the ability to withdraw or recalibrate becomes as important as the ability to act. Box XVI.4 examines this issue through the lens of hysteresis and policy reversibility, and its implications for the exercise of state capacity under uncertainty.

Box XVI.4: Hysteresis, Policy Reversibility, and the Entrepreneurial State

In public policy, hysteresis occurs when temporary measures become permanent, when incentives solidify into entitlements, and when regulatory or administrative interventions alter expectations and political alignments in ways that render reversal costly or infeasible. Subsidies, protection, exemptions, and discretionary approvals are particularly prone to this dynamic. Once economic and political actors reorganise around such interventions, reversing them can trigger litigation, political backlash, and administrative disruption. Anticipating this, officials rationally avoid experimentation altogether, leading to institutional risk aversion and policy inertia.

An entrepreneurial state cannot function under such conditions. Entrepreneurship in governance does not mean boldness without restraint; it means acting under uncertainty while preserving reversibility. Avoiding hysteresis therefore requires deliberate design of state capacity along three dimensions: staffing, processes, and mindsets.

First, staffing structures must privilege judgement over risk avoidance. Entrepreneurial functions such as mission cells, regulatory sandboxes, and policy pilots require small, stable teams with analytical depth, legal support, and continuity of tenure, insulated from routine compliance and ex post policing. Thin but capable decision layers reduce the tendency to lock in permanent solutions merely for defensibility.

Second, reversibility must be built into administrative processes by default. Schemes should be designed with explicit exit options rather than assumed permanence. Sunset clauses, staged scaling, conditional rollouts, and mandatory post-implementation reviews should be routine for subsidies, exemptions, and experimental regulations. Equally important is the separation of learning-oriented ex-post review from blame-oriented scrutiny. Where oversight mechanisms assess decisions against information available at the time (rather than outcomes revealed later), officials retain the confidence to act.

Third, administrative mindsets must shift from 'correctness' and adherence to precendence, to judgment. In high-uncertainty environments, credibility lies not in never reversing course, but in revising decisions transparently as evidence evolves. This requires a clear institutional distinction between good-faith error, design failure, implementation failure, and malfeasance. Without such differentiation, fear substitutes for judgement, and institutions learn to delay rather than decide.

Hysteresis risk is not uniform across policy domains. It is highest where benefits are concentrated and costs are diffuse – subsidies, protection regimes, financial forbearance, land and environmental permissions, and large infrastructure contracts. In such areas, entrepreneurial action must be especially bounded, legally disciplined, and accompanied by credible exit mechanisms. Political leadership plays a critical role here by absorbing some of the short-term costs of reversal to protect long-term administrative learning.

A state that cannot reverse cannot learn; a state that cannot learn cannot adapt. Preventing hysteresis is therefore not a technical refinement, but a foundational requirement of an entrepreneurial state.

Learning without forgiveness: Why States that punish failure lose the future

16.95. Policies that operate in uncharted terrain, whether in industrial strategy, financial regulation, technology governance, or social policy, cannot be optimised ex ante. They must be tested, revised, and sometimes abandoned. Yet Indian institutions treat visible correction as evidence of incompetence rather than maturity.

16.96. Institutional forgiveness does not mean leniency, nor does it imply the abdication of accountability. It is not a tolerance of corruption or negligence. On the contrary, forgiveness becomes meaningful only when it is paired with a clear distinction between good-faith error and malfeasance. High-capacity states draw this distinction sharply. Low-capacity states blur it, often deliberately, until fear substitutes for judgment.

16.97. Historically, the states that escaped this trap did so by building institutional memory rather than institutional blame. In post-war Japan, policy failures in industrial targeting were common, sometimes costly. What mattered was not the failure itself, but whether it generated insight that informed subsequent action. The same official could preside over an unsuccessful sectoral bet and still advance, provided the reasoning was sound and the learning explicit. Career trajectories were shaped by judgement under uncertainty, not by the absence of error.

16.98. Authoritarian systems have achieved learning through a different route: political insulation rather than institutional forgiveness. Local experimentation is encouraged, failure tolerated, and success rapidly scaled — so long as political red lines are respected. This model produces speed, but at the cost of transparency and often at the risk of hidden fragilities. It is not transferable to a democratic, legalistic polity like India. But it underscores a crucial point: learning is never free; it is merely paid for differently.

16.99. For democracies, the price of learning must be paid through institutional design rather than political discretion. This requires a deliberate architecture of forgiveness. Such an architecture begins with how failure is viewed. Not every adverse outcome is a failure of intent or competence. Some are failures of hypotheses. Others are failures of timing. Still others are failures of coordination. Equally important is the temporal dimension of accountability. Ex ante clarity and ex post proportionality matter more than real-time scrutiny. This may require an explicit re-orientation of the approach of agencies like the Comptroller & Auditor General and of Vigilance systems. It will also need an appropriate balance in laws relating to the prosecution of public servants.

16.100. For India to have the entrepreneurial state it sorely needs, honest officials must be protected from vexatious prosecution. Where a complex regulatory or economic decision is being alleged to be ill-motivated but without clear evidence of quid pro quo, the answer is difficult. The law will need to weigh this without making economic decision-making risk-averse.

16.101. In the decades ahead, India will face decisions for which there are no manuals. In each case, outcomes will depend less on the correctness of initial choices and more on the State's capacity to learn, revise, and act with confidence under uncertainty.

Box XVI.5: The RTI Act: Transparency without Blindness

The Right To Information (RTI) Act, 2005, is widely seen as one of India's most powerful democratic reforms. The RTI Act is first and foremost an anti-corruption and accountability instrument, and its contribution to democratic governance is beyond dispute. It empowered citizens to demand answers, lifted the veil of administrative secrecy, and gave ordinary people a tool to challenge corruption. Yet, like any powerful instrument, it carries risks. Unless carefully balanced, RTI risks becoming an end in itself, with disclosure celebrated regardless of its contribution to better governance. That may undermine the very purpose it was meant to serve. It must be reiterated, however, that any re-examination must preserve its central role as an accountability instrument, while refining its operation in narrowly defined areas of internal deliberation.

The idea of citizens' right to know is not uniquely Indian. Sweden pioneered it with the world's first Freedom of Information Law (FOIA) in 1766. The United States enacted its FOIA in 1966, and the United Kingdom followed in 2000. Interestingly, former UK Prime Minister Tony Blair later admitted he regretted introducing it, not because he opposed accountability, but because he felt governance itself suffered: "*You can't run a* *government without being able to have confidential discussions with people on issues of profound importance*." The UK House of Commons Justice Committee (2012–13) reached a similar conclusion, urging wider use of exemptions to protect candid internal debate. The global experience suggests that transparency works best when paired with room for candid discussion.

By global standards, India's RTI Act is relatively expansive. In the United States, internal personnel rules, inter-agency memos, and financial regulation reports are exempt from disclosure. Sweden protects fiscal and monetary policy, supervisory activities, and the economic interests of institutions under its secrecy provisions. The United Kingdom exempts policy formulation where disclosure may harm the public interest, with ministers retaining veto powers even against orders of courts or commissions. The World Bank similarly excludes deliberative information and administrative matters from its disclosure policy.

India, in contrast, leaves far less space for such carve-outs. Draft notes, internal correspondence, and even personal records of officials often enter the public domain, sometimes even where the link to public interest is weak. Unlike the United States, the United Kingdom, or South Africa, which explicitly shield policy deliberations and draft documents, India has no general "deliberative process" exemption. File notings, internal opinions, and draft notes fall squarely within the Act's definition of information, with only Cabinet papers protected temporarily until a decision is made. Combined with a strong public-interest override that can compel disclosure even of exempt material, this makes India's RTI regime particularly broad. The challenge now is to preserve this openness while also retaining space for candid and effective decision-making.

The Law of Unintended Consequences

The concern is predictable: if every draft or remark might be disclosed, officials may hold back, resorting instead to cautious language and fewer bold ideas. The candour needed for effective governance is blunted. This is not an argument for secrecy by default. Rather, democracy functions best when officials can deliberate freely and are then held accountable for the decisions they finally endorse, not for every half-formed thought expressed along the way.

Indian courts have already recognised these boundaries. In Girish Ramchandra Deshpande v. CIC (2013), the Supreme Court exempted personal records of public servants from disclosure. In R.K. Jain v. Union of India (2013), the Court shielded Annual Confidential Reports. More recently, in Canara Bank v. C.S. Shyam (2017), it reaffirmed that employee data cannot be disclosed unless an overriding public interest is established. These rulings affirm that privacy and confidentiality complement democracy rather than weaken it.

A Case for Re-Examination

Nearly two decades on, the RTI Act may need re-examination, not to dilute its spirit, but to align it with global best practices, incorporate evolving lessons, and keep it firmly anchored to its original intent. A few possible adjustments may be worth exploring. One could be to exempt brainstorming notes, working papers, and draft comments until they form part of the final record of decision-making. Another option could be to protect service records, transfers, and confidential staff reports from casual requests that add little value to the public interest. A third might be to explore a narrowly defined ministerial veto, subject to parliamentary oversight, to guard against disclosures that could unduly constrain governance. These are not prescriptions, but suggestions worth debating to ensure that the Act remains effective while also safeguarding the integrity of decision-making.

The RTI Act was never intended as a tool for idle curiosity, nor as a mechanism to micromanage government from the outside. Its purpose is far higher, and the law itself makes that clear. The Act seeks *"to promote transparency and accountability in the working of every public authority"* and *"to contain corruption and to enhance the people's participation in the democratic process."*

The Act is best understood not as an end in itself, but as a means to strengthen democracy. The wiser path is to keep it anchored to this original aim: enabling citizens to demand accountability for decisions that affect them, while also ensuring that space for candid deliberation and respect for privacy remain protected. That balance between openness and candour is what will keep the RTI Act true to its purpose.

Organisational design and the burden of governance – Capacity depends on how responsibilities and ownership are organised.

16.102. The ability of the State to learn, correct course, and act with confidence under uncertainty ultimately depends on how responsibilities, authority, and ownership are organised within its institutions. As organisations expand in scale and their responsibilities become more complex, the weight placed on inherited functional structures tends to increase faster than their capacity to deliver outcomes. In such environments, challenges arise not merely from resource constraints or managerial effort, but also from the architecture that organises responsibilities, authority, learning, and execution. Traditional function-based structures serve important purposes by concentrating expertise and preserving professional depth, yet they often locate multiple, sometimes competing, roles within the same organisational boundaries. When regulatory, developmental, operational, supervisory, and coordination tasks coexist inside the same units, managerial attention is stretched, and priorities become blurred. At the same time, outcomes increasingly depend on collaboration across semi-autonomous units, delivery systems, geographic footprints, and external partners. This disperses accountability and weakens feedback loops unless organisational design evolves in parallel with mission complexity.

16.103. In both public and private institutional contexts, effectiveness improves when structures are organised around clearly articulated missions and outcomes with explicit objectives and time horizons, rather than being anchored solely to permanent functional mandates. This is fundamentally a design challenge rather than a behavioural one. Capability is not strengthened by exhortation alone; it depends on whether roles that conflict are separated, whether mission-oriented structures are created where objectives are interdependent, and whether continuity is protected in posts where institutional memory and learning curves make a material difference to performance. Ultimately, capability is tested in execution, and even sound strategies falter when responsibilities are fragmented and when no clearly identifiable locus of ownership exists for the outcomes the organisation seeks to achieve.

16.104. The question of ownership and accountability arises with particular force in cluster-based and mission-oriented structures. Cluster arrangements can improve coherence by grouping related domains around shared strategic purposes, yet they risk becoming merely forums for consultation if responsibility is diffused too widely. More robust designs distinguish between shared contribution and clearly assigned ownership of outcomes. In such architectures, the cluster lead assumes ownership of the outcome. It is responsible for defining priorities, sequencing actions, reconciling trade-offs, and reporting on progress. At the same time, the participating units retain control over their instruments and resources and operate within an outcome-anchored performance frame. Responsibility for actions may be distributed, but accountability for outcomes is located, visible, and reviewable.

16.105. The logic underpinning these arrangements has close parallels in the evolution of large private-sector organisations as they have grown across product lines, geographies, and technologies. Firms that began with strongly functional structures often found that functional excellence did not automatically translate into enterprise-level performance once they diversified or internationalised. As product portfolios widened and regional operations multiplied, coordination costs rose, and conflicts of priority emerged between specialist functions that continued to optimise for their own domains. In response, many organisations shifted toward divisional, business-unit, or matrix designs that retained functional expertise. At the same time, product, market, or regional leadership was added to oversee end-to-end outcomes. In such systems, business-unit or regional heads assumed ownership of results for their domains, while cross-cutting missions such as digital transformation, operational resilience, or sustainability transition were sponsored at the senior executive level and implemented through dedicated, mission-oriented structures that cut across functions and territories.

16.106. These private-sector trajectories highlight design lessons that resonate in public and quasi-public systems. First, as organisations become multi-mandate or multi-domain systems, purely functional structures struggle to manage interdependence because they lack a natural locus for integrating objectives and brokered trade-offs. Second, coordination mechanisms are effective only when coupled with recognisable centres of outcome ownership that possess the authority and informational vantage point required to align contributors toward a shared objective. In both sectors, the challenge is not simply to coordinate activities, but to ensure that coordination is embedded within an accountability architecture that makes outcome responsibility visible and actionable.

16.107. Public-sector organisations often face an additional layer of complexity because policy, regulatory, and implementation responsibilities coexist with inter-organisational and inter-jurisdictional collaboration. Cluster and mission-oriented approaches can play a role here by providing institutional stability, domain depth, and continuity on the one hand, and direction, prioritisation, and outcome focus on the other. The central coordinating entity functions most effectively when it acts as an enabling and integrative platform that aligns incentives, resolves conflicts across missions, strengthens monitoring and learning, and prevents both excessive centralisation and unproductive diffusion of authority, rather than as a substitute for specialised structures.

16.108. In both public and private contexts, therefore, mature organisational design entails a dynamic balance between functional depth, mission or cluster alignment, and explicit outcome ownership. Functional structures preserve expertise and professional capabilities, while mission-oriented or clustered arrangements align related mandates around shared purposes. Clearly identified outcome owners ensure that results have a clearly accountable centre of gravity. When these elements are aligned, organisational performance becomes less dependent on informal coordination or individual effort and more grounded in institutional capability, learning, and intent. By progressively aligning structures with the goals they are intended to serve, organisations operating in complex environments are better able to adapt to interdependence while preserving clarity of purpose and integrity of execution.

16.109. In India's federal structure, States pursue capacity building and policy objectives through different institutional arrangements, reflecting differences in history, administrative capacity, and development priorities. What is common across States, however, is a growing recognition of the importance of organisational design and clear outcome ownership in delivering results. These initiatives, in their different forms, are all means directed towards the larger end of strengthening state capacity.

16.110. The State Support Mission of NITI Aayog represents one such example of how these principles are being put into practice to strengthen cooperative federalism and state capacity. (Box XVI.6).

Box XVI.6: Developed States for *Viksit Bharat*@2047: Strengthening Cooperative Federalism through State Support Mission

The State **Support Mission (SSM) of NITI** Aayog is a flagship initiative of NITI Aayog to operationalise its core mandate of strengthening cooperative federalism and advancing the shared national vision of ***Viksit Bharat*@2047**.

Recognising that States/UTs follow diverse pathways for development and the requirement for an agile, forward-looking institutional framework to steer the scale of transformation required, the SSM focuses on institutional strengthening, capacity building, fostering innovation, promoting cross-state learning, dissemination of best practices, and leveraging knowledge institutions to support evidence-based policymaking and strategic development planning.

A central pillar of the Mission is the establishment of State Institutions for Transformation (SITs), envisioned as State-level think tanks that provide continuity in long-term visioning, strategic reforms, evidence-based policymaking, and enhance implementation capacity. States and UTs are encouraged to either establish dedicated SITs or reimagine and strengthen existing Planning Departments/Boards/Commissions to perform these functions.

As of date, 32 States and UTs have established SITs. These include, among others, the Gujarat State Institution for Transformation (GRIT), Maharashtra Institution for Transformation (MITRA), State Institute for Empowering and Transforming Uttarakhand (SETU Aayog) and the Tripura Institution for Transformation (TIFT). Further, 26 States and UTs have also partnered with Knowledge Institutions (LKIs) such as IITs, IIMs, and leading Central and State Universities, by leveraging the technical, analytical, and sectoral expertise of these institutions to support State-led reforms.

The Mission has encouraged States and UTs to articulate **long-term development visions**, and integrate advanced analytics and domain expertise into their sectoral strategies.

The SSM has also supported States and UTs in strengthening **Monitoring and Evaluation (M&E) frameworks**, addressing high-priority information needs and enabling **data-driven governance**. The **NITI for States (NFS) Knowledge Platform** has reduced information asymmetry by offering a single-window repository of best practices, policies, datasets, and knowledge products to inform decision-making.

Overall, the State Support Mission is empowering every State and UT to evolve into a **Developed State**, to contribute to building a ***Viksit Bharat***. Seen in this light, the State Support Mission can be viewed as an institutional effort to support state capacity.

State Capability as a Human System: Culture, Skills, and Execution (Mission *Karmayogi*)

संगच्छध्वं संवदध्वं सं वो मनांसि जानताम् ।
देवा भागं यथा पूर्वे सञ्जानाना उपासते ॥

Move together, speak together, and let your minds be aligned.
Just as those before acted in shared understanding to pursue a common purpose.

–Rig Veda, Mandala 10, Sukta 191, Verse 2

16.111. Institutional arrangements such as mission-oriented coordination platforms and state-level transformation units can create the architecture for collective action, but their effectiveness ultimately depends on how they are inhabited and exercised in practice. States act through institutions, and institutions, in turn, act through individuals. As policy challenges become more complex, technology-driven, and expectation-intensive, the quality of public outcomes increasingly depends on how civil servants interpret roles, exercise judgment, and engage with citizens. State capability, in this sense, is not only a function of formal structures or procedures, but also of the human systems through which public authority is exercised in practice.

16.112. India's administrative system carries the imprint of its historical origins. Designed initially for command, compliance, and hierarchy, it prioritised order and control. Over time, democratic deepening and developmental expansion extended this administrative architecture into domains it was not originally designed to serve, enabling delivery at scale but also shaping interactions between policymakers and citizens through procedures and rules. As a result, governance has often been experienced as rule-bound and impersonal, reflecting inherited structures more than contemporary intent. Yet in everyday life, citizens increasingly expect the State to be accessible, responsive, and fair.

16.113. At the same time, India is witnessing the strengthening of a participatory ethos through *Jan Bhagidari*, reflecting a shift towards governing with citizens as partners in public outcomes. This orientation aligns with the broader national vision of *Sabka Saath, Sabka Vikas, Sabka Vishwas, Sabka Prayas,* which emphasises partnership, development, trust, and collective effort, and is reinforced by ideas such as *Nagrik Devo Bhava* and *Antyodaya*, which place respect, empathy, and fairness at the centre of public service. Mission *Karmayogi*, implemented through the Capacity Building Commission, plays a critical role in shaping bureaucratic culture towards citizen-centric service by emphasising not only what civil servants do, but how they engage with citizens and how feedback from these interactions informs institutional learning.[3]

16.114. As economies move to higher levels of development, the challenge for public administration is no longer only to expand capacity, but to repurpose the idea of service itself. Modern governance increasingly requires systems that can learn, adapt, and absorb change rather than merely comply with static rules. Large organisations, including governments, evolve more effectively when reform is treated as a process of absorption rather than disruption. Incremental learning, role clarity, and the gradual internalisation of new practices enable durable change, whereas abrupt or purely structural interventions often provoke resistance.[4]

16.115. Depth in analytical and administrative support, along with systems that enable coordination, analysis, and follow-through, significantly increases the likelihood of

3 Dr. R Balasubramaniam. The Statesman. 13 November 2025. Citizen and the State. https://tinyurl.com/bddp929v

4 Dr. R Balasubramaniam. The Statesman. 23 October 2025. Repurposing service. https://tinyurl.com/5xeydbz2

successful execution. Strengthening state capability, therefore, involves investing in high-quality teams, improving the skills and continuity of supporting staff, and ensuring that specialised analytical and technical functions are adequately resourced alongside general administrative roles.

16.116. As governance challenges become more project-oriented and time-bound, execution also benefits from flexibility in team formation. Enabling senior officials to assemble teams around clearly defined objectives improves focus and accountability, particularly for complex initiatives. Supplementing core administrative capacity with young professionals and domain specialists adds analytical depth, fresh perspective, and speed, especially in purpose-driven and time-bound goals. Over the medium term, recruitment strategies and skill profiles matter for sustaining such capability, as administrative systems perform best when the breadth of perspective is complemented by functional competence.

16.117. Rapid technological change is also transforming the nature of work within government itself. While automation and artificial intelligence can improve efficiency, the future of governance increasingly depends on distinctly human capabilities, including judgment, ethical reasoning, collaboration, and systems thinking. Mission *Karmayogi* reflects this shift by moving away from rigid role definitions towards dynamic capability frameworks that align individuals with evolving functional needs. By embedding continuous learning, competency mapping, and domain-specific capacity building within the civil services, the programme recognises that effective execution in complex environments depends not only on technology adoption, but on how officials interpret responsibility, manage uncertainty, and exercise discretion in real-world settings.[5]

16.118. A distinctive feature of Mission *Karmayogi* lies in its explicit grounding in values drawn from India's civilisational traditions. Effective reform in the Indian context must combine modern administrative practices with ethical anchors that emphasise duty, service, and collective purpose. The mission's guiding principles—development, pride in service, duty, and unity—along with personal virtues such as self-reflection, collaboration, and citizen-centric purpose, position public service as a vocation rather than a transactional role. This approach underscores an Indian pathway to reform, where institutional change is sustained not only through formal rules and incentives, but through internalised values that shape behaviour over time. In doing so, Mission *Karmayogi* seeks to strengthen state capability by aligning professional identity with public purpose and reinforcing trust between institutions and citizens.[6]

5 Dr. R Balasubramaniam. The Statesman. 30 July 2025. Strategic humanisation. https://tinyurl.com/ynwvzm7j

6 Dr. R Balasubramaniam. The Statesman. 28 August 2025. An Indian Way. https://tinyurl.com/3swswyyp

The Regulatory State as a Core Component of State Capacity

16.119. Regulation is one of the most consequential interfaces between the state and the economy. Regulators provide public goods in the public interest by protecting consumers, enabling market development, and enforcing rules. In doing so, they exercise powers—legislative, executive, and judicial—that closely resemble those of the Government itself. Governance through regulators offers clear advantages: specialisation, continuity, and insulation from day-to-day political pressures. At the same time, it raises significant concerns about accountability, the concentration of authority, and procedural fairness. The central challenge is therefore to minimise these risks while preserving the strengths of the regulatory form. Given the complex agency relationships involved, the design and placement of regulators must be anchored within a coherent vision of public interest rather than treated as ad hoc institutional solutions.

16.120. In practice, regulators operate as mini-states within their domains, simultaneously exercising quasi-legislative, executive, and quasi-judicial powers. Frequently, the same individuals or internal divisions perform multiple roles such as lawmaker, investigator, and judge, without clear procedural separation. There is nothing inherently inappropriate about regulators exercising these powers, as modern, complex markets require strong and responsive institutions. However, when power is concentrated without adequate internal checks, credibility suffers.

16.121. Therefore, regulatory capacity is a question of institutional design as much as it is of intent or effort, spanning rule-making, enforcement, accountability, and the structuring of delegated authority as discussed in Box XVI.7.

Box XVI.7: Regulatory Capacity as Institutional Design

Regulatory capacity depends on how formal powers granted to regulators are structured, exercised, and constrained through institutional design. Some important considerations are discussed in the following institutional design choices:

Clarity in rulemaking and guidance

In many regulatory systems, the volume of circulars, guidelines, and master directions exceeds the parent statute, creating uncertainty and diluting the authority of the parent regulation. When subsidiary instructions begin to substitute for regulation, the boundary between law and administration becomes blurred, complicating compliance. Regulatory frameworks should, therefore, clearly distinguish between regulations and subordinate guidance. Substantive rulemaking must follow transparent processes, including publication of draft regulations, public consultation, and disclosure of responses, and should rest with the governing board. Subsidiary instructions should remain confined to clarificatory and procedural matters, subject to internal discipline and periodic review.[7]

Separation within authority

Regulators often exercise quasi-legislative, executive, and quasi-judicial powers within the same institution. This reflects the complexity of modern markets and is not inherently problematic. However, it places a premium on internal separation and discipline.

Regulatory boards that anchor accountability

The effectiveness of regulatory institutions depends on their governing boards that act as principals, holding executive management accountable while exercising independent judgement on policy and enforcement. Board composition plays a critical role in this regard. The presence of independent and part-time members brings external perspective, professional diversity, and detachment from day-to-day operations. This enables boards to shape decisions rather than merely endorse managerial outcomes. Balanced representation across relevant disciplines, including law, economics, and market expertise, strengthens deliberation and institutional oversight. Institutional independence is further supported through fixed tenures, eligibility criteria, safeguards against arbitrary removal, and post-tenure restrictions.[8]

Proportionality and discipline in enforcement

Regulatory capacity is tested in enforcement. If sanctions are imposed without regard to intent, scale, duration, or harm, enforcement risks becoming checkbox compliance rather than advancing regulatory objectives. A robust enforcement architecture, therefore, requires proportionality to be embedded in institutional design. Proceedings should culminate in a single, reasoned determination of contravention, enabling calibrated use of penalties, disgorgement, remedial directions, or suspensions based on clearly articulated aggravating and mitigating factors. Interim measures should remain preventive, time-bound, and subject to safeguards.

Due process as an operational norm

As regulators exercise powers analogous to those of a civil court, procedural fairness becomes an essential component of regulatory capacity. Capacity is weakened when enforcement proceeds without full disclosure of material relied upon or when adjudicatory outcomes are inadequately reasoned.

Democratic anchoring and transparency

Regulatory autonomy without democratic anchoring risks eroding trust. Regulatory capacity, therefore, depends not only on expertise and independence, but also on transparency and

7 M S Sahoo and V Anantha Nageswaran. Business Standard. The Securities Markets Code: Regulatory Governance, Finally Codified. https://tinyurl.com/nhk54bnj

8 M S Sahoo and V Anantha Nageswaran. Business Standard. Regulatory architecture 2.0: Securities Markets Code marks a decisive shift. https://tinyurl.com/3d3nhyem

accountability to representative institutions. Statutory publication of regulations, subsidiary instructions, enforcement orders, and governance decisions, along with parliamentary laying and periodic review, situates regulatory action within a democratic framework while preserving operational independence.

Delegated regulatory capacity within a principal-agent hierarchy

Modern regulatory systems operate through layered delegation rather than direct command. As analysed by Braun and Gilardi,[9] democratic governance functions as a chain of principal-agent relationships, beginning with citizens and extending through legislatures, the executive, and specialised regulatory institutions. Each step in this chain involves a transfer of authority accompanied by risks of agency loss, making institutional design, constraints on discretion, and oversight mechanisms central to regulatory capacity. Regulatory effectiveness depends on how delegation is bounded, monitored, and overseen. Recent statutory experience under the Securities Markets Code, 2025, illustrates this approach by empowering market infrastructure institutions as statutory actors, while subjecting delegated authority to due process, transparency, and parliamentary oversight.[10] In this context, Chapter 3 (Box III.6) offers a detailed discussion of the Securities Markets Code, 2025.

Building Regulatory Capacity - School for Regulations

16.122. A significant gap persists in the availability of human resources capable of ensuring the efficient functioning of a market economy. While academic institutions have tailored traditional courses in law, economics, accounting, and management to address the demands of a market economy, a dedicated, comprehensive, and structured programme aimed at building regulatory capacity remains elusive. Consequently, regulators and businesses rely on professionals trained in conventional disciplines, often requiring extensive adaptation.

16.123. Regulators need experts capable of balancing freedom with oversight, while businesses require professionals who can harness this freedom to drive growth while adhering to regulations. With the right talent in place, regulators, businesses, and professional firms could better appreciate each other's perspectives, fostering collaboration and significantly improving the overall ease of doing business. This calls for an institutional arrangement that cultivates a cadre of professionals adept in regulatory design and implementation to improve the ease of doing business. Schools of Regulatory Studies could be established either as new stand-alone institutions or as additions to existing institutions.

9 Braun, D., & Gilardi, F. (Eds.). (2006). Delegation in contemporary democracies. London: Routledge. https://tinyurl.com/5n6h4atz

10 M S Sahoo and V Anantha Nageswaran. Business Standard. When market infrastructure institutions start becoming the state. https://tinyurl.com/7nmnhprd

Responsible Regulation

16.124. The recruitment process for full-time members of regulatory agencies and tribunals has predominantly drawn upon candidates with prior experience in government, particularly those with long tenures in public administration. At the same time, to build sustained expertise, regulators and regulatory tribunals should attract professionals at a younger age to pursue dedicated careers. Regardless of the age at which they join, appointees should serve until the standard retirement age for government service. This would ensure a steady infusion of expertise and independence, equipping these institutions to meet the demand.

16.125. State authorities operate through layered hierarchies, where each level can revisit and revise the decisions of the level below, even after implementation. Crucially, such revisions occur without any institutional accountability for the disruption caused. Each authority can afford to be wrong, repeatedly, without consequences. This asymmetry undermines the integrity of the resolution process. If regulated entities must act decisively and face the consequences of their actions, why should state authorities not be subject to similar standards of responsibility and finality? If business decisions can be made in one go, there is no reason state approvals cannot be the same.

16.126. The interests of business and the economy demand certainty in commercial transactions. These should, at most, require approval by a single designated authority. Once granted, such approval should be final. Of course, finality of approval pertains to transactional certainty, not to immunity from investigation, sanction, or corrective action where fraud, misrepresentation, environmental harm, or violation of law is subsequently established. This principle must form the bedrock of all economic regulatory frameworks. Rigorous oversight is essential to deter misconduct and hold wrongdoers accountable. However, such oversight must be disentangled from the validity of commercial transactions once they have been lawfully approved or deemed approved. A streamlined, single-tier approval process, coupled with institutional accountability for any lapses, is essential for an economy aspiring to be a developed country.

16.127. Most regulatory processes, including approvals, investigations, enforcement actions, disputes, and appeals, are driven by money. Delays, therefore, impose real economic costs. To address this, decisions must be subject to strict timelines, with provisions for deemed approvals when authorities fail to act within prescribed periods. Under the Competition (Amendment) Act, 2023, the Competition Commission of India (CCI) now operates with shorter statutory review timelines for mergers and combinations. The overall review period has been reduced from 210 to 150 calendar days, and the CCI is required to form a preliminary (prima facie) opinion within 30 calendar days of notice. This amendment, which deems combinations approved if not decided within a fixed timeframe, provides a useful precedent.

16.128. Economic laws should specify timelines for every stage of regulatory action, with consequences for non-compliance. Just as obstructing a public servant is penalised, failure by authorities to deliver services within mandated timelines should be treated as an obstruction to economic activity. Moving from discretionary, open-ended processes to enforceable deadlines is essential for embedding respect for the time value of money within the regulatory system.

16.129. Having examined the institutional design and accountability of the regulatory state, it is equally necessary to examine how private economic actors respond to, and shape, this institutional environment.

The Private Corporate Sector and Nation-Building

16.130. Even a well-designed regulatory architecture cannot generate state capacity in isolation. Regulatory institutions operate within a broader political-economic equilibrium shaped not only by law and administration, but by the behaviour of the actors they regulate. In India, the private corporate sector is not merely a subject of regulation; it is a structural participant in the incentive environment that determines whether the state upgrades its capacity or governs through discretion.

16.131. The large Indian corporate sector occupies an intermediate position between two historical archetypes. It has not functioned as a developmental partner to the state in the manner seen in late-industrialising East Asia, where firms actively demanded state competence and discipline. Nor has it behaved like the arm's-length, rules-bound corporate sector typical of mature Western economies. Instead, it operates in a hybrid zone where rents are available, enforcement is uneven, and political mediation substitutes for market discipline. Three structural characteristics define this equilibrium.

16.132. First, there is a relative lack of willingness and appetite to invest efforts towards long-term risk absorption and becoming globally competitive. Regulatory arbitrage, protected margins, and firm-specific accommodations often dominate productivity enhancement, scale competition, or learning-by-doing. This preference is rational in an environment where downside risks are socialised through bailouts, banking forbearance, tariff protection, or retrospective renegotiation. A corporate sector that externalises risk to the state does not exert pressure for higher state capacity; instead, it generates demand for discretion. Discretion, in turn, corrodes rule-based institutions.

16.133. Second, capital allocation horizons remain short. Despite notable exceptions, Indian corporate investment is characterised by low R&D intensity, caution in frontier manufacturing, and concentration in real estate–linked, regulated, or quasi-monopolistic sectors. This reflects not merely culture, but governance structures—family control, succession orientation, weak managerial labour markets, and underdeveloped long-horizon capital. When firms do not require fast courts, skilled labour at scale, or predictable regulation to generate returns, they cannot function as a forcing mechanism for institutional upgrading. Comparative experience shows that corporates induce state upgrading only under specific conditions, when productivity is the sole path to survival (See Box XVI.8).

Box XVI.8: Profit, Capability and National Purpose: International Precedents

The historical record provides numerous instances where business leaders and firms acted not merely as profit-seeking entities but as institutional partners in broader national projects, particularly during periods of reconstruction or strategic transformation.

In post-war America, the corporate sector internalised a nation-building role in two overlapping arenas: reconstruction abroad and technology-industrial leadership at home. Large manufacturers such as General Motors, Ford, and Caterpillar were not only rebuilding their balance sheets but also supplying machinery, vehicles, and industrial equipment that underwrote the Marshall Plan's reconstruction of Europe.

Their participation was commercially profitable, yet it simultaneously advanced an explicit American objective of stabilising allies, rebuilding markets, and containing communism. The post-war research orientation of companies such as Bell Labs, IBM, and RCA similarly reflected a fusion of corporate strategy and national purpose. Investment in semiconductors, computing, communications, and aerospace served the Cold War technological race but also generated foundational public goods in science and engineering. Senior executives frequently framed these choices in civic language — as duties to "national strength" and "modernisation" — and willingly accepted long investment horizons and collaboration with universities and federal laboratories. The American private sector's role in the interstate highway system, defence contracting, and space exploration likewise married commercial incentives with a shared understanding that corporate capacity was an instrument of national modernity and geopolitical credibility.

West Germany's story after 1945 illustrates a different but related ethic. The rebuilding of German industry occurred in a context where corporate leaders explicitly embraced "*Soziale Marktwirtschaft*," the social market economy, as a moral and national settlement. Firms such as Siemens, BASF, and Volkswagen operated under strong expectations of codetermination, vocational training, and wage-productivity bargains that supported social stability and rapid reconstruction. Their export orientation was not presented as narrow profit maximisation but as a route to restoring Germany's legitimacy, rebuilding employment, and anchoring the country within Europe. Business federations worked closely with regional banks and the *Mittelstand*, accepting constraints on price behaviour and capital allocation to sustain production, apprenticeships, and technological upgrading. In effect, the private sector absorbed part of the burden of national rehabilitation, treating competitiveness and social cohesion as mutually reinforcing obligations.

Japan's post-war industrialisation offers another powerful example of how private enterprise internalised national purpose. Major firms organised within keiretsu groupings pursued profits, but they also accepted coordinated investment, export discipline, and technology-acquisition strategies aligned with national upgrading ambitions. Companies such as Toyota, Sony, and Nippon Steel invested heavily in process quality, productivity, and engineering even when short-term returns were uncertain. Corporate leaders publicly cast these choices as contributions to Japan's recovery and international standing, and there was a strong cultural framing of the firm as a national institution rather than merely a private property. The "catch-up" imperative created a moral economy in which managerial prestige was tied to moving the nation up the technological ladder, not simply to dividend payouts. Even intense domestic competition operated within this shared horizon of national advancement.

The later East Asian experiences in Korea, Taiwan, and Singapore similarly reveal business traditions that bound private gain to national transformation. In Korea, the rise of the chaebol — Samsung, Hyundai, LG — is often described in terms of state guidance. Still, it is equally a story of corporate elites internalising an export-national mission. These firms took on highly leveraged investments, diversified into technologically demanding industries, and accepted exposure to international competition as proof of national capability. Senior leadership routinely articulated performance in terms of patriotic achievement, and internal cultures emphasised sacrifice, discipline, and organisational loyalty as national virtues. Profitability remained essential, but prestige was derived from elevating Korea's industrial status and earning foreign exchange for the country.

Taiwan offers a contrasting but complementary pattern. Its industrialisation was powered less by conglomerates and more by dense networks of small and medium-sized firms embedded in local communities and global supply chains. These enterprises frequently reinvested surpluses in skills, machinery, and export learning, and treated participation in the island's transformation as a civic project. Business associations coordinated standards, technology diffusion, and supplier upgrading in ways that strengthened collective competitiveness rather than merely protecting individual margins. The private sector thus functioned as the backbone of a wider developmental coalition, with entrepreneurial success imagined as a contribution to national resilience and external security.

Singapore's case highlights yet another modality of alignment between corporate strategy and national interest. Private firms operated alongside government-linked companies and sovereign investment arms, but many domestic and multinational enterprises internalised the city-state's ethos of excellence, reliability, and global trustworthiness. Businesses adopted rigorous standards, workforce development, and long-term investments in logistics, finance, and advanced manufacturing because these were understood to serve not only corporate interests but also Singapore's reputation and survival as a small, trade-dependent nation. Corporate leaders often spoke in the idiom of stewardship: firms were expected to be custodians of national credibility in global markets, and commercial behaviour was evaluated accordingly.

Across these very different contexts, what stands out is not uniform policy design but a shared moral framing of enterprise. Business leaders viewed their firms as institutions embedded in a national project, and willingly accepted constraints, risks, or long-term horizons when these advanced collective goals, such as reconstruction, technological upgrading, export capability, social stability, or geopolitical standing. Profit and national interest were not seen as antagonists to be reconciled after the fact, but as dimensions of the same vocation.

National transformation is most durable when business leaders see themselves not merely as beneficiaries of growth but as trustees of a larger developmental project. The most successful corporate histories in post-war America, Germany, Japan, and East Asia were marked by firms that invested ahead of immediate returns, treated technological capability and workforce upgrading as civic obligations, and derived legitimacy from strengthening national resilience, enhancing export competitiveness, and promoting social stability. Their pursuit of profit was not suspended; rather, it was embedded within a moral economy in which reputation, prestige, and long-term value were tied to advancing national capability rather than extracting short-term gains. The underlying ethic was one of stewardship: firms imagined themselves as institutions of the nation, not just participants in its markets.

For India, this implies a private sector that is willing to accept longer investment horizons in innovation, skills, and quality; one that treats formalisation, productivity, and technological deepening as collective goods rather than optional strategies; and one that recognises its role in shaping social trust and institutional credibility. It calls for business leadership that is comfortable with competition at global standards, that reinvests success into capability building rather than financial engineering, and that frames corporate ambition in terms of what it does for India's productive base, employment quality and international standing. In a society undergoing rapid structural change, the private sector's legitimacy will increasingly rest on its ability to marry commercial dynamism with a conscious contribution to nation-building, not as a slogan, but as a guiding discipline in strategy, capital allocation and organisational culture.

16.134. Third, political economy experience shows that when firms cannot rely on protection, discretion, or rent extraction and must compete on productivity, quality, and export performance, they develop a direct interest in strong, predictable, and impartial public institutions. In this sense, productive firms can act as a forcing mechanism for higher state capacity.

16.135. Yet, state capacity is not shaped by firms alone. Public institutions ultimately operate through everyday interactions with individuals and households, whose compliance behaviour, expectations of fairness, and willingness to engage with formal systems are equally decisive. The private sector, therefore, must be understood not only as a collection of enterprises, but also as a society of citizens. It is to this broader societal role in achieving *Viksit Bharat* that we now turn.

Citizens, norms, and the social foundations of capability

16.136. If the private corporate sector co-shapes the incentive environment in which state capacity evolves, citizens shape it even more pervasively through the daily norms that determine whether public systems must rely on enforcement or can function through internalised responsibility.

16.137. The Indian state today operates under intense pressure: to deliver growth, manage distributional conflict, maintain macroeconomic stability, absorb geopolitical shocks, and prepare for technological disruption, all while operating within democratic, judicial, and media constraints. In such an environment, the cost of enforcement rises sharply. Every rule that must be policed rather than internalised, every policy that must be coerced rather than complied with, every reform that is litigated socially before it is debated intellectually, consumes scarce administrative bandwidth. This is where the behaviour of citizens, often treated as a secondary or moral question, becomes a primary variable in political economy.

16.138. In a world that is changing faster than most people can fully process, the role of citizens is no longer limited to voting, paying taxes, or following rules. It shows up in the way people live their daily lives, how they learn, how they treat their work, how they care for their bodies and minds, how they handle disappointment, and how they think about the future of their children. Development, in that sense, is not something that happens "out there", in ministries and boardrooms; it happens in homes, neighbourhoods, workshops, offices, and factory floors, through the quiet habits people build every day.

16.139. Technology is bringing this reality closer to individuals than ever before. For years, people believed that as long as one had a degree and a "respectable" job, the world would not change too much around them. But artificial intelligence has unsettled that comfort. Many kinds of work that once felt secure, such as drafting emails, compiling reports, and processing information, can now be done faster by machines. This does not make people useless; it simply changes where human worth is expressed.

16.140. It shifts value toward things that depend on care, discipline, skill, and judgement, fixing a machine so that a line does not stop, handling a complex delivery schedule without chaos, building something with the hands and taking pride in its finish, working with others calmly when things go wrong. These are not "lesser" forms of work. They are the kinds of work on which reliability rests, and reliability is what allows large systems such as ports, highways, hospitals, power grids to function without constant breakdowns.

16.141. To thrive in such a world, people need to think of learning as a lifelong companion rather than a phase that ends with a certificate. That learning may not always come from courses or formal training. It may come from listening to a younger colleague explain a new tool, from being willing to move into a different role, or from admitting that an old method is no longer the best. The humility to adapt without feeling diminished will be as important as raw intelligence.

16.142. But this transition is not only about skills. It is also about how people hold themselves together in an age that constantly pulls at their attention. Many lives today are lived through screens, constantly scrolling, reacting, and comparing. Over time, this drains energy, leaving people anxious, restless, and prone to anger. When that becomes the emotional climate of a society, it becomes increasingly difficult to sustain effort over extended periods. Work feels heavier, patience wears thin, and everything becomes urgent even when it is not.

16.143. Looking after one's physical health, protecting sleep, finding time for quiet or for exercise, learning to step away from social media before it consumes the day — these are not indulgences. They are forms of self-care that strengthen the ability to work steadily, to think clearly, and to respond with maturity rather than impulse. A society that values reliability must also value the inner stability that makes reliability possible.

16.144. This connects, in a deeper way, to how people think about comfort and sacrifice. Development always involves some trade-off between what feels good now and what pays off later. It may mean waiting at a red light even when the road appears empty, spending a little extra time to do a job properly instead of cutting corners, or accepting inconvenience when a city is being rebuilt. These may look like small inconveniences, but together they create an environment where systems run smoothly rather than constantly fight friction. Where people constantly negotiate rules or look for shortcuts, the state has to tighten enforcement, create more paperwork, and spend energy policing behaviour, which slows everything down and makes everything more frustrating for everyone.

16.145. In India, this tension is visible most sharply in the contrast between how people care for their private spaces and how they behave in the commons. Homes are often kept with great diligence, and personal hygiene and domestic order are observed with discipline and pride. Yet the ethic weakens once one steps outside the door. Streets, drains, railway tracks and vacant plots are treated as spaces without a custodian, and therefore without obligation. Other societies that have fared better on public hygiene, from Sri Lanka to parts of Africa and Latin America, have not produced more fastidious individuals inside their homes. They have raised the moral status of the commons to the level of the household. Public space is seen not as a zone of no responsibility but as an extension of shared life. Where that sensibility takes root, and where the state matches it with predictable collection, maintenance and civic services, behaviour shifts from indifference to stewardship. The difference, in that sense, lies less in individual virtue than in whether collective spaces are experienced as worthy of care. Chapter 15 on urbanisation covered this issue in detail.

16.146. The same logic extends to public money. Handouts and freebies can be a compassionate gesture in the present, especially when people are struggling. But they are not paid by anybody. Much of the cost is pushed into the future through borrowing, and it is the next generation that must work longer and harder to repay it. In an emotional sense, this is easy to forget because the burden is invisible — no one sees the child who will one day pay the interest on today's promises. But the burden is real, and recognising it is part of what it means to act as responsible citizens rather than as short-term beneficiaries.

16.147. None of this is about asking people to become saints or to live lives of constant restraint. It is about recognising that the world India is entering is more competitive, more interconnected, and more technologically driven. It is also a world that rewards steadiness, skill, and maturity. A country cannot scale industries, logistics, or complex supply chains unless millions of people, across thousands of moments every day, show up on time, do their work with care, and hold themselves to standards even when no one is watching.

16.148. The deeper lesson is that capability in a society is co-produced. When citizens experience public systems as reliable, they are more willing to internalise norms of responsibility in shared spaces; when those norms take hold, the state spends less energy on policing and paperwork and more on solving problems that truly require authority and expertise. The commons is therefore not a peripheral arena but a quiet test of alignment between behaviour and institutions. Where private discipline coexists with public indifference, the machinery of the state is drawn into constant enforcement; where the ethic of care extends beyond the household into the civic realm, institutional capacity expands without the need for dramatic reforms or grand programmes. It is in this reciprocal strengthening — between how people live their everyday lives and how systems respond — that the foundations of durable capability are laid.

16.149. When citizens treat learning as a habit, respect physical and technical work, care for their own health and emotional balance, use technology without becoming captive to it, and understand that today's comfort can sometimes become tomorrow's burden, they do more than improve their own lives. They make the state's job easier, reduce the need for constant enforcement, and create the trust on which institutional capacity grows. In that quiet alignment between how people live and how systems function lies the real strength of a society that wants to rise without losing its balance.

Delayed Gratification and the Cost of Impatience

16.150. Another recurring but underappreciated constraint on India's development trajectory is the difficulty of sustaining delayed gratification. Competing in the global big league, whether in manufacturing, logistics, institutions, or elite sports, requires incurring near-term costs for returns that are uncertain, delayed, and often invisible in the short term. Where *delayed gratification* weakens, systems begin to substitute shortcuts for capability, visibility for depth, and speed for learning.

16.151. A common misunderstanding is to treat "working smart" as the opposite of "working hard". In practice, working smart is the *result* of working hard over time. Shortcuts are not discovered first and applied later; they are earned only after long exposure to detail, repetition, and error. One has to put in the hours before one can see which steps can be skipped. One has to learn the full complexity of a task before knowing which details truly matter. And one has to do the work wrong many times before discovering how to do it right. Delayed gratification is therefore not a moral virtue, but a productive capability.

16.152. Recent developments in Indian sport illustrate what happens when this sequence is inverted. Accelerated entry into professional leagues through short-format performance, limited competitive exposure, or social-media visibility has lowered entry barriers and expanded access. Yet it has also weakened the long apprenticeship that builds endurance, judgement, and technique. The costs are not immediately visible, but they accumulate quietly.

16.153. A related manifestation is the persistence of doping violations. Performance-enhancing substances offer immediate gains by bypassing the slow, disciplined work of training, recovery, and incremental improvement. While enforcement and testing matter, the deeper issue is behavioural. When delayed gratification breaks down, systems become vulnerable to shortcuts that deliver short-term results at the expense of long-term credibility. Trust and legitimacy collapse far faster than they can be rebuilt.

16.154. These tendencies are not confined to sport. They mirror everyday practices such as queue-jumping, informal compliance, unsafe construction, and negotiated enforcement that offer convenience to individuals while imposing diffuse and lasting costs on the system. An 'India Today' cover story from the late 1990s characterised the 'Ugly Indian'[11] not as immoral, but as convenience-seeking, willing to bend rules, cut corners, and externalise costs while still aspiring to status and scale. The underlying pattern remains familiar: institutions are created, but the norms that sustain them are weak; laws exist, but compliance is often negotiated; and outcomes are demanded without the corresponding effort.

11 Swapan Dasgupta. India Today. 24 August 1998. The Ugly Indian. https://tinyurl.com/mry8jrj4

16.155. At higher levels of development, growth relies less on ingenuity and more on reliability. Complex systems such as ports, highways, industrial clusters, supply chains, or regulatory institutions function only when millions of small actions align predictably over long periods. This alignment cannot be legislated into existence. It depends on citizens and organisations accepting delayed gratification as an economic necessity rather than a personal sacrifice.

16.156. For state capacity, the implication is direct. An entrepreneurial state cannot be sustained in a society that treats shortcuts as substitutes for learning. Experimentation requires tolerance for early inefficiency; competence emerges only through repetition and correction. Where delayed gratification is socially reinforced, institutions gain the space to learn, adapt, and reverse course without panic. Where impatience dominates, hysteresis sets in: skills decay, institutions forget how to do the hard work, and the cost of rebuilding capability rises sharply.

Deregulation – Institutional capability in action

16.157. The preceding discussion has focused on how state capacity is shaped by human systems (skills, culture, teams, and values), through which public authority is exercised. Yet state capacity ultimately reveals itself not in organisational intent or internal reform alone, but in how institutions function at the interface between the State and economic actors. It is at this interface that coordination failures, procedural rigidities, and risk aversion are most visible, and where improvements in capability translate most directly into economic outcomes. Deregulation and compliance reduction, therefore, offer a concrete and observable test of state capacity in practice, bringing together many of the institutional challenges discussed in this chapter: coordination across agencies, the exercise of discretion under uncertainty, the ability to learn and correct course, and the reorientation of administrative effort from routine policing towards problem-solving and delivery.

16.158. Chapter 5 of the Economic Survey 2024-25 discussed deregulation in operational terms, emphasising the role of States in undertaking systematic deregulation through a review of regulations for their cost-effectiveness, and framing Ease of Doing Business 2.0 as a reform effort that needed to be led at the State level. The chapter highlighted that States function as rule-making authorities across critical areas, including land, building regulations, labour welfare, electricity, and local trade and commerce. It also examined how regulatory mandates, such as permits, price and quantity controls, fees and taxes, inspections, and penalties, impose costs on enterprises by increasing the time, effort, and uncertainty involved in starting or operating a business. This analytical diagnosis provided the basis for moving from problem identification to institutional response. The ongoing Task Force on Compliance Reduction and Deregulation initiative of the Government of India represents the next step in this progression.

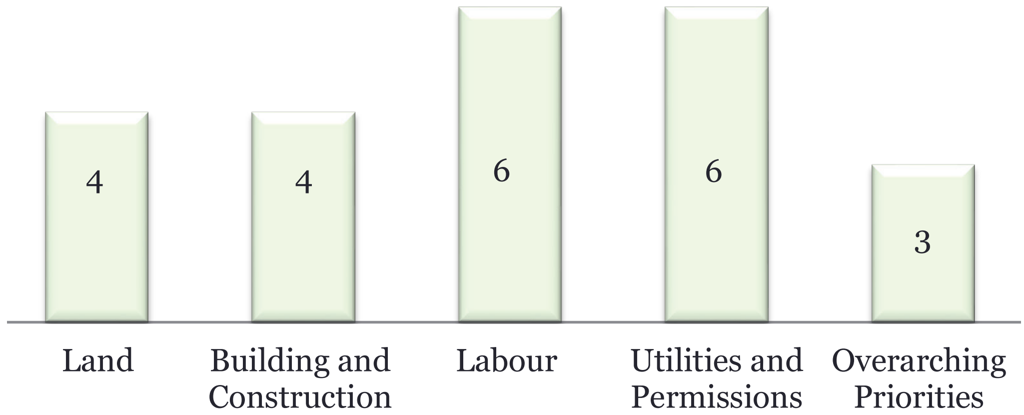
16.159. The Task Force on Compliance Reduction and Deregulation was constituted in January 2025 under the chairmanship of the Cabinet Secretary to drive reforms that simplify regulations and streamline procedures across States and Union Territories. The key objectives include: identifying redundant, overlapping, or outdated compliances and recommending their rationalisation; guiding States in amending laws, subordinate legislations, and procedures to align with principles of minimal regulation; encouraging adoption of standardised reform templates to promote consistency and predictability across jurisdictions; facilitating risk-based compliance frameworks and third-party involvement in inspections especially for micro, small, and medium enterprises; promoting digitisation and integration of all G2B services through an effective country-wide Single Window System linked to the National Single Window System; and documenting best practices of States and international benchmarks for replication and cross learning.

16.160. What distinguishes this exercise from earlier deregulation drives is not only the number of reforms, but the institutional process: cross-agency coordination, iterative problem-solving with States, and real-time learning, which touch the core elements of state capacity discussed in this chapter.

16.161. The Task Force identified 23 Priority Areas across five broad sectors that together account for a large share of regulatory interaction between enterprises and the State. These Priority Areas were identified through extensive consultations with Central Ministries, States, industry associations, and knowledge partners. The sectors include Land Use, Building and Construction, Labour, Utilities and Permissions, and a set of Overarching Priorities (Chart XVI.6). The emphasis has been on reducing procedural complexity without diluting legitimate safeguards.

16.162. Since March 2025, three rounds of Task Force visits have been undertaken, involving interactions with Chief Secretaries, senior officers, and industry associations. Officers from the Cabinet Secretariat, DPIIT, Ministry of MSME, and NITI Aayog formed part of these delegations. Additionally, regular monthly meetings are held between the Special Secretary of the Cabinet Secretariat and the Nodal Officers of the States. This continuous engagement model has reinforced ownership of reforms within State administrations and ensured that implementation challenges are addressed through iterative problem-solving rather than post-hoc assessment.

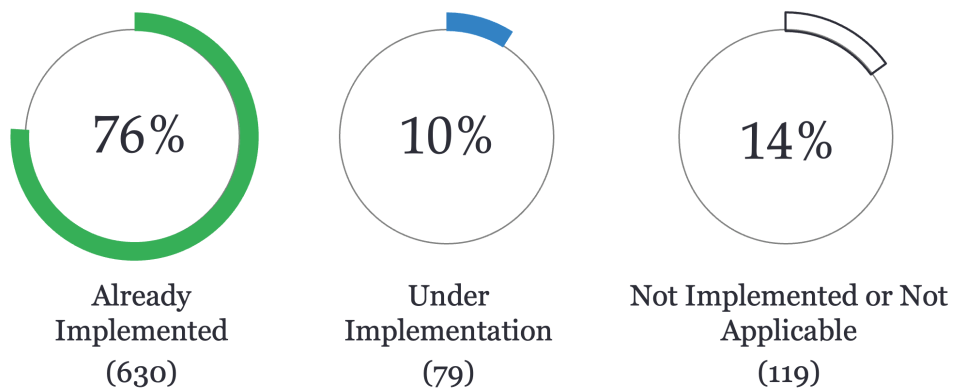
Chart XVI.6: Priority Areas across Five Sectors



Progress and National Scale of Implementation

16.163. The scale of the reform effort reflects both its ambition and its execution discipline. Chart XVI.7 provides an overview of the implementation progress to date. With 36 States and Union Territories expected to implement 23 Priority Areas each, the total number of actionable reforms across the country amounts to 828. As of 23 January 2026, 630 Priority Areas, representing 76 per cent of the total, have already been implemented. Another 79 Priority Areas, accounting for 10 per cent, are under active implementation. A limited number have been identified as not applicable in specific State contexts. Progress is tracked through a digital MIS platform that enables real-time monitoring, the identification of bottlenecks, and the dissemination of best practices, reinforced by regular high-level reviews and monthly monitoring by the Cabinet Secretariat. The cumulative progress of this effort across States and Union Territories is presented in Chart XVI.8, which reflects the implementation status of each priority area based on updates reported through the Task Force's monitoring framework (as on 23 January 2026).

Chart XVI.7: Progress in Implementation (as on 23.01.2026)



Best practices and reforms beyond Priority Areas

16.164. Beyond the identified Priority Areas, several States and Union Territories have undertaken innovative reforms that go beyond the common reform templates, tailored to their specific administrative, economic, and spatial contexts. This demonstrates how the compliance reduction agenda has encouraged States to internalise deregulation as a continuous governance process rather than a checklist exercise. Best practices emerging from States are documented through State-wise dockets and shared on the MIS portal, enabling peer learning and replication across jurisdictions.

16.165. For instance, in Andhra Pradesh and Uttarakhand, the requirement for land conversion or change in land use has been eliminated for specific categories, significantly reducing procedural delays. In Assam, Jammu & Kashmir, Odisha, Puducherry, and Tripura, negative lists have been introduced for mixed land use zones, whereby all activities are permitted unless explicitly prohibited, replacing earlier prescriptive zoning frameworks. These reforms have enabled greater flexibility in land use while maintaining regulatory clarity. In the area of building and development norms, Haryana, Madhya Pradesh, Odisha, Tamil Nadu, Uttar Pradesh, and Uttarakhand have liberalised building bye-laws, and simplified development norms relating to setbacks, Floor Area Ratio (FAR), parking restrictions, and minimum plot area. These measures have reduced land loss, enabled higher utilisation of urban land, and facilitated project execution, particularly for industrial and commercial developments.

16.166. Several States have expanded the use of third-party inspections and self-certification to reduce regulatory bottlenecks. Chhattisgarh, Mizoram, Rajasthan, Tripura, and Uttar Pradesh have introduced third-party inspection mechanisms for building plan approvals. For environmental clearances, Andaman & Nicobar Islands, Andhra Pradesh, Goa, Tamil Nadu, and Uttarakhand have enabled self-certification and third-party certification for Consent to Operate, reducing dependence on routine departmental inspections. In the labour domain, Bihar, Gujarat, Odisha, Maharashtra, and Telangana have removed restrictions on women working in a wider range of industries and commercial establishments. Fire safety regulations have also been streamlined through the use of accredited third parties in Assam, Odisha, Telangana, and Tripura. Chhattisgarh, Gujarat, Haryana, Karnataka, and Uttar Pradesh have introduced State-level Acts similar to the Jan Vishwas Act, repealing outdated provisions, amending legacy statutes, and decriminalising minor offences. These reforms have reduced the fear of penal action for procedural non-compliance and reinforced trust-based regulation.

Case Studies from Tripura, and Andaman & Nicobar Islands

16.167. The impact of deregulation is evident in State-level case studies. In the Andaman and Nicobar Islands, the introduction of an online process for Change in Land Use led to the disposal of hundreds of applications within months, the creation of additional tourism capacity, and a visible improvement in household and entrepreneurial credit flows. In Tripura, a comprehensive reform programme covering land, building regulations, labour, utilities, and overarching statutes has delivered measurable results. Following the Rising Northeast Investors Summit 2025, a substantial number of Memoranda of Understanding have progressed to implementation, with Tripura accounting for a significant share of the total investments committed to the Northeast. These outcomes reflect the cumulative impact of systematic deregulation, institutional coordination, and sustained engagement with industry. These experiences demonstrate how systematic deregulation translates administrative reform into improved economic outcomes.

16.168. The outcomes of the Compliance Reduction and Deregulation Initiative are visible in reduced compliance burdens, faster approvals, greater reliance on digital processes, and improved predictability for businesses. More importantly, the initiative demonstrates how deregulation, when pursued as a continuous governance process rather than a one-off exercise, strengthens state capacity itself. By lowering friction at the interface between firms and the State, administrative energy is redirected from routine policing towards coordination, monitoring, and problem-solving.

16.169. Outcomes of Phase I are encouraging. The experience of Phase I illustrates a broader lesson of this chapter: that state capacity is built not only through new institutions or additional controls, but through disciplined removal of frictions that impede productive activity. Phase II of the Compliance Reduction and Deregulation initiative was rolled out in January 2026 to cover additional priority areas, including land, building and construction, utilities and permissions, environment, education, health, labour, and overarching reforms.

16.170. The current phase of deregulation demonstrates how disciplined removal of friction can strengthen state capacity at scale. India's development history also evidences how phases emphasising facilitation, neutrality, and ecosystem-wide public goods proved successful. In other words, India is no stranger to the 'entrepreneurial state' which was discussed and defined in Part I of the chapter under the section titled 'The Common Thread: The Entrepreneurial State'. It simply has to rediscover that spirit. The transformation of India's software industry illustrates this with particular clarity (Box XVI.9).

Box XVI.9: What visionary bureaucracy can achieve: India's case experience from "Produce and Protect" to broad-based industry promotion

India's experience in developing a globally competitive software industry illustrates a distinctive mode of state capacity in action. From the 1960s to the early 1980s, the electronics and computing sector was governed by a "produce and protect" regime, characterised by state-owned enterprises, import substitution, and pervasive controls over private and foreign participation. Despite substantial public investment, the state proved unable to coordinate production, technology selection, and market development, resulting in fragmentation, delays, and weak outcomes.[12]

A decisive shift occurred in the mid-1980s, when the state moved away from direct production and protection towards broad-based industry promotion. Rather than withdrawing from the sector or selecting national champions, public policy focused on reducing regulatory barriers, enabling private entry, and lowering ecosystem-wide costs. This included recognising software as an industry, easing foreign exchange and import restrictions for exporters, investing in technical education, expanding telecommunications infrastructure, and creating technology parks that offered reliable power, connectivity, and single-window clearances.

The shift to industry promotion was accompanied by changes in leadership and administrative orientation. Senior officials more open to private initiative and foreign participation were deputed in the Department of Electronics. At the time, a growing cohort of Indian expatriates trained at the IITs and holding executive positions in U.S. technology firms, recognised India's technical talent but remained wary of the country's restrictive regulatory environment, particularly in the aftermath of IBM's exit in 1978. With the change in policy stance, foreign firms began to test India's openness. In 1985, the government approved Citibank's proposal to establish a private satellite link to support remote software services, followed shortly by a similar approval for Texas Instruments to set up an offshore software development centre in Bangalore. Reflecting the extent of regulatory flexibility exercised during this phase, N. Seshagiri, one of the original members of the Bhabha Committee and later the principal adviser on electronics policy to the Prime Minister of India, candidly observed that "*we broke 26 separate rules to accommodate Texas Instruments' Bangalore subsidiary and are willing to break more*."[13]

Crucially, these promotional policies were neutral across firms and scale. They did not privilege individual incumbents, nor did they insulate domestic players from competition. Instead, they supported the industry as a whole, allowing multiple firms to emerge, compete, and integrate with global markets. The result was a fragmented yet dynamic ecosystem that proved resilient, innovative, and export-oriented.

12 Dinsha Mistree. Stanford Law School Working Paper Series. From Produce to Protect to Promoting Private Industry: The Indian State's Role in Creating a Domestic Software Industry. https://law.stanford.edu/wp-content/uploads/2019/12/Mistree-Making-Electonics-in-India.pdf

13 SIPA News (1988), quoted in Evans (1989)

This experience underscores that effective state capacity does not require pervasive control or discretionary intervention. When institutional effort is redirected from protection and micromanagement towards facilitation, coordination, and provision of public goods, the state can shape outcomes decisively while preserving competition and private initiative.

Conclusion

16.171. India's recent economic performance has demonstrated that macroeconomic stability and growth can be sustained even in a turbulent global environment. But this chapter has argued that the nature of the challenge now facing India is changing. In a world marked by geopolitical fragmentation, contested trade, volatile capital flows, and rapid technological shifts, growth by itself is no longer the binding constraint. What increasingly differentiates countries that merely absorb shocks from those that shape outcomes is the depth and quality of their state capacity.

16.172. The first part of the Chapter locates this challenge in the global context. It argued that India's transition from Swadeshi to strategic resilience, and ultimately to strategic indispensability, will be determined not only by how fast the economy grows, but by whether domestic capabilities become embedded in global production systems in ways that enhance reliability, learning, and external stability. Strategic resilience rests on the State's ability to anticipate vulnerabilities, coordinate across institutions, and respond under stress without disorder. Strategic indispensability demands more: the capacity to build capabilities that others depend upon, making India a source of stability and value rather than only a participant in global markets.

16.173. The second part of the chapter examined what this requirement implies institutionally. It showed that state capacity is not a single reform or a single institution, but a composite outcome shaped by how decisions are made, how risk and failure are managed, how administration is organised around outcomes, how regulation is designed and implemented, and how incentives influence the behaviour of firms and citizens. Weakness in any one of these dimensions can negate progress in others. Capacity is therefore not built by proclamation, but through steady alignment across institutional systems.

16.174. Equally, the chapter has emphasised that state capacity is not produced by the State alone. It is co-created through the everyday behaviour of firms and citizens. Where firms compete by building productivity, scale, and technological capability rather than by seeking protection or negotiation, the demand placed on the State shifts from discretion to competence. Where citizens internalise compliance and care for shared systems, enforcement burdens fall and administrative effort can be redirected toward coordination and delivery. Where these alignments hold, institutional performance improves even without expanding the size of government.

16.175. The experience with Compliance Reduction and Deregulation Initiative illustrates this logic in practice. Deregulation, when pursued as a continuous and coordinated governance process, is not a retreat of the State but a strengthening of it. By simplifying rules, clarifying responsibilities, and making processes predictable and time-bound, administrative effort is shifted away from low-value policing toward problem-solving, monitoring, and execution. In this sense, deregulation becomes not only a pro-business reform, but a mechanism for building state capacity itself.

16.176. The broader lesson is that India's movement from Swadeshi to strategic resilience, and from resilience to strategic indispensability, cannot be achieved through insulation alone. Intelligent indigenisation requires discipline, outward orientation, and credible exit. Manufacturing, exports, and participation in global value chains act as institutional stress tests, exposing weaknesses that sheltered activities can conceal. Success in these domains depends as much on the quality of institutions as on capital, incentives, or intent.

16.177. In a more uncertain world, risk is unavoidable. The advantage lies in managing it better. Countries that can act before certainty emerges, correct course without paralysis, and align incentives across the State, firms, and citizens are better placed to convert growth into influence. State capacity is therefore not an administrative concern at the margin. It is the foundation on which strategic resilience is built and the pathway through which strategic indispensability becomes possible.

"*If India is to truly fulfill its potential, it must move from a 'Ruler's Raj' to a 'Citizen's Raj'*."

— Sir Mark Tully, 9th Nani Palkhivala Memorial Lecture, Chennai, February 12, 2011

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