

Regulations to Facilitate Freedom, Not Friction



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Clockwise from the left:
Amit Kapoor & Amitabh Kant

INNOVATION IS THE FUNDAMENTAL driver for economic prosperity, and the work of this year's Nobel Prize laureates, Joel Mokyr, Philippe Aghion and Peter Howitt, reaffirms this. Their work reminds us that progress does not happen by accident; it requires an ecosystem that fosters innovation and dismantles any barriers on the way.

In that spirit, as India advances toward its aspiration of becoming a global economic powerhouse, the role of regulation cannot simply be about enforcement. It must be reimagined as something far more strategic. Should regulation act solely as a shield protecting trust, transparency and fairness or as a sword that is arbitrary, punitive and stifles ambition?

Innovation Must Be the Engine

Every rising economy reaches a moment when old systems can no longer support new ambitions. India is at that moment now. For sustainable growth and inclusive prosperity to become a reality, innovation must be the engine, and for innovation to thrive, regulation must serve as an enabler instead of a barrier. It must open doors, encourage experimentation, foster competition, and enable

opportunities.

This stance is reinforced by global evidence: countries with strong innovation ecosystems, such as Switzerland, the USA, Singapore and China, consistently outperform peers in productivity and competitiveness. For India, where the technology and innovation economy is projected to reach \$1 trillion by 2030, fostering innovation is thus non-negotiable.

Excessive Compliance Burden

While innovation flourishes only in a business environment marked by policy predictability, clarity, and transparency, Indian companies currently face 69,233 compliances across 1,536 laws. This results in an excessive compliance burden that represses entrepreneurial spirit. So, to unlock India's potential, it must unshackle enterprises from regulatory overreach.

Historically, regulations in India have leaned toward control, epitomised by the Licence Raj, and sector-



specific restrictions such as industrial licensing and import controls. While the 1991 economic reforms dismantled most of this, remnants persist. This approach is not the most appropriate for a dynamic \$4 trillion Indian economy, aiming to reach \$10 trillion by 2035.

Better Regulation

The question, therefore, is not whether India needs regulation. It absolutely does! But what kind of regulation it needs is a more imperative question. After all, reform is not about less regulation; it is about better regulation. So, adaptive frameworks that safeguard trust while catalysing innovation, ensuring that In-

dia's growth is inclusive, competitive, and future-ready, are the need of the hour. For the same, regulators must evolve from instruments of control to developmental bodies that enable markets, protect consumers and catalyse innovation.

Global Best Practices

However, India's regulatory architecture cannot evolve in isolation. Global best practices offer valuable lessons on how regulation can enable innovation rather than impede it, and India must draw inspiration from these models. But how do we translate these lessons into actionable reforms? The answer lies in five foundational pillars.

Firstly, institutionalising Regulatory Impact Assessments (RIAs) can enhance transparency, reduce unintended consequences, and promote accountability by grounding regulations in evidence. For example, Australia's RIA process requires a minimum of three policy options, each supported by quantified cost-benefit

analysis. In line with it, India's *Economic Survey 2024-25* recommends that financial regulators implement RIAs. Autonomous offices can be created within regulators, mandated to report directly to the board rather than management. This would ensure independence and integrity in regulatory decision-making.

Secondly, separating powers within regulators can reduce conflicts of interest. Presently, many Indian regulators combine rulemaking, enforcement, and adjudication functions, creating a self-reinforcing ecosystem with inadequate checks. To address this, regulators must be restructured into three distinct wings: rule-making, enforcement, and adjudication, with independent tribunals stepping in where internal separation is not feasible. This structural reform will strengthen accountability and fairness.

Compliance Burden on MSMEs

Moreover, presently, India's regulatory framework imposes uniform compliance requirements on businesses regardless of size or risk profile. Thus, MSMEs, accounting for 30 per cent of GDP and employing over 110 million people, face disproportionately high compliance burdens compared to larger firms. Moving toward risk-based, proportionate regulation can ease this burden. Switzerland offers a compelling example, where a firm's risk profile

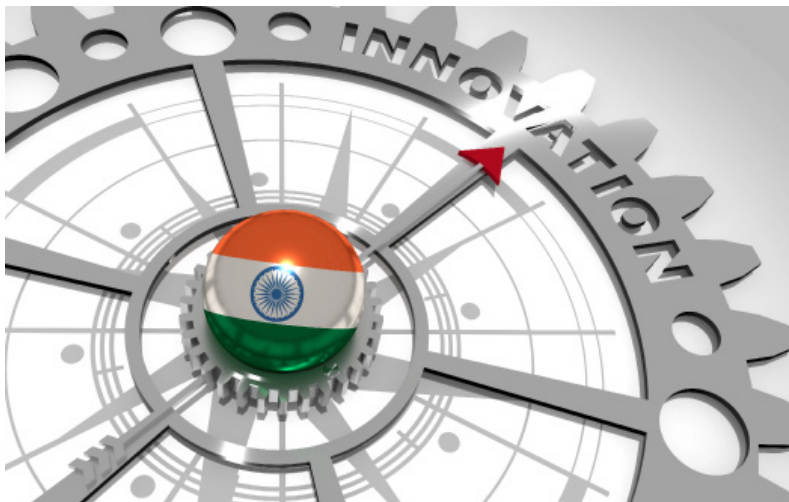


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Lastly, as India's regulatory landscape is burdened with over 1,500 laws and 69,000 compliances, many of which are redundant or overlapping, the country should aim to reduce its regulatory stock. Global precedents demonstrate the power of decisive action. During the Asian Financial Crisis in 1998, South Korea's Regulatory Reform Committee (RRC) cut regulations by half within a year by mandating registration of all regulations and setting clear reduction targets

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is assessed based on sector, size, and security considerations, and regulatory intensity is tailored accordingly. India can adopt a similar data-driven approach.

Stakeholder Engagement in Policymaking

As effective regulatory policy is rooted in dialogue, embedding stakeholder engagement in policymaking is pivotal. However, presently, stakeholder engagement in India is limited to consultations on draft rules. Global models show a better way. Denmark's Business Regulation Forum (DBRF) and the US Commodity Futures Trading Commission's Market Risk Advisory Committee (MRAC) are statutory bodies that meet regularly, evaluate major rule changes, and flag duplicate regulations. They conduct *ex-ante* and *ex-post* reviews for continuous regulatory improvement. Indian regulators can also empower such committees beyond advisory roles, granting them real influence over regulatory agendas.

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"one-in-two-out" approach, requiring removal of two regulations for every new one introduced, is another model India could consider.

Vibrant Startup Movement

Eliminating regulatory intervention that hinders innovation can also pave the way for a vibrant startup movement in India that demands freedom and not friction. India boasts of the world's third-largest startup ecosystem, with 1.59 lakh startups, including over 100 unicorns. Yet, regulatory friction remains a major bottleneck. Simplifying approvals, rationalising tax structures, and eliminating outdated norms can accelerate India's ambition to become the largest startup hub globally within five years.

Cutting procedural red tape can unlock economic momentum and attract global capital. The future of economic growth and development thus demands a regulatory architecture that empowers India to lead the world in innovation, enterprise, and inclusive growth. The message is clear: growth needs innovation, and innovation needs freedom, and so, regulations must enable, not control. This is not a choice; it is an imperative! **BW**

● *With inputs from Ananya Khurana, Senior Researcher at the Institute for Competitiveness*

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