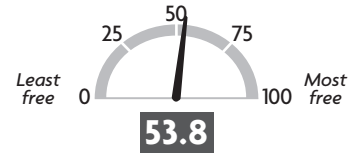


INDIA

Economic Freedom Score



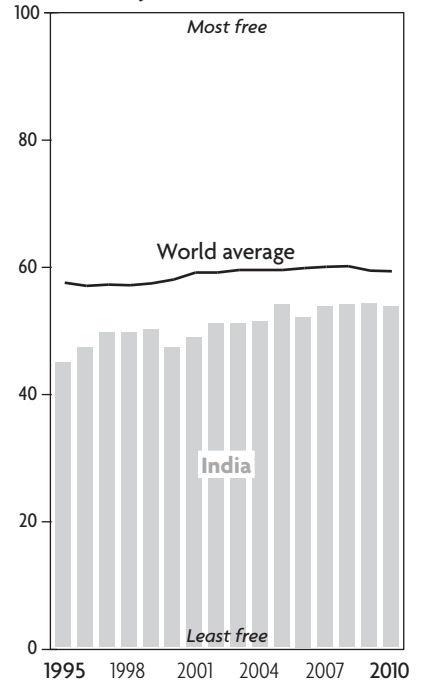
World Rank: **124** Regional Rank: **24**

India's economic freedom score is 53.8, making its economy the 124th freest in the 2010 *Index*. Its score is 0.6 point lower than last year as a result of declines in freedom from corruption, business freedom, and monetary freedom. India is ranked 24th out of 41 countries in the Asia-Pacific region, and its overall score is below the world average.

India continues to move forward with market-oriented economic reforms and has achieved average growth of about 9 percent over the past five years. The economy has been driven by information technology and other business process sectors. Despite sluggish progress in reducing onerous non-tariff barriers, the trade regime has gradually become more open, with its average tariff rate decreasing.

The state still plays a major role in over 200 public-sector enterprises. Public debt is 80 percent of GDP, leaving little fiscal room to react to the global downturn. India's overly restrictive regulatory environment does not facilitate entrepreneurship or realization of the economy's full potential. Corruption is pervasive, and the judicial system remains inefficient and clogged by a large backlog of cases. Labor freedom is especially weak, with rigid regulations a costly impediment to further economic growth and job creation.

Country's Score Over Time



BACKGROUND: India is the world's most populous democracy and one of Asia's fastest-growing economies. Its 1991 "big bang" liberalization ended decades of cumbersome regulations and protectionism, and the economy has since grown rapidly, first in services and more recently in manufacturing. The Congress Party government was re-elected to another five-year term in May 2009 on a populist platform that included a social welfare scheme that guarantees employment for rural households. Though over 80 percent of the population is Hindu, the country has one of the world's largest Muslim populations. Conflict with Pakistan over Kashmir, which has simmered since independence and twice boiled over into war, continues unresolved.

Quick Facts

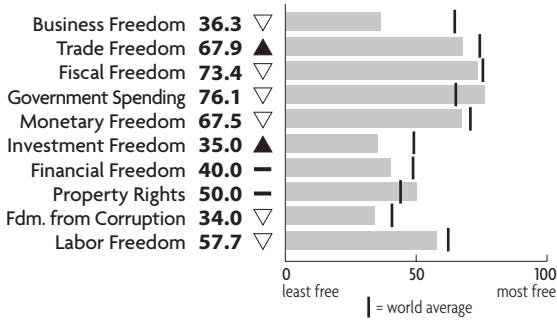
- Population:** 1.1 billion
- GDP (PPP):** \$3.4 trillion
 - 7.1% growth in 2008
 - 8.9% 5-year compound annual growth
 - \$2,972 per capita
- Unemployment:** 6.8%
- Inflation (CPI):** 8.3%
- FDI Inflow:** \$41.6 billion

2008 data unless otherwise noted
Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

INDIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 36.3

The overall freedom to start, operate, and close a business remains restricted by India's regulatory environment. Starting a business takes an average of 30 days, compared to the world average of 35 days. Obtaining a business license requires more than the world average of 18 procedures and 218 days.

TRADE FREEDOM — 67.9

India's weighted average tariff rate was 6 percent in 2008. Large differences between bound and applied tariff rates, import and export restrictions, services market access restrictions, import taxes and fees, complex and non-transparent regulation, onerous standards and certifications, discriminatory sanitary and phytosanitary measures, restrictive import licensing, domestic bias in government procurement, problematic enforcement of intellectual property rights, export subsidies, inadequate infrastructure, and complex and non-transparent customs add to the cost of trade. Twenty points were deducted from India's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 73.4

India's tax rates are relatively high. The top income and corporate tax rates are 33.99 percent (30 percent plus a 10 percent surcharge and a 3 percent education tax on that total). Other taxes include a dividend distribution tax, a tax on interest, and a value-added tax (VAT). In the most recent year, overall tax revenue as a percentage of GDP was 18.8 percent.

GOVERNMENT SPENDING — 76.1

Total government expenditures, including consumption and transfer payments, are relatively low. In the most recent year, government spending equaled 28.2 percent of GDP.

MONETARY FREEDOM — 67.5

Inflation has been relatively high, averaging 7.7 percent between 2006 and 2008. The government subsidizes agricultural, gas, and kerosene production; applies factory, wholesale, and retail price controls on "essential" commodities, 25 crops, services, electricity, water, some petroleum products, and certain types of coal; and controls the prices of 74 bulk drugs that cover 40 percent of the market. Another 354 drugs are to be brought under controls by a new pharmaceutical policy. Domestic price and marketing arrangements

apply to commodities like sugar and certain cereals. Fifteen points were deducted from India's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 35

Foreign investors generally receive national treatment. If licensing is required, procedures do not discriminate against foreign companies; however, in certain consumer-goods industries, export obligations and local content requirements are imposed. Foreign investment is prohibited in multi-brand retailing, legal services, security services, nuclear energy, and railways. Foreign investment in real estate is limited to company property used to do business and the development of some types of new commercial and residential properties. Bureaucracy is non-transparent and burdensome, and contract enforcement can be difficult. Foreign exchange, capital transactions, and some credit operations are subject to approvals, restrictions, and additional requirements.

FINANCIAL FREEDOM — 40

Liberalization and modernization have allowed more private banks to compete, but state-owned institutions continue to dominate the banking sector and capital markets. Currently, 28 state-owned banks control about 70 percent of commercial banking assets. Access to financial services varies sharply around the country. High credit costs and scarce access to financing still impede private-sector development. Foreign banks account for less than 10 percent of total assets. Foreign banks operating in India may not directly or indirectly retain more than a 5 percent equity stake in a domestic private bank. Insurance is partially liberalized. Capital markets have been developing but remain illiquid, with foreign participation limited.

PROPERTY RIGHTS — 50

The legal system imposes a number of restrictions on the transfer of land, and titling problems can make buying and selling difficult. There is no reliable system for recording secured interests in property. Because of large backlogs, courts take years to reach decisions, and foreign corporations often resort to international arbitration. Protection of intellectual property rights is problematic. Proprietary test results and other data about patented products submitted to the government by foreign pharmaceutical companies have been used by domestic companies without any legal penalties.

FREEDOM FROM CORRUPTION — 34

Corruption is perceived as significant. India ranks 85th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Corruption remains a major concern, especially in government procurement of telecommunications, power, and defense contracts.

LABOR FREEDOM — 57.7

India's informal economy remains an important source of employment. The non-salary cost of employing a worker is moderate, but dismissing an employee is costly.