LEGATUM INSTITUTE

GLOBAL INDEX OF ECONOMIC OPENNESS

Economic Openness

India Case Study

2019

ABOUT THE LEGATUM INSTITUTE

The Legatum Institute is a London-based think tank with a global vision: to see all people lifted out of poverty. Our mission is to create the pathways from poverty to prosperity, by fostering Open Economies, Inclusive Societies and Empowered People.

We do this in three ways:

Our **Centre for Metrics** which creates indexes and datasets to measure and explain how poverty and prosperity are changing.

Our **Research Programmes** which analyse the many complex drivers of poverty and prosperity at the local, national and global level.

Our **Practical Programmes** which identify the actions required to enable transformational change.

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ACKNOWLEDGEMENTS

The authors would like to thank Harsha V. Singh (Senior Fellow, Council on Emerging Market Enterprises at the Fletcher School of Law and Diplomacy), Alex Friedman, Bianca Swalem, Ed King, and Preksha Dugar for their contribution to this work.

The authors would also like to thank Kadambari Shah and Vaidehi Tandel, of the IDFC Institute, for their contribution to this work. The views expressed in this report are those of the Legatum Institute and do not necessarily reflect those of the IDFC Institute.

This publication was made possible through the support of a grant from Templeton World Charity Foundation, Inc. The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of Templeton World Charity Foundation, Inc.

The Legatum Institute would like to thank the Legatum Foundation for their sponsorship. Learn more about the Legatum Foundation at www.legatum.org

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FOREWORD

Stephen Brien
Director of Policy,
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Our mission at the Legatum Institute is to create the pathways from poverty to prosperity by fostering open economies, inclusive societies, and empowered people. Our work is focussed on understanding how prosperity is created and perpetuated. Prosperity is much more than material wealth; it also encompasses welfare, security, wellbeing, freedom, and opportunity. Without an open, competitive economy, however, it is very challenging to create lasting social and economic wellbeing where individuals, communities, and businesses are empowered to reach their full potential. That is why we view Economic Openness as so important.

With the generous support of the Templeton World Charitable Foundation, we have created a Global Index of Economic Openness to rank 157 countries' openness to commerce, assessing the environment that enables or hinders their ability to trade both domestically and internationally. Our ambition is that it becomes a valued tool for leaders and advisers around the world, to help set their agendas for economic growth and development. As part of this program of work, we are undertaking a series of in-depth country case studies based on the Index, including this report on India, in which we analyse its performance in the key characteristics of openness to trade, investment, ideas, competition, and talent.

Trade between countries, regions, and communities is fundamental to the advance of the innovation, knowledge-transfer, and productivity that creates economic growth and prosperity. The spread of free trade has enabled more and more people to participate in commerce, allowing them to move from subsistence farming towards a more stable and prosperous existence. More recently, the technological revolution has enabled millions of people to take part in commercial, political, and social discourse thanks to the accessibility and affordability of new technology.

Our research shows that economically open countries are more productive, with a clear correlation between increased openness over time and productivity growth. In contrast, in an uncompetitive market, or one that is not designed to enhance the engagement and wellbeing of all, growth stagnates, protected industries become entrenched, and crony capitalism thrives.

While most policymakers focus on the big fiscal and macroeconomic policy tools at their disposal, the microeconomic factors are sometimes overlooked, and their potential to drive openness and growth is underestimated. A notable feature of this Index is a focus on these microeconomic drivers of productivity. By bringing the full range of disparate policy choices that influence and drive openness and competition together in one report, we hope to shift the focus of policymakers, in India and around the world, towards the broader implications of microeconomic policy by emphasising the relationship between productivity and Economic Openness.

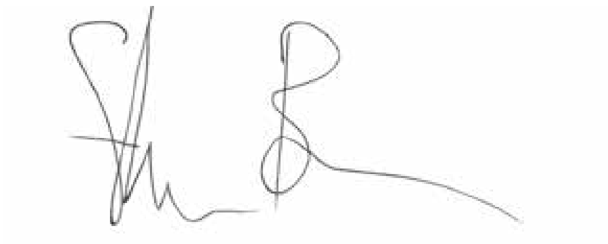
India is a country with tremendous potential. Since its independence, it has been the world's largest democracy, and developed a set of robust, and improving, institutions along the way. Since liberalising its economy in the early 1990s, per capita income has grown at an average of 4% every year, which has lifted millions of people out of poverty. Since then, the Indian economy has become increasingly dynamic and diverse, and by 2050 it could be the world's largest.

However, challenges remain. There are recent signs that the economy is slowing, and this report highlights a number of areas where there are still significant constraints on growth. Major investment in infrastructure is needed, and there are many regulations, policies, and non-tariff barriers that distort price signals in Indian markets. The administration of land is antiquated, while courts do not provide timely resolution of disputes.

Businesses face the remnants of the 'Licence Raj' and unnecessary bureaucratic hurdles, while the labour market does not provide the flexibility or skills needed. Additionally, there are significant governance challenges, with widespread corruption and the poor effectiveness of many of the government's policies.

Reforms to address these challenges are not straightforward or politically easy. For nearly all dimensions of reform, including those that would benefit the majority of the population, there are powerful interest groups that have much to gain out of the status quo. Continuing these reforms calls for courage and addressing those vested interests. Furthermore, it requires building agreement around the policies that lead to an open and prosperous economy.

Nonetheless, India has shown throughout its history that, with political will, it can rise to confront massive challenges. India has a remarkable track record of using reforms to transform the economy and improve the lives of its people. There are positive signs of this reform continuing, and we are hopeful that it will continue to take the steps needed to build prosperity for all Indians.



EXECUTIVE SUMMARY

The Legatum Institute's mission is to create the pathways from poverty to prosperity by fostering open economies, inclusive societies, and empowered people. Our work is focussed on understanding how prosperity is created by providing the research, ideas, and metrics to help leaders make informed choices.

We believe that prosperity is the result of economic and social wellbeing working together. This report on India is part of a series examining Economic Openness around the world, and its links to prosperity. The analysis is informed by the insights generated by our Global Index of Economic Openness.

Our definition of Economic Openness in this report is broad, developed out of decades of established academic theory and in conjunction with leading thinkers on this issue.[1] It is about more than just trade and regulation—it is about the wider conditions in a country that can either help or hinder that country's economy.

India's reforms since 1991 have focussed primarily on liberalising markets for goods and, to a more limited degree, finance. These reforms lifted restrictions on foreign trade and investment, removed reservations of hundreds of items to production by small-scale firms, and eliminated investment licencing. That said, there are still many areas where the government is participating in markets, rather than regulating them.

As a result of this liberalisation, India's GDP per capita has grown at an impressive 4% per year, putting it among the fastest-growing countries of the world. However, India's industrialisation has been less employment-creating for unskilled labour than among its peers in East Asia. This can be traced to policies such as small-scale industry reservations, rigid labour laws, infrastructure deficiencies, lack of access to credit, weak human capital policies, and discouragement of FDI in labour-intensive sectors.[2] To continue on its pathway from poverty to prosperity, India will need to continue the transformation of its economy.

In this report, we assess the extent to which India has four fundamental characteristics of open economies, and where the opportunities lie for further development:

- **Market Access and Infrastructure**, such that products and services can be easily produced and delivered to customers;
- **Investment Environment**, such that domestic and foreign sources of finance are widely available;
- **Enterprise Conditions** that ensure markets are contestable and free from burdensome regulation;
- **Governance** that is underpinned by the rule of law, in addition to government integrity and effectiveness.

1. We have benefitted from the input of 40+ advisors. Full details can be found on www.li.com.

2. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity.[3] This link is supported by a long history of academic literature, also evident in the economic histories of those countries that have achieved a high level of economic wellbeing.

India's Economic Openness is ranked 57th globally, having risen 15 places over the last decade, and improving across all four pillars. It performs best for Enterprise Conditions and Governance, and weakest for Market Access and Infrastructure.

MARKET ACCESS AND INFRASTRUCTURE (INDIA RANK: 87TH)

India's Market Access and Infrastructure is improving and has risen 8 places in the global rankings over the last decade. In spite of this improvement, it remains a weak point in the economy.

India's mobile costs are low and coverage is widespread, but mobile capacity is poor. The mobile market is reasonably competitive, but there are concerns regarding the domination of the company Jio. Not only is fixed broadband accessible to less than 2% of the population, but it is rarely used and has slow speeds. The biggest challenge for Indian communications is to ensure there is the sufficient communication infrastructure being developed, including both access and bandwidth, to support not only its current economic needs, but also those of a digital economy.

Water distribution is strained, with agriculture comprising 90% of all freshwater use. While electricity generation capacity has improved, distribution is a binding constraint. Price regulations create disincentives to invest in network infrastructure and in supply, while wholesale prices fixed by the government are too low to make a profit. Introducing an independent regulator and relaxing price regulations could significantly improve the reliability of the electricity supply.

Transport is a relative strength for India, but maintaining this requires significant investment. The government has opened up infrastructure to foreign investment, in part contributing to greater efficiencies in seaport services and liner shipping. However, other areas of transport require further investment. Roads in India, while high in number relative to the land area, lack the sufficient quality in order to better facilitate trade. Rail, which plays a large role in the movement of people and, to a lesser extent, freight, also requires significant investment. Another challenge to attracting private investment is maturing the public-private partnership framework.

Border infrastructure and processes are often archaic, serving to increase costs well beyond comparator nations. While India has improved its border administration in recent years, it still takes an average of four days for goods to cross the border. Investment in modern IT systems would reduce the time taken to comply with procedures.

India's legacy of 'self-sufficiency' has meant that few trade deals of note have been established to date, and they are markedly absent with India's main trading partners. India has also recently lost preferential access to the U.S. market through the generalised system of preferences. However, in recent years India has been increasing its portfolio of trade deals, now covering 19 countries that represent 13% of world GDP. India could be more active in securing reciprocal trade agreements, and there is the opportunity to sign more trade deals with the rest of the world.

Import tariffs and quotas continue to be high and very widespread, with an average applied tariff rate of 13%, which ranks 143rd in the world—one of the areas of weakest performance for India. These tariffs impose significant costs on both end-consumers and businesses processing raw materials, stifling the creation of a dynamic and competitive industry. By reducing the

3. See "Global Index of Economic Openness", *Legatum Institute*, May 2019.

complexity, rate, and number of tariffs, India could help boost manufacturing, and create a better environment for securing further trade deals.

Even though import tariffs have been the main protectionist measure, there are many additional non-tariff measures (NTMs) in place, with 552 NTMs registered with the WTO. Furthermore, there are extensive subsidies on energy and agricultural products. These subsidies favour domestic production, restricting choice and competitively-priced goods in sectors where India's long-term competitive advantage is unclear. Relaxing protectionist policies, such as labelling standards, would encourage competition and foreign investment and, subsequently, reduce prices for consumers. Phasing out subsidies would also have a similar effect.

INVESTMENT ENVIRONMENT (INDIA RANK: 76TH)

The Investment Environment has historically been weaker in India than other countries. However, significant improvements have been made in recent years, reversing a longer-term deterioration.

India's financing ecosystem is the best-performing element of its Investment Environment. Public markets and private equity provide large enterprises with multiple sources of capital. Smaller enterprises also have relatively good access to finance, compared to other countries in the region. The number of commercial bank branches has increased from 9 branches per 100,000 adults in 2009 to almost 15 in 2019. Nonetheless, there is a frailty in the banking system, which poses a potential risk to credit availability, and it is this area that requires most attention.

India has a strong and improving framework for corporate governance. Insolvency has historically been a weakness, with creditors taking a long time to recover funds, and on average recovering only 26% - one of the lowest rates in the world. However, with the new bankruptcy act, creditor rights are showing early signs of improvement.

Property rights are archaically managed, with significant barriers to transferring property. This is mainly due to incomplete and old-fashioned record-keeping, as well delays in the courts. India ranks 138th in the world for the number of procedures required to register a property. There are major breaches in intellectual property rights, particularly in software and pharmaceuticals. In order to improve property rights, the government should simplify procedures for registering and transferring property, as well as strengthening the protection of intellectual property rights.

The major issue with contract enforcement is the delay in cases being heard, in under-resourced and under-staffed courts. This has created a long backlog, with 40% of all court cases lasting over five years. An important opportunity for improvement is to increase the speed and predictability of decision-making. Ensuring that courts have sufficient resources and adequately trained staff will ease the burden on the court system. More positively, there has been a growth in demand for alternative dispute resolutions (ADR) in India and offshore, with the government aspiring to make India a centre for ADR.

The weakest aspect of India's Investment Environment is the extensive nature of restrictions on international investment, with limits in a number of sectors, including media and retail. These rules and regulations significantly slow the inflow of foreign capital and foreign expertise, restricting the Indian economy. However, improvements have been made in some sectors, such as the aviation, energy, defence, and pharmaceuticals industries. The government aims to attract $100 billion of FDI over the next two years, and one way to help do so would be to continue lowering barriers to foreign investment, reducing capital controls, and increasing the ability of foreigners to visit.

ENTERPRISE CONDITIONS (INDIA RANK: 42ND)

India's Enterprise Conditions have become a source of strength for the economy. Following concerted efforts by the Union Government, it has experienced the most dramatic improvement of all four pillars, rising 22 global ranks over the last decade.

Since liberalisation, nearly all vestiges of the 'Licence Raj' have been removed, and markets are now broadly contestable. In recent years, the remaining restrictions protecting certain sectors for small enterprises have lifted. While established industries have residual concentrations of power, the competition authority has taken a more active role in promoting competition. To further increase contestability, the government could loosen restrictions on professional services, as well as divest its interest in many state-owned enterprises.

According to many measures, it is increasingly easier to start a business. India now ranks 40th for its environment for business creation, rising 38 places since 2009. However, there are regional variations with states differentiating their priorities. India could reduce the administrative burdens for firms entering the formal sector, which would involve continuing to reduce the time and cost for businesses entering the formal economy.

Clusters are a major part of development strategy and are an important part of making business growth easier. However, there is a skills mismatch, with employers struggling to find employees with the appropriate skills for the required jobs. Efforts have been made to decrease this skills gap, with the percentage of businesses who find that skilled labour is a business constraint falling from 14.5% to 9.4% over the last decade. To ensure this reduction continues, the government should invest in tertiary education and in adult skills training.

India has made significant progress in reducing the burden of regulation on business. For instance, the number of tax payments required per year has been reduced from 41 in 2009 to 14 in 2019, significantly lowering the regulatory burden. For larger businesses operating across multiple states, the new goods and services tax (GST) system has been a net simplification. However, for small businesses, implementing it has been a significant burden. The regulatory system continues to be overly complex, and needs reform to make it easier for businesses, as indicated by the dominance of informal businesses that are not covered by regulation.

Labour market flexibility is improving, as the government attempts to reduce informality and declaring the creation of jobs as one of its main priorities. Despite complicating the mechanism for adjusting the minimum wage, India has seen a number of recent improvements to contracting which should make hiring easier. Ensuring there is greater labour market flexibility will require further streamlining of labour laws and providing greater certainty for wage determination. Redundancy payments are reducing, but remain high in comparison to other countries, suggesting further reductions are required. Furthermore, the laws regarding government approval for major redundancies could be removed to increase business dynamism.

GOVERNANCE (INDIA RANK: 46TH)

The quality of Governance in India had, until recently, been on the decline. A turnaround in recent years, led by improvements in political accountability and government integrity, has ensured that India now ranks four places higher for Governance than in 2009.

Despite the overall recent improvement in governance, the executive has been over-reaching in particular instances, impacting the economy. Examples include the demonetisation announcement, which had adverse effects on real economic activity. Ensuring that the executive respects constitutional processes would enhance the certainty and transparency of policy making, and this would give investors confidence in the government's policy making process, and provide more certainty over regulatory changes.

India has a long history of democracy with universal suffrage, leading to political accountability being the strongest element of its governance. Nonetheless, the accountability of political parties and politicians has been challenged by unregulated campaign financing. The nexus between criminal activity and elected politicians is unhealthy, while both the media and civil society feel pressured. Better complaint mechanisms are in place, suggesting the accountability of the government is beginning to be addressed. This could be further improved with meaningful campaign finance reform.

The rule of law is generally respected. The Supreme Court has been strong in asserting its independence against the executive, and the doctrine of precedent is better established than in many other jurisdictions. However, courts are often over-burdened, not least by extensive litigation involving the government. There is also the risk of corruption, thereby increasing the cost of using the courts to settle commercial disputes. There are opportunities to improve the functioning of the courts by investing in the quality of judicial appointments and overall staffing.

Although it has improved in recent years, corruption continues to be prevalent at all levels, both in terms of day-to-day bribery of officials and also larger projects. For example, according to the Corruption Perceptions Index, 27% of households interviewed confessed to paying a bribe to avail public services. The level of corruption is exacerbated by a lack of transparency, and the right to information will need to be improved further in order to impact the wider issue of corruption. Furthermore, enforcement is a challenge, and it requires political willingness to drive anti-corruption efforts.

Government effectiveness is limited. There are often misaligned incentives and overlapping jurisdictions between union and state governments, and thus the effectiveness of the state governments vary dramatically. The central government's ability to implement policy is constrained, often leaving policy objectives undelivered. Greater coordination between the state and local governments is vital for effective policy implementation, as is a review of the scope of government activity. Many services could be delivered more efficiently by the private sector, with public authorities providing regulatory oversight. Furthermore, where the state does participate in the economy, it could do so more in competition with the private sector, and on a level playing field.

Regulatory quality is the weakest performing element of India's Governance. There is little systematic analysis of the likely impact of regulations before being implemented, compounded by significant delays in administrative proceedings. However, the need for improvement has been recognised and the enforcement of regulations is improving, although more efforts are required in order for India to witness further improvement in this element. There needs to be a greater emphasis on empowering government regulators to systematically enforce regulations across government through greater powers, better resourcing, and the rooting out of corruption.

LOOKING FORWARD

Analysing Economic Openness and assessing its positive effects on prosperity is now a time-sensitive task, with the benefits of globalisation and Economic Openness being questioned in the wake of the Global Financial Crisis. We continue to see the impact of the crisis in public debate ten years on, with the rise of nationalism and populist politics in India, and across the world.

Yet globalisation continues apace. The degree of connectivity, the exchange of ideas, and the levels of cross-border trade and commerce have fully recovered in the decade since the crisis. Trade between communities, countries, and regions continues to spread innovation and transfer knowledge, boost productivity, and ultimately foster economic growth. However, there is a question as to whether the level of international trade will outpace overall economic growth in future (thereby enhancing the spread of innovation), or merely keep pace with overall output.

One of the choices for policymakers around the world seeking to ensure sustainable prosperity is to resist protectionism, and instead reinvigorate the trade liberalisation agenda and improve the contestability of domestic markets. In the aftermath of the crisis, when global trade flows slowed dramatically, many governments in both developed and developing countries contemplated, or were pushed into using, trade policy instruments, especially in the form of non-tariff measures, to protect their domestic industries and producers.

The challenge for the Modi administration is to continue to open up India's economy in the face of such pressures, while still maintaining enough political support for reform. These choices to generate greater Economic Openness will increase competition and innovation, which will ultimately benefit the citizens of India.

INTRODUCTION

This case study on India is part of a series we have published on Economic Openness. We have produced a Global Index of Economic Openness, providing rankings and analysis of the performance of the different nations of the world. We are also publishing 10 in-depth case studies of countries at a range of stages of economic development.

We have chosen India as one of these case studies because it has enormous economic potential. It has the world's second-largest population, and the sixth-largest economy. By some estimates, it could be the world's largest economy by 2050.[1]

India's reforms since 1991 have focussed primarily on liberalising markets for goods and, to a more limited degree, finance. Restrictions on foreign trade and investment were lifted. Reservations of hundreds of items to production by small-scale firms were steadily removed. Investment licencing was eliminated. That said, there are still many areas of ongoing state involvement in the economy—where the government is participating in, rather than regulating, markets.

There is also widespread support for a market economy. The consensus among the Indian population that a market economy is good for their country is overwhelming and growing, with 71% of Indians believing that trade is good for their country (on par with the U.S. and Japan). This has been matched with sustained political efforts, commencing with market liberalisation in 1985 and most recently opening nearly all sectors to private, domestic, and international investment.[2,3]

As a result of this liberalisation, India's GDP per capita has grown at an impressive 4% per year, putting it among the fastest-growing countries of the world. That growth has meant that today, 21% of Indians are living on less than $1.90 a day, down from 38% in 2004.[4] Recently, however, this momentum has slowed. Furthermore, India's industrialisation has been less employment-creating for unskilled labour than among its peers in East Asia. This can be traced to policies such as small-scale industry reservations, rigid labour laws, infrastructure deficiencies, lack of access to credit, weak human capital policies, and discouragement of FDI in labour-intensive sectors.[5] To continue on its pathway from poverty to prosperity, India will need to continue the transformation of its economy.

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1. Citigroup "The Wealth Report 2012: A Global Perspective on Prime Property and Wealth," *Citigroup*, last accessed September 30, 2019, https://www.privatebank.citibank.com/pdf/wealthReport2012_lowRes.pdf.

2. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

3. "Domestic Investment in India," *India Brand Equity Foundation*, last accessed September 30, 2019, https://www.ibef.org/economy/domestic-investments.

4. WBDB "Training for Reform: Economy Profile – India." *Doing Business 2019. A World Bank Group Flagship Report*, 16, last accessed September 30, 2019, https://www.doingbusiness.org/content/dam/doingBusiness/country/i/india/IND.pdf.

5. Vijay Joshi, India's long road: the search for prosperity. Oxford University Press, 2017.

We examine past performance, present conditions, and identify how the government might strengthen opportunities and neutralise potential threats moving forward. The analysis of India's performance in this report focusses on what we consider to be the key drivers of economic wellbeing across the world. These are organised around four pillars.

Market Access and Infrastructure measures the quality of the infrastructure that enables trade (Communications, Transport, and Resources), and the inhibitors on the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure, few barriers to trade, and smooth border clearance, commerce can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, commercialised, and ultimately benefit consumers through a greater variety of goods at more competitive prices.

Investment Environment measures the extent to which investments are protected adequately through the existence of Property Rights, Investor Protections, and Contract Enforcement, and also the extent to which domestic and international capital (both debt and equity) is available for investment. The more a legal system protects investments, for example through Property Rights, the more that investment can drive economic growth.

Enterprise Conditions measures how easy it is for businesses to start, compete, and expand. Contestable markets with low entry barriers are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.

Governance measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The nature of a country's governance has a material impact on its prosperity. The rule of law, strong institutions, and regulatory quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

MARKET ACCESS AND INFRASTRUCTURE	INVESTMENT ENVIRONMENT	ENTERPRISE CONDITIONS	GOVERNANCE
• Communications • Resources • Transport • Border Administration • Open Market Scale • Import Tariff Barriers • Market Distortions	• Property Rights • Investor Protection • Contract Enforcement • Financing Ecosystem • Restrictions on International Investment	• Domestic Market Contestability • Environment for Business Creation • Burden of Regulation • Labour Market Flexibility	• Executive Constraints • Political Accountability • Rule of Law • Government Integrity • Government Effectiveness • Regulatory Quality

The following chapters examine in detail India's performance across the four pillars and the discrete elements that constitute our measure of Economic Openness. Our assessment of India is based on its rankings in global datasets, from sources including the World Bank, World Economic Forum and International Monetary Fund. (See the appendix for a complete list of data sources).

It is important to note that Economic Openness is not consistent across India. There are significant regional differences. India is a hugely diverse country, with diverse ethnicities, languages, and cultures. Not only that, but decentralisation empowers state governments to enact regulations or enforce national regulations differently. Additionally, in many places where our Index captures regulations, there is often a significant gap between a regulatory change and what happens on the ground. Often a regulation is implemented in different ways across states.

Furthermore, the Index mostly captures characteristics of the formal economy, yet India's large informal economy plays a significant role. For example, much of the data on starting a business will not capture the experience of millions of informal businesses across India. As the economy grows, however, more businesses will be brought into the formal sector, with regulatory encouragement and incentivisation. Where the publicly available data used in the Index does not capture the full and varied picture of Economic Openness in India, this report seeks to expand on that data through additional analysis.

We hope that this analysis will be of use to policymakers elsewhere who might seek to draw lessons from India's Economic Openness.


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MARKET ACCESS AND INFRASTRUCTURE (INDIA RANK: 87TH)

An environment supportive of trade and commerce will allow new products and ideas to be tested, funded, commercialised, and easily delivered to customers. Our Market Access and Infrastructure pillar comprises both the critical enablers of trade (Communications, Transport, and Resources) as well as the inhibitors (Border Administration, Open Market Scale, Import Tariff Barriers, and Market Distortions).

The benefits of free trade are often explained in terms of Ricardian comparative advantage and enhanced consumer choice; trade empowers individuals while encouraging competition. At the core of free trade is an opening up of choices to consumers and businesses about which products, services, and ideas they can buy domestically and internationally.

Equally important is the role that trade plays in communicating new ideas and raising productivity.[1] Competition from international trade ensures that, even when a business does export, it is forced to respond to new ideas from the increased domestic market competition.

INDIA SWOT Analysis of Market Access and Infrastructure

STRENGTHS	WEAKNESSES
• Some of the best and lowest-priced 4G coverage in the world • World-leading renewable energy development • Progress in providing electricity and paved roads to rural areas • Extensive road networks and adequate logistics capability	• Poor infrastructure hinders internet capabilities, logistics, and efficient border administration • Excessive bureaucracy and inefficient government policy suppress growth and improvement in telecommunications, agriculture, electricity, and railways • Poor market access to main trading partners • Extensive import tariff quotas, subsidies, and other barriers to the free trade of many goods and services
OPPORTUNITIES	**THREATS**
• Investing in bandwidth and speed of mobile and fixed broadband • Lowering barriers to entry for electricity suppliers and generators • Improving the maturity of the public-private partnership process and enhancing competition • Introducing technology and streamlined bureaucratic processes to expedite cross-border goods flow • Securing trade deals with the EU and RCEP to increase opportunities for Indian exporters • Reducing complexity and rate of tariffs to help importers and increase competition • Reducing market distortions such as price controls and labelling to improve the functioning of markets	• Asian competitors outperform India in trade opportunities • Infrastructure projects stall due to lack of private investment • Insufficient prioritisation of investment in urban infrastructure to accommodate rapid urbanisation

1. Sebastian Edwards, "Openness, productivity and growth: What do we really know?" *The Economic Journal 108*, no. 447 (1998): 383-398.

Evaluating Market Infrastructure and Access

The infrastructure that enables operations in trade and commerce can be measured by both the critical enablers of trade, predominantly infrastructure, and also inhibitors of access to markets.

The first enabler of trade is **Communications**, including fixed line and mobile telecoms, and internet penetration, which facilitate mass participation in the formation, ownership, and monetisation of ideas.

The second enabler of trade is **Resources**, which includes water and energy. We measure both the availability and reliability of these critical elements.

The third enabler of trade is **Transport**, which makes possible both physical trade in goods and trade in services, which often requires the movement of people.

In addition to the enablers of trade, we also assess the policies and procedures that inhibit trade.

The first inhibitor to trade is **Border Administration**, which measures the financial and time cost of the documentation process necessary to move goods across a border.

The second inhibitor to trade is **Open Market Scale**, which measures the size of the market to which providers of goods and services have privileged access. Countries with greater access to other markets trade more than those that do not.

The third inhibitor to trade is **Import Tariff Barriers**, which we measure in terms of the trade weighted average tariff goods face when coming into a given country.

The fourth inhibitor to trade is **Market Distortions**, including subsidies, taxes, and regulatory barriers.

India ranks 87th for Market Access and Infrastructure, which is an improvement of eight places from 10 years ago. In the following sections, we review the performance of India in each of the distinct elements of Market Access and Infrastructure, from Communications through to Market Distortions.

COMMUNICATIONS (INDIA RANK: 103RD)

The free exchange of information, underpinned by good communications infrastructure, is a vital component of Economic Openness. Moreover, the advent of communications technology as an end-product has created economic opportunity for innovative companies and countries. Whole societies have been transformed by this evolution in communications technology. Our measure looks at a wide range of forms and measures of communication, from fixed line and mobile telecoms to broadband speeds and penetration rates.

India ranks 103rd globally for the quality of Communications, rising nine places in the last decade. It performs slightly above its neighbours, but well below countries of a comparable level of development.[2] While cellular networks are extensive and internet use is climbing (37% of India's population used the internet in 2018), communication is confined almost exclusively to mobile networks. Fixed broadband is relatively slow and underdeveloped. Faster and more powerful fixed broadband is extremely rare, and business access has been hampered by the government's failure to promote new services.

Leisure has dominated internet usage in India, specifically social networking and entertainment—a trend likely to continue so long as mobile networks remain the near exclusive gateway to the

2. Namely Russia (71st), China (58th), and Brazil (68th)

internet. For example, there is the opportunity to increase the use of the internet for financial transactions: in urban areas, only 44% of internet users use the internet for financial transactions, and in rural areas the figure falls to 16%.[3] Furthermore, fewer than one third of internet users are women.[4]

In 2018, 97% of Indians who accessed the internet did so through a mobile phone.

Mobile

Ninety-seven percent of Indians who accessed the internet in 2018 did so through a mobile network.[5,6] Mobile network coverage in India is comprehensive, with cheap and extensive mobile networks. India's largest mobile telecommunications company, Reliance Jio, owns a 4G network covering 97% of the country, with competitors not far behind.[7] Mobile penetration rates are steadily increasing, largely due to greater rural use, now at 25%, in contrast to 66% of urban areas.[8]

The mobile market has seen an era of fierce competition, ever since Reliance Jio exploded onto the scene in 2016.[9] India now has the lowest mobile data costs of any country in the world at $0.26 per megabyte.[10] The market saw a raft of consolidation from ten companies to four, and it remains to be seen whether the precipitous price cuts introduced by the greater competition will trigger further consolidation.[11] Some spectators are suspicious of Jio's success, claiming that unfair tactics and government favouritism is giving Jio an unfair market share.[12]

However, this impressive picture of India's mobile network is marred by slow speeds: India is only 123rd in the world for average mobile data speed (see Figure 1). There is also great variation in speed between regions. For example, the fastest download speeds in the South are twice what can be found in the Northeast.[13] There are also delays in the rollout of advanced products and services. Furthermore, the spectrum available is less than 40% compared to European nations.[14] One of the challenges is attracting investment—India's telecommunications market is so competitive that many companies struggle to create enough profit to afford additional investment.

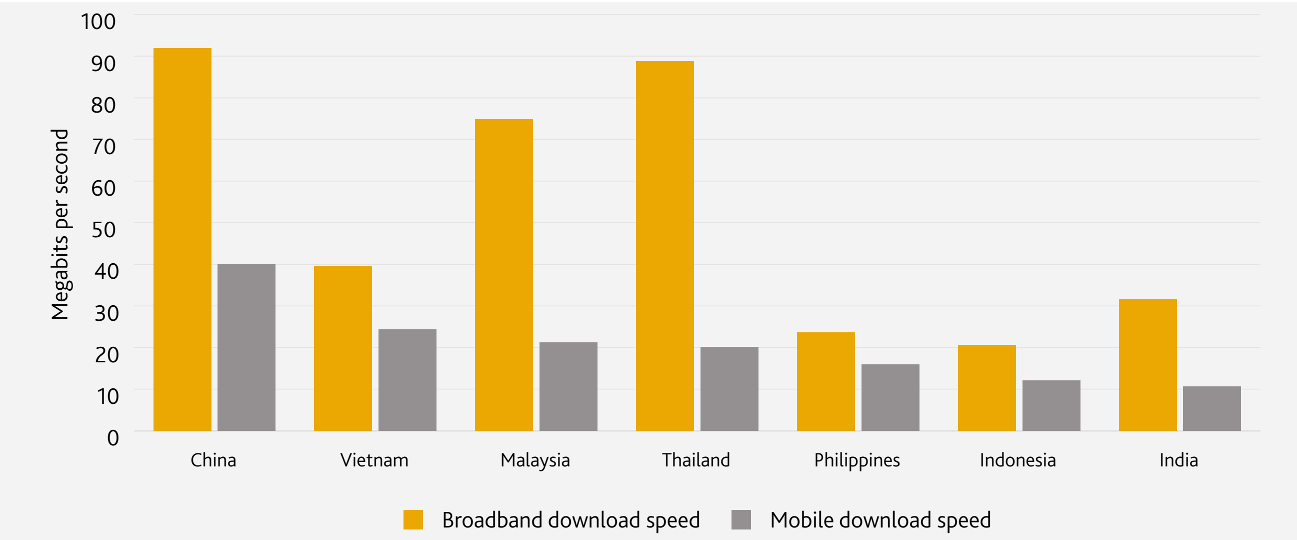
Broadband

While India's mobile coverage is extensive, its fixed broadband capabilities are not; its wired network is small, as well as slow. There are only 20 million wired or fixed wireless subscribers, constituting less than 2% of the population.[15,16] As a result, India is 113th in the world for fixed-broadband penetration. India ranks 71st in the world in terms of broadband speed, with southern India ranking highest, as it does with mobile connections.[17]

Unlike the market for mobile internet, the fixed broadband market is dominated by Bharat Sanchar

3. Navadha Pandey, "Only 16% of rural users access Internet for digital payments: report," *Livemint*, updated February 20, 2018.
4. PTI, "Only 29% female Internet users in India: UNICEF report," *Indian Economic Times*, December 11, 2017.
5. "21st edition ICUBETM: Digital adoption and usage trends," *Kantar IMRB*, last accessed September 30, 2019, https://imrbint.com/images/common/ICUBE%E2%84%A2_2019_Highlights.pdf.
6. "The Indian Telecom Services Performance Indicators," *Telecom Regulatory Authority of India*, April 4, 2019.
7. "India Mobile Network Experience Report," *Opensignal*, Inc., April 2019.
8. Ananya Bhattacharya, "Cheap data is killing broadband in India," *Quartz India*, January 3, 2019.
9. "The Indian Telecom Services Performance Indicators," *Telecom Regulatory Authority of India*, April 4, 2019.
10. "Worldwide mobile data pricing: The cost of 1GB of mobile data in 230 countries," *Cable*, last accessed September 30, 2019, https://www.cable.co.uk/mobiles/worldwide-data-pricing/.
11. Prasanto Roy, "Mobile data: Why India has the world's cheapest," *BBC*, March 18, 2019.
12. "Reliance Industries' Jio reshapes India's telecoms market," *Financial Times*, March 15, 2018.
13. "India Mobile Network Experience Report," *Opensignal*, Inc., April 2019.
14. Anand Deo, "Telecom Industry in India: Evolution, Current Challenges & Future Road Map." *Indira Management Review 11*, no. 1 (2017): 92-105.
15. "The Indian Telecom Services Performance Indicators," *Telecom Regulatory Authority of India*, April 4, 2019.
16. "Fixed Broadband Subscriptions," *International Telecommunications Union*, last accessed September 30, 2019, https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx.
17. Isla Mcketta, "India's Digital Divide: How Broadband Speed Splits the Nation," *Ookla*, March 7, 2018.

Figure 1: Download speeds in selected countries



Source: Speedtest Global Index, July 2019

Nigam Limited (BSNL), the government-owned cable service that is used by almost 60% of subscribers. Regional network speeds do not correlate with population density, perhaps because the government has invested heavily in rural connectivity, without particular regard to demand. In several ventures, most notably Bharat Net, the government has striven to connect every village in the country to high-speed broadband.[18] However, it had achieved less than 50% of its desired goal in 2019.[19]

From 2015 to 2017, foreign direct investment (FDI) in telecommunications quintupled from $1.3 billion to $6.2 billion, but in 2018 the number fell to $2.7 billion due to the sector becoming less attractive through competition and cheaper services.[20]

Opportunities

The biggest challenge for India is to ensure there is sufficient communications infrastructure that is being developed to support not only its current economic needs, but also those of a future digital economy.

One critical opportunity is to make more spectrum available to enhance capacity and the provision of additional services. According to a recent report: "This can be achieved through enhancement in spectrum limit from 6.28MHz to 2x8MHz (paired spectrum), specific to GSM [Global System for Mobile Communications] technology".[21] Therefore, spectrum auctioning at prices that are sustainable could be a valuable next step.

The speed and coverage of fixed broadband can be improved by greater private investment, especially given the low investment made by current companies. This will likely need further incentives and an openness towards foreign investment. The government should also ensure investments are prioritised in accordance to where demand and need is greatest, so that there is maximum impact from investment.

18. Samiha Nettikkara, "India election 2019: When will broadband reach all villages?," *BBC*, March 21, 2019.

19. Ibid.

20. Asit Mishra, "FDI inflows contract for the first time in 6 years," *Livemint*, updated: May 29, 2019.

21. Anand Deo, "Telecom Industry in India: Evolution, Current Challenges & Future Road Map." *Indira Management Review 11*, no. 1 (2017): 92-105.

RESOURCES (INDIA RANK: 78TH)

A well-functioning economy relies on access to affordable Resources, including water and energy. An unreliable energy supply can limit the growth of a potential business and hamper effective trade. Our measure of Resources aims to capture the quality, reliability, and affordability of a country's energy network, as well as the accessibility and usability of water resources.

On the back of considerable improvements in the energy sector in recent years, India's Resources rank 78th globally, up seven places from a decade ago. However, a tangled web of regulations has led to low electric capacity per capita, whilst underdeveloped water resources strain the water supply. However, India's renewables sector and transmission infrastructure have both seen considerable investment, while electricity in major metropolitan centres is now easier to access.

Water

India ranks 111th for its use of water. While its fresh water resources are extensive in absolute terms, the country holds only 1,000 cubic metres per person, in contrast to a world average of 5,000 cubic metres.[22] Rain comes briefly and furiously once a year, forcing Indians to rely primarily on groundwater for daily needs. As a result, India is the largest user of groundwater in the world, with forecasts projecting that around 20 major Indian cities will be running perilously low on groundwater by next year.[23]

State governments were traditionally in charge of water supply, but since 1991, local communities have borne the burden and struggle to keep up with demand.[24] These severe water management issues are compounded by liberal agricultural use: 90% of all fresh water is used in the agricultural sector.[25] This makes India the foremost exporter of water-intensive products in the world, despite nation-wide shortages.[26]

Electricity generation

India's energy intensity has declined over the years in line with international trends, but demand has not let up—India's energy demand growth was also the third largest of any country in 2018 and is forecast to rise.[27] This rising demand has forced India to look increasingly outside of its borders for energy resources; with self-sufficiency steadily falling, India covers only 65% of its own energy needs.[28] Coal production has not kept pace with demand: thermal coal imports have risen from 9 million tons in 2000 to 156 million tons in 2016.[29]

Both private and public investments have added to generating capacity, which has trebled over the last decade. Nonetheless, the power generation sector faces challenges. The government is the major player in energy (coal, oil and gas), in terms of ownership, operation and regulation. Private companies generate 45% of electricity, but numerous barriers—including a thicket of government regulations and favouritism towards government plants in obtaining coal supply and signing power

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22. "Renewable internal freshwater resources per capita," *World Bank*, last accessed September 30, 2019. https://data.worldbank.org/indicator/ER.H2O.INTR.PC?most_recent_value_desc=true.

23. David Fickling. "How India's Water Ends Up Everywhere But India," *Bloomberg Opinion*, July 6, 2019.

24. Ibid.

25. "Helping India Manage its Complex Water Resources," *The World Bank*, March 22, 2019.

26. Ibid.

27. "BP Statistical Review of World Energy," *British Petroluem*, 68, 2019.

28. "Energy Indicators," *IEA Atlas of Energy*, last accessed September 30, 2019, http://energyatlas.iea.org/#!/tellmap/-297203538/1.

29. Fan Zhang. "In the Dark: How Much Do Power Distortions Cost South Asia?," *The World Bank*, last accessed September 30, 2019, https://openknowledge.worldbank.org/bitstream/handle/10986/30923/9781464811548.pdf.

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purchase agreements—restrict entry.[30,31] The result is an insufficiently competitive power sector.[32,33]

Despite being heavily reliant on coal, India is investing in renewable energy.

Furthermore, coal power plants, which provide most of India's electricity, buy coal at prices set by the government, and over 80% of coal is produced by the state company Coal India Limited.[34] Price setting extends beyond coal to include oil and diesel. When observing the power sector, numerous studies note the distortions and inefficiencies resulting from these anti-competitive measures and supply issues.[35] Such distortions cast a cloud over the ease of establishing electricity connection and the grid's reliability in Delhi and Mumbai.

30. "Power Sector at a Glance," *Indian Ministry of Power*, last accessed September 30, 2019, https://powermin.nic.in/en/content/power-sector-glance-all-india.

31. Rahul Tongia and Samantha Gross. "Coal in India: Adjusting to Transition," *Brookings Institute*, Paper 7, March 2019.

32. Sarang Khanna, "Competition in the Electricity and Energy Sector in India – Are 'Brighter' Times Ahead?," *Pleaders Intelligent Legal Solutions*, May 8, 2018.

33. "Competition in India's Energy Sector," *Competition Commission of India*, last accessed September 30, 2019, https://www.cci.gov.in/competition-india%E2%80%99s-energy-sector.

34. Fan Zhang. "In the Dark: How Much Do Power Distortions Cost South Asia?"," *The World Bank*, last accessed September 30, 2019, https://openknowledge.worldbank.org/bitstream/handle/10986/30923/9781464811548.pdf.

35. "India seeks to reassure markets on deregulation of fuel prices," *Reuters*, October 6, 2018.

India's energy resources

Endowed with the wealth of an entire subcontinent, India's natural resources are considerable. Housing the fifth-largest coal reserves in the world, India is the fourth-largest producer (although recently there have been reports of coal shortages).[36] India relies overwhelmingly on coal to feed its growing energy needs, with 55% of primary energy consumption and 75% of electricity generation produced from burning coal.[37,38]

While India's reliance on coal is not expected to lessen for at least the next decade, the government has one of the most ambitious renewable energy programmes in the world.[39] Renewables constitute only 3% of primary energy consumption, but the Prime Minister has pledged to more than double renewable energy capacity by 2022.[40,41] Several factors have made India the second most attractive country in the world for investment in renewable power in 2017 and fourth in 2019, meaning FDI in renewable energy may fund 100% of a project.[42] These include structural factors, namely a dramatic rise in demand, in addition to political ones, as evidenced by cross-party and policy-wide support for renewable power.[43,44] Despite this, India will be still be reliant on coal in the coming decades.[45]

Prominent pro-renewable reforms were presented by the power minister to the legislature, including "fiscal and promotional incentives such as capital subsidy, accelerated depreciation, waiver of Inter State Transmission System (ISTS) charges and losses, viability gap funding (VGF) and permitting FDI up to 100% under the automatic route".[46] Others are a mechanism by which state electricity commissions are obliged to purchase a certain percentage of power above a certain price from renewable energy sources and a 10-year tax holiday for wind generation plants.[47]

Ironically, there are also rules that prevent investment, such as local content requirements for solar panels, which have been subject to a dispute at the WTO.[48]

Electricity transmission and distribution

There have been material improvements to India's electricity infrastructure, where the government provides 45% of all transmission.[49] The country ranks 38th for the ease of getting an electricity connection, according to the World Bank Ease of Doing Business Index. It has risen 34 ranks since 2009 due to a series of reforms implemented in the Index's benchmark cities of Delhi and Mumbai.[50] The government has poured further funds and ambition into a series of projects to electrify all of India. In 2018, the Prime Minister declared that a $2.5 billion project bringing electricity to every

36. "Coal Proved Reserves by end of 2011," *Europe's Energy Portal*, last accessed September 30, 2019, https://www.energy.eu/stats/energy-coal-proved-reserves-total.html; "India," *U.S. Energy Information Administration*, updated June 14, 2016.

37. "BP Statistical Review of World Energy," *British Petroluem*, 68, 2019.

38. Rahul Tongia and Samantha Gross. "Coal in India: Adjusting to Transition," *Brookings Institute*, Paper 7, March 2019.

39. Ibid.

40. "BP Statistical Review of World Energy," *British Petroluem*, 68, 2019.

41. "By the Numbers: India's Progress on its Renewable Energy Target," *Centre for Strategic and International Studies*, February 27, 2019.

42. "Renewable energy country attractiveness index," *Ernst and Young*, last accessed September 30, 2019, https://www.itinerainstitute.org/en/index/renewable-energy-country-attractiveness-index/.

43. See, for example: Sahil Ali, "The future of Indian electricity demand: How much, by whom and under what conditions?," *Brookings Institute*, October 31, 2018.

44. "Key Country Developments," *Ernst and Young*, last accessed September 30, 2019, https://www.ey.com/uk/en/industries/power---utilities/ey-recai-may-2019-key-country-developments.

45. Rahul Tongia, Santosh Harish and Rahul Walawalkar, "Complexities of integrating renewable energy into India's grid," *Brookings Institute*, November 8, 2018.

46. Nitin Kabeer, "Indian Renewable Energy Sector Received $3.2 Billion in FDI during 2015-2018," *Mercom India*, December 31, 2018.

47. "Renewable Energy," *Indian Brand Equity Foundation*, June 2018.

48. Tom Miles, "U.S. takes India back to WTO in solar power dispute," *Reuters*, December 20, 2017.

49. "Power Grid," *Indian Ministry of Power*, last accessed September 30, 2019, https://powermin.nic.in/en/content/power-grid

50. "Business Reforms in India," *The World Bank*, 2019, no. 16.

The transmission network has expanded at an annual rate of 12%.

Indian household was complete.[51] While millions of households remain without electric power, this programme did succeed in electrifying 25 million households.[52] Various projects have expanded overall transmission network capacity at a compound rate of 12% annually, but the Institute for Energy Economics and Financial Analysis calculates that billions more will be needed to fit the grid to renewable energy sources and increasing demand.[53]

Reliability of supply is still a major challenge. Delhi, in particular, performs poorly internationally in both the hours of outage and number of outages (see Figures 2 and 3). The distribution of electricity is a crucial challenge. Although India's gross electric capacity is much higher than demand, excessive government regulation complicates the power grid, leaving homes in the dark for hours.[54] Distribution companies must sell power to consumers at prices set by the states, which causes them to lose money on every kilowatt sold.[55] Consequently, the distribution companies simply cannot afford to buy electricity when it is demanded, causing brown-outs and power losses.[56, 57, 58] The government has sought to address the parlous state of the electricity distribution companies (the 'discoms') through its Ujjwal Discom Assurance Yojana (UDAY) programme, but the effectiveness of this has been challenged.[59]

Figure 2: System average interruption duration index

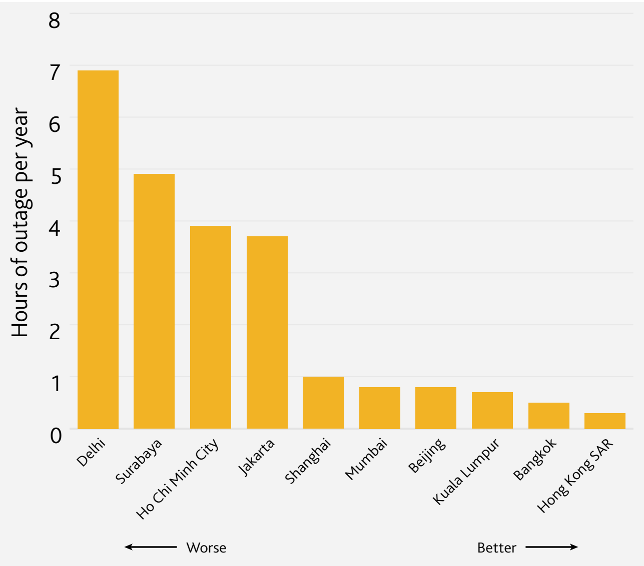
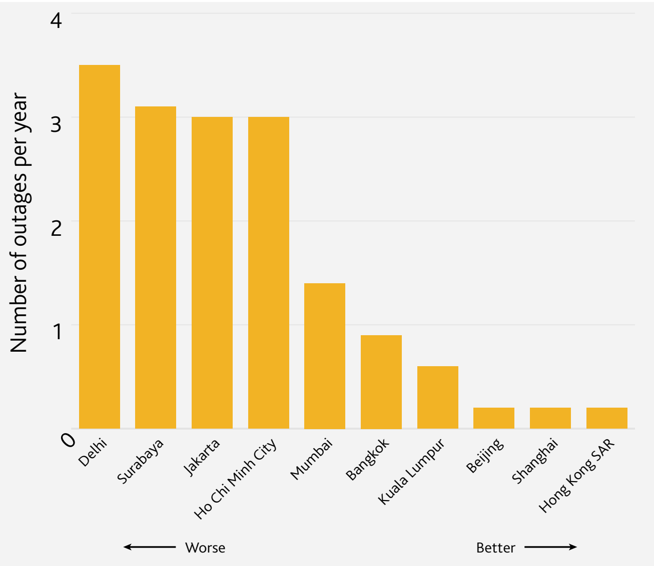


Figure 3: System average interruption frequency index



Source: World Bank Doing Business, 2019

51. Utpal Bhaskar., "26.02 million households get electricity connections under Saubhagya scheme," *Livemint*, March 31, 2019.

52.Johannes Urpelainen, "Universal Rural Electrification in India? Not So Fast," *Power for All*, February 6, 2019.

53. Tim Buckley and Kashish Shah, "IEEFA India: Grid investment needs to match enormous growth in renewable energy investment," *Institute for Energy Economics and Financial Analysis*, January 21, 2019.

54. Rahul Tongia., "Embarrassment of riches? The rise of RE in India and steps to manage 'surplus' electricity," *Brookings Institute*, June 15, 2018.

55. Rahul Tongia and Samantha Gross. "Coal in India: Adjusting to Transitions," *Brookings Institute*, Paper 7, March 2019.

56. Ibid.

57. Rahul Tongia., "Embarrassment of riches? The rise of RE in India and steps to manage 'surplus' electricity," *Brookings Institute*, June 15, 2018.

58. Sneha Alexander and Vishnu Padmanabhan, "The curious case of electrification in India amid discom blackouts," *Livemint*, updated: March 11, 2019.

59. M Govinda Rao, "Column: UDAY lacks brightness," *Financial Express*, November 17, 2015.

There is also the challenge of electricity being stolen. In India, 35% of generated electricity is stolen, thereby compounding the revenue challenges for electricity distributors.[60] A number of solutions to the problem have been suggested, including creating smart grid infrastructure to better track the use of electricity.[61]

Opportunity

The primary opportunity for India is to strengthen the distribution of electricity through regulatory reform. In order to improve the incentives for private companies to supply electricity efficiently to consumers, the government should consider opportunities to reform the policies that dis-incentivise better private provision. There should be promotion of greater competition in both generation and supply. Across both, the government could work to lower the barriers for new entrants and substantially reduce the role the state plays in the provision of electricity. These steps could include reducing the government monopoly over coal and encouraging private mining, continuing to expand the distribution network, reducing local content requirements, reforming electricity price caps, and establishing an independent regulator.

TRANSPORT (INDIA RANK: 54TH)

Transport underpins the ability for products and people to move efficiently, easily, and reliably. An interconnected freight transportation network contributes to economic growth by supporting resource development and expanding interstate commerce. We evaluate both the quality of physical infrastructure, including road, rail, ports, and air, alongside logistical performance, which measures the efficiency of shipping products in and out of a country.

India ranks 54th globally for Transport, rising 11 places over the last decade. This ranking is buoyed by the country's improving performance in logistics and road quality. The government has made several major improvements to road shipping that give India its pride of place: a single 'e-way bill' replaces the need for logistics providers to prepare documents for each of the states they pass through.[62] At 12-13% of GDP, India's logistics expenditure is higher than the developed world average of 8%, but much of this is attributed by analysts to either inventory costs or 'indirect' costs, such as theft or loss, not transportation inefficiencies themselves.[63,64]

Roads, rail, and air face mounting capacity constraints, as India's economic growth outpaces its infrastructure growth. S&P Global estimates that the infrastructure deficit may stand at 5% of GDP, and that up to $1.5 trillion in infrastructure investment is necessary to fuel growth.[65]

Regulatory regime

The regulatory regime in a number of sectors inhibits the competitiveness of transport. For example, Indian Railways, a state-owned company, holds a monopoly on rail travel in India. It has no independent regulator and has the right to set tariffs on private lines. Therefore, private investment in rail has historically been restricted, but recently the government has been more welcoming of private investment.[66]

60. Rajesh Singh, "Power thieves in rural India steal over 20% of electricity," *Livemint*, updated: August 31, 2016.

61. "India to spend $21.6 billion on smart grid infrastructure by 2025," *PR Newswire*, January 20, 2015.

62. "India Logistics: Clear road ahead," *Edelweiss*, November 26, 2018.

63. Ibid

64. Neelesh Mundra, Abhinav Singh, and Raghavendra Uthpala., "Debunking India's Logistics Myths," *Livemint*, updated: March 23, 2018.

65. Abhishek Dangra., "The Missing Piece in India's Economic Growth Story: Robust Infrastructure," *S&P Global*, August 2, 2016.

66. Shine Jacob, "Railways seeks private players, plans Rs 50 trillion investments: Budget," *Business Standard*, July 5, 2019.

In airports, there are issues with cabotage (rights to enter), and the dominance of the state-owned Air India (although the government is looking to sell its shares in the company). There are also rules around the allocation of slots to airlines that are set by the Airports Authority of India, which favour incumbents over new airlines. Furthermore, the Airports Authority of India is both the operator and regulator of Indian airports.

Private capital is crucial for further investment, and has been used to fund toll roads in particular.[67] One of the best means to attract this is through public-private partnerships (PPPs). The 2015 Kelkar Committee report gave a series of recommendations, arguing that the PPP model's further maturation was urgent. Many private investors want the government to adjust the PPP structure to acknowledge the risk that private investors take on.[68] Another incentive is the full tax exemptions for five years for companies that build roads (and 30% tax exemption for five years following).

Foreign investment and participation

As in resources and communications, the government has opportunistically allowed for 100% FDI in certain sectors. In a bid to facilitate development, it has opened 100% FDI under the automatic route for road, port, and airport construction as well as airport ground-handling services and fleet investment, sweetening the deal with 10 year tax holidays on such projects.[69,70,71] A foreign airline can own up to 49% of an Indian company (at least 51% must be owned domestically), but this can be increased to 74% with the government's approval. In July, the government made a budget announcement to further relax FDI restrictions in aviation.[72]

While roads and airports have recently been opened under the Make in India scheme, ports have been open to 100% FDI for almost two decades. However, investment has not been forthcoming. Until at least 2014, foreign investors have been driven away by complex regulations, taxes inapplicable to ships registered overseas (reducing the competitiveness of Indian-registered ships), and a lack of incentives targeted towards Indian ships.[73] The lack of foreign investment ultimately stalled the Sagarmala program, illustrating the persistence of such problems. Cabotage restrictions have recently been relaxed in 2018, to allow ships registered outside India to carry goods between Indian ports. This should help to increase competition and lower shipping costs.[74]

Opportunity

The main opportunity for India is to improve the quality and capacity of its road network. This would likely require significant private investment, as there will unlikely be sufficient financing directly from government. PPPs provide a means of getting the private investment necessary to build the required infrastructure. In particular, consideration should be given to implementing the recommendations of the 2015 Kelkar Committee. For example, there should be a greater maturity in how risks are assigned to different entities involved in a project.[75]

There is scope to make rail operate more efficiently, so that passenger transport is not subsidised by freight transportation. This would help to optimise the logistics decisions for firms in India,

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67. Nishta Saluja, "Private sector favours Kelkar panel report to boost PPP in infrastructure," *Indian Economic Times*, May 23, 2019.

68. See "Report of the Committee on Revisiting & Revitalising the PPP Model of Infrastructure Development Chaired by Dr. V.Kelkar Released," *Ministry of Finance*, December 28, 2015.

69. Elizabeth Matsangou. "Improving India's ailing road infrastructure," *World Finance*, January 5, 2018.

70. "Shipping Industry and Ports in India," *Indian Brand Equity Foundation*, updated: August, 2019.

71. "Indian Aviation Industry Opening the Gates for FDI under Make in India Scheme," *Machine Maker*, December 8, 2018.

72. Mihir Mishra, "Budget 2019: FDI relaxation may help to find buyers for Air India, Jet Airways," *Indian Economic Times*, July 5, 2019.

73. P. Manoj. "Why India has failed to attract foreign investment in shipping," *Livemint*, updated: January 31, 2014.

74. "A storm is brewing for India's domestic shipping industry," *Ship Technology*, October 8, 2018.

75. "Report of the Committee on Revisiting & Revitalising the PPP Model of Infrastructure Development Chaired by Dr. V.Kelkar Released," *Ministry of Finance*, December 28, 2015.

particularly those firms needing to move raw commodities. There is also the option of creating an independent regulator for Indian Rail, and even considering privatising it to achieve greater competition. Within the current structure, there are also many opportunities to improve the effectiveness of rail assets, in particular scheduling changes and investment in improved signalling and control systems.[76]

In terms of improving the operation of the airline industry, the government could create an independent regulatory body, increase the FDI cap for airlines, and end the need for government approval of foreign airline investment. It could also reform the slot allocation process so that new airlines are more easily able to enter the market.

76. Vivek Sahai and Ameya Pimpalkhare, "Improving asset productivity: The key to revitalising the Indian Railways," *Observer Research Foundation*, February 13, 2019.

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Transport in India

Roads

Roads dominate India's domestic transport landscape, carrying 90% of passenger traffic and 65% of freight.[77] A disproportionate amount of this traffic, in turn, is found on the highways: the National Highways System constitutes only about 2% of the road network, but carries 40% of all vehicular traffic.[78] The rest is spread over millions of kilometres of roads that comprise the third-largest road network in the world (behind China and the U.S., which are both three times larger).[79]

Overall, India ranks 21st in road density, but 52nd in road quality, ranking between the Dominican Republic and Nicaragua. Of the highways that do exist, almost 75% are two lanes wide or less (considering both sides of traffic flow), and 40% of all roads are unpaved.[80] This national figure belies the variation at the state level. For state roads in Uttar Pradesh, India's largest state, the figure is 28%, while in the northeast province of Assam it sinks even lower to a mere 8%. The government has taken several steps over the years to improve the quality of its road infrastructure.

Launched in several phases from 2000, the government's major National Highways Development Program (NHDP) is still being phased in.[81] It has seen moderate success thus far. Most notable is the $13.2 billion 'Golden Quadrilateral' of highways completed in 2012 that links India's major metropolitan centres.[82] In 2017, the government poured even more money into the project, increasing its budget by 24% over the previous year.[83] In 2018, the Prime Minister's announcement of a drastic $108 billion programme to build 83,000 kilometres of road (twice the earth's circumference) seems overly optimistic, as the pace at which he has pledged to build is twice as fast as that of the previous year.[84,85]

In 2000, the same party launched the Pradhan Mantri Gram Sadak Yojana (PMGSY), a central government scheme providing funds for states to connect villages to all-weather roads.[86] The initiative was in response to a census revealing that a third of rural villages lacked an all-weather road connection.[87] By 2010, the government reported that half of these villages had a road connection, and by 2019 it was 91%.[88] The vast majority of roads had been built in only five states, and in a separate survey by the government, only 74% of villages report connection to an all-weather road.[89] Separate smaller-scale projects, however, hold promise.[90] The World Bank, for example, has partnered with the state of Madhya Pradesh to improve its own rural road networks over the coming years.[91]

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77. "Road Infrastructure in India," *India Brand Equity Foundation*, updated: August, 2019; "The Transport Sector in India," *The World Bank*, March 19, 2014.

78. "About NDHP," *National Highways Authority of India*, last accessed September 30, 2019, https://nhai.gov.in/about-nhdp.htm

79. Huw McKay, "The paradox of India's infrastructure," *BHP*, July 5, 2018.

80. The Government counts 70% total as "surfaced" *See: "Statistical Yearbook of India 2018: Roads*," *Ministry of Statistics and Programme Development*, last accessed September 30, 2019, http://www.mospi.gov.in/statistical-year-book-india/2018/190.

81. "About NDHP," *National Highways Authority of India*, last accessed September 30, 2019, https://nhai.gov.in/about-nhdp.htm

82. "Golden Quadrilateral Highway Network," *Road Traffic Technology*, last accessed September 30, 2019, https://www.roadtraffic-technology.com/projects/golden-quadrilateral-highway-network/.

83. PTI, "India's transport infra growth to gain pace over 5 years," *Indian Economic Times*, March 15, 2017.

84. Malu Balanchandran. "The Modi government wants to build over 83,000 km of roads—enough to go around the Earth twice," *Quartz*, October 25, 2017.

85. Elizabeth Matsangou. "Improving India's ailing road infrastructure," *World Finance*, January 5, 2018.

86. Sneha Alexander, and Vishnu Padmanabhan. "Rural road building picked up speed under NDA," *Livemint*, April 14, 2019.

87. Shilpa Aggarwal, "Do rural roads create pathways out of poverty? Evidence from India," *Journal of Development Economics*, 133 (2018): 375-395.

88. Ibid.

89. Sneha Alexander, and Vishnu Padmanabhan. "Rural road building picked up speed under NDA," *Livemint*, April 14, 2019.

90. Ibid.

91. Press Release, "World Bank Approves $210 Million to Improve Rural Road Network in Madhya Pradesh, India", The World Bank March 14, 2018.

Rail

If 65% of freight goes by road, virtually all the rest goes by rail. Railroads constitute around 27% of total freight movement, which is mainly bulk commodities.[92,93] Almost all of it is transported by the monopoly rail company Indian Railways, operated by the Ministry of Railways, the fourth-largest rail network in the world by length. India is one of the few countries in the world with a Ministry of Railways, and the politicisation of railways makes change difficult.[94] The Minister of Railways himself noted in 2015 that "in the last few decades there has been considerable underinvestment in rail infrastructure, thereby reducing the efforts required to expand, strengthen and modernize the Railways."[95] In the absence of a comprehensive framework for capacity-expansion over the last 60 years, the railways have resorted to only incremental improvements.[96] Almost two-thirds of the overall route length consists of single-lines. Less than half of the network is electrified, while large sections of tracks are worn-out and in need of significant maintenance.[97]

The political nature of the rail system has in turn led to an unstable economic situation. Indian Railways undercharges passengers and drastically overcharges freight, contributing to the dearth of rail cargo, while making coal the main earner for freight.[98] The Brookings Institution forecast that "to keep railways solvent based entirely on the cross-subsidy model would result in a freight rise that would make coal (and thus thermal electricity) uncompetitive"—a disastrous outcome for a nation so reliant on coal.[99]

The most notable innovation is a $15 billion joint project between India and Japan to install a bullet train between the commercial capital of Mumbai and the industrial city of Ahmedabad.[100] Yet even this project has fallen behind schedule, as the government is unable to acquire enough private land for the project.[101]

Shipping

While road and rail dominate domestic transport, shipping takes the lion's share—95% by volume and 70% by value—of India's international trade.[102] India's 12 major ports handle 60% of this shipping, but only one ranks in the top 30 of the world's ports in terms of efficiency.[103,104] Overall, India's port efficiency ranks reasonably well, at 43rd globally according to the World Economic Forum. Port investment has struggled to keep pace with trade growth; in an extensive analysis of India's major ports, the primary complaint among traders was congestion and infrastructure constraints.[105] Loading and unloading at a terminal alone takes an average of 32 hours for imports and 28 for exports.[106]

At present, India manages to deal constructively with these capacity issues. While average

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92. "India Freight Transport Market Analysis and Forecasts Report 2015-2020," *PR Newswire*, May 29, 2015.

93. "India Logistics: Clear road ahead," *Edelweiss*, November 26, 2018.

94. Linda Poon, "What It Will Really Take to Fix India's Railways," *Citylab*, October 5, 2015.

95. "Indian Railways: Lifeline of the nation," *Ministry of Railways*, A White Paper, February 2015.

96. Ibid.

97. Huw McKay, "The paradox of India's infrastructure," *BHP*, July 5, 2018.

98. Puneet Kamboj and Rahul Tongia, "Indian Railways and coal: An unsustainable interdependency," *The Brookings Institute*, July 17, 2018.

99. Ibid.

100. "Is the Indo-Japan rail project a boondoggle?," *The Japan Times*, April 25, 2018.

101. Jill Ward, "Don't Expect India's Bullet Train to Be On Time," *Bloomberg*, October 16, 2018.

102. "Indian Railways: Lifeline of the nation," *Ministry of Railways*, A White Paper, February 2015.

103. "Top ports record marginal upswing in FY19 cargo handling at 699 MT," *Indian Economic Times*, April 7, 2019.

104. PTI, "JNPT becomes India's only port to be ranked among world's top 30," *Indian Economic Times*, January 22, 2019.

105. "Port Logistics: Issues and Challenges in India," *Dun & Bradstreet*, 2018.

106. Ibid.

vessel turnaround times are 60 hours (as opposed to 7 hours at either Singapore or Hong Kong's most efficient ports), India has shown steady improvement from years past.[107,108] Conscious of the perpetual need for investment, the government has initiated a massive port infrastructure investment program, known as Sagarmala. Yet funding and the private sector's lack of active participation are proving to be major constraints on its timely progression: only one fifth of scheduled projects have been completed to date.[109,110]

Looming on the horizon is Gwadar Port—a centrepiece of China's Belt and Road Initiative in the China-Pakistan economic corridor—which will impact India's share of trade, yet the extent is difficult to ascertain. Oil, petroleum, and coal comprise most of the cargo handled by Indian ports, while containers only amount to about 20% of cargo by volume.[111,112] Most of this oil and coal is likely destined to feed India's domestic energy appetite. Its importation, dependent on the economic conditions of India as a whole, would therefore not be subject to the introduction of a new regional port in Pakistan. But how much value the container trade contributes to Indian ports and how much of it could be diverted by Gwadar remain open questions.

Air travel

Air travel is the least used mode of freight transport in India, holding only 1% of international trade by volume but about 35% by value.[113] As with ports, wait times at Indian airports are longer than international averages—50 hours for exports and 182 hours for imports in India, versus 12 and 24 abroad.[114] India's top airports, however, perform well internationally.[115] Its two largest airports in Delhi and Mumbai have both been awarded world's best airport by different international organizations.[116] Yet this masks a more diverse story across the country; some airports continue to use physical stamps despite repeated calls from the International Air Transport Association to discontinue the practice. Meanwhile, air traffic has doubled in the past five years but airport infrastructure has remained nearly static.[117]

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107. "India port reforms fuel productivity gains," *JOC*, April 16, 2019.

108. "India Logistics: Clear road ahead," *Edelweiss*, November 26, 2018.

109. P.B. Jayakumar, "The Giant Leap," *Business Today*, September 9, 2018.

110. Megha Manchanda, "Sagarmala drives in slow lane; only 1/5 projects completed since FY16," *Business Standard*, updated: September 18, 2018.

111. "Shipping: Industry and Outlook," *CARE Ratings*, August 13, 2018.

112. "Monthly Traffic at Major Ports," *Indian Ports Association*, last accessed September 30, 2019, http://www.ipa.nic.in/index1.cshtml?lsid=22.

113. "India Freight Market Report 2017 - Research and Markets," *BusinessWire*, December 5, 2017.

114. B. Neeraja, Mita Mehta, and Arti Chandani, "Supply chain and logistics for the present day business." *Procedia economics and finance* 11 (2014): 665-675.

115. "India Logistics: Clear road ahead," *Edelweiss*, November 26, 2018.

116. "Delhi airport ranked number 1 in world in service quality," *Hindustan Times*, March 6, 2018; "Mumbai's International Airport Wins Best Airport Award," *"Awards and Accolades," Chhatrapati Shivaji Maharaj International Airport Mumbai*, last accessed October 4, 2019, https://csia.in/about-mial/awards-accolades.aspx.

117. Saurabh Sinha, "India's air travel to triple by 2037; need to urgently improve airport processes, says IATA," *The Times of India*, updated: March 6, 2019.

BORDER ADMINISTRATION (INDIA RANK: 76TH)

Inefficient and slow bureaucratic trade barriers limit the effectiveness, efficiency, and dynamism of economies, with greater barriers often connected to corruption and cronyism. Our measure of Border Administration considers the time and cost of a country's customs procedures, as distinct from tariff barriers.

India ranks 76th on this measure, rising seven places in the last 10 years. While the country ranks a respectable 42nd in customs efficiency, it takes four days or more to move goods across the border, compared to the eight hour average of OECD high income countries.[118,119,120,121] Consequently, India is placed 133rd out of 157 countries for the time required to comply with border procedures.

Around 95% of India's international trade by volume goes through ports, thus maritime customs are the lynchpin of the nation's overall border administration.[122] Government efforts to modernise and digitise customs at ports have had limited success.[123] India's port customs procedures are, theoretically, simple. In practice however, complexities arise, and delays occur. According to the World Bank Doing Business Survey, while the cost of complying with border procedures is not excessive, India is significantly weaker than many comparable countries (see Figures 4 and 5).

Figure 4: Time to comply with border regulations and procedures

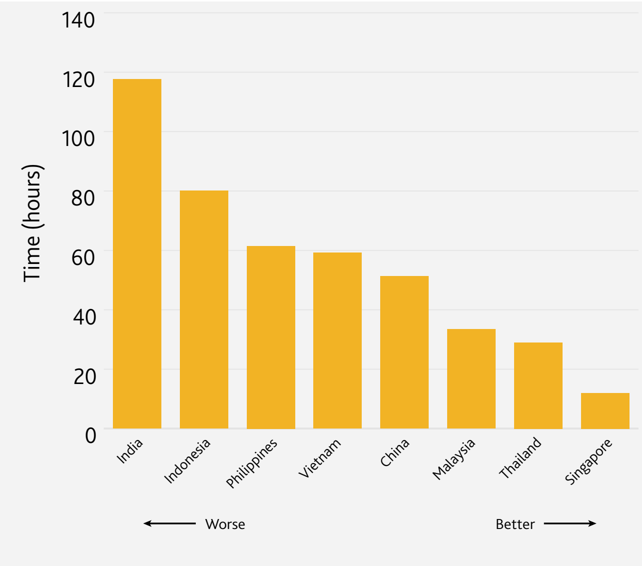
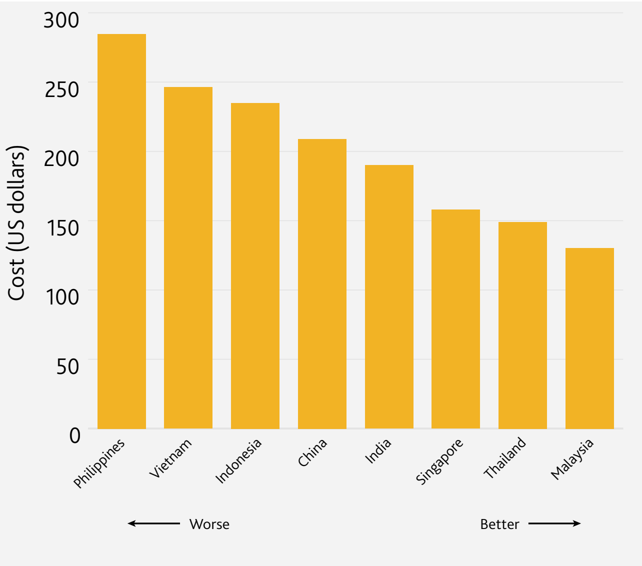


Figure 5: Cost to comply with border regulations and procedures



Source: World Bank Doing Business, 2019

118. "Port Logistics: Issues and Challenges in India," *Dun & Bradstreet*, 2018.

119. Sanjay Kumar Dubey, Deepti Maheshwari and Sangeeta Jauhari, "A Functional Study of India's Customs Port," *International Journal of Scientific Development and Research 3*, no.12 (2018).

120. "Ease of Doing Business in India," *World Bank*, accessed September 30, 2019, https://www.doingbusiness.org/en/data/exploreeconomies/india.

121. Ibid.

122. "Shipping Industry and Ports in India," *Indian Brand Equity Foundation*, updated: August, 2019.

123. "Business Reforms in India," *The World Bank*, 2019, no. 16.

Import procedures

In theory, import procedures should be relatively simple. An incoming ship's captain must electronically submit their ship's inventory within 24 hours of arrival.[124] Goods are then unloaded from the ship to the warehouses and the importer files with customs a 'Bill of Entry' containing a description of his goods, their value, and self-assessed duties.[125,126]

An electronic Risk Management System (RMS) reviews the submission, verifies the self-assessed duty, and dictates whether the goods must be examined by a customs officer.[127] Finally, the importer is charged the duty and his goods released.[128,129] For RMS-facilitated Bills of Entry, the time taken for customs clearance constitutes only a small percentage of the total time taken to import; however, the physical examination of imports for non-facilitated goods drastically prolongs the customs process.[130]

Even this ideal is slightly lacking, as overall Indian customs required five to seven documents in 2017 whereas world-leading Singapore required only four.[131] Despite this, the process remains fairly streamlined.

At India's largest container port, Jawaharlal Nehru Port, only 57% of goods are actually RMS facilitated. Furthermore, many ports have yet to digitise procedures.[132] In some cases, this is due to bureaucratic inertia. In others, the digital architecture used by customs is slow, cumbersome, and has regular crashes.[133] Moreover, customs claims to run 24/7 processing, but staff shortages (even at major ports) often render this impossible.[134]

Analyses show that even under RMS the time from arrival at port to receipt at the importer's premises takes between eight and ten days, while for exporters it's between six and seven days.[135,136] At least 50% of the time is taken by non-customs procedures. These include receiving a berth, unloading goods, transport to warehouses and unpacking of containers, and waiting on lab certifications.[137]

These processes are also riddled with inefficiencies. Even India's best ports lack up-to-date technology, adequate scanners for packages, sufficient storage space, or stable IT systems.[138] The various actors involved—the port authority, customs officials, shipping agents, terminal operators, and the traders themselves—lack a unified digital portal through which to share information, resulting in vastly multiplied documents and communication inefficiencies.[139]

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124. "Import Procedure," *Air Cargo Complex Mumbai Customs*, last accessed September 30, 2019, http://accmumbai.gov.in/aircargo/import/import_procedure.html.

125. "Bill of Entry under Imports," *Howtoexportimport.com*, last accessed September 30, 2019, https://howtoexportimport.com/Bill-of-Entry-under-Imports-in-India-4381.aspx.

126. "Customs Manual 2018," *Central Board of Indirect Taxes and Customs*, updated: December 31, 2018.

127. Ibid.

128. Ibid.

129. "Import Procedure," *Air Cargo Complex Mumbai Customs*, last accessed September 30, 2019, http://accmumbai.gov.in/aircargo/import/import_procedure.html.

130. "Port Logistics: Issues and Challenges in India," *Dun & Bradstreet*, 2018.

131. "Equal Opportunity for All," *Doing Business 2017*, A World Bank Group Flagship Report, no. 14.

132. Ibid.

133. Ibid.

134. Kirtika Suneja. "Govt, exporters to talk customs issues today," *Indian Economic Times*, updated: April 29, 2019.

135. "Port Logistics: Issues and Challenges in India," *Dun & Bradstreet*, 2018.

136. Sanjay Kumar Dubey, Dr. Deepti Maheshwari, Dr. and Sangeeta Jauhari ., "A Functional Study of India's Customs Port," *International Journal of Scientific Development and Research 3*, no.12 (2018).

137. Ibid.

138. Ibid.

139. "Port Logistics: Issues and Challenges in India," *Dun & Bradstreet*, 2018.

Opportunity

The problems with border administration would be alleviated by better infrastructure and systems. In particular, reducing bureaucratic delays and investing in better technology and computerised systems would allow for goods to be processed much more quickly. This would help reduce costs for businesses importing to and exporting from India.

There is also the opportunity to allow the free exchange of goods via all ports, lifting the current restrictions.

OPEN MARKET SCALE (INDIA RANK: 80TH)

The size of the economic opportunity for producers is constrained by the level of openness offered by domestic and international markets. Tariffs on goods faced by exporters in many countries can prevent those firms from selling goods, inhibiting their ability to compete in the global market. We measure the extent to which producers have access to domestic and international markets unhindered by tariffs, and the tariffs faced in destination markets.

Successful trade depends on a number of things, including the regulatory environment that exists within any country. While having access to markets on its own does not guarantee success, it is a critical, if not sufficient, ingredient in any country's trade policy.

India, with its lack of comprehensive trade deals and strong protectionism, ranks 80th for its Open Market Scale. Nonetheless, this represents major progress over the last decade—rising 54 places in the global rankings since 2009 . After independence in 1947, India spent decades trying to survive without international trade. The country's historic reluctance to open its own markets has translated into narrow trade deals and limited access to international markets.

India has free trade agreements with 19 countries.

Current trade deals

India now has free trade agreements (FTAs) with 19 countries, comprising approximately 13% of global GDP. The most prominent of these are with Japan, South Korea, and the Association of Southeast Asian Nations (ASEAN).[140] They commit the signatories to reciprocally lower tariffs and further economic integration.[141,142] On the other hand, India's regional free trade agreement with its direct neighbours, including Pakistan and Bangladesh, is almost a dead letter.[143] While India is a member of Global System of Trade Preferences, a trade group for developing countries to ease tariffs on each other, its participation has been limited.[144]

Yet even these treaties are often deemed to have benefitted the partner countries at India's expense, because India's import-export ratio deteriorated following the implementation of the deals with each country.[145,146]

Three reasons are typically given as explanation. The first is that "notwithstanding India's FTAs with such countries, third-country partners have secured even deeper FTAs with them. For example, in Indonesia, the average tariff for Indian non-agricultural goods was 5.5% in 2012, while that for

140. "India's Existing Free Trade Agreements: An impact analysis of merchandise trade," *Confederation of Indian Industry*, August 2018.

141. For ASEAN-India, for example, see: Ranajoy Bhattacharyya and Avijit Mandal. "India–ASEAN free trade agreement: An ex post evaluation." *Journal of Policy Modeling 38*, no. 2 (2016): 340-352.

142. Amiti Sen, "India to hold talks on upgrading bilateral trade pact with South Korea this week," *The Hindu Business Line*, December 11, 2018.

143. Sanjay Kathuria, ed., "A glass half full: The promise of regional trade in South Asia," *The World Bank*, 2018.

144. "India - Trade Agreements," *US International Trade Administration*, last published May 8, 2019.

145. Ranajoy Bhattacharyya and Avijit Mandal. "India–ASEAN free trade agreement: An ex post evaluation." *Journal of Policy Modeling 38*, no. 2 (2016): 340-352.

146. Nikita Kwatra and Tadit Kundu, "Can regional trade agreements boost India's exports?," *Livemint*, August 14, 2018.

Chinese goods was 2.1%, as a result of China-ASEAN FTA. In other words, the FTAs among these partner countries were more liberal, both in terms of coverage and depth in tariff concession."[147]

The second, relatedly, is that Indian exports are simply non-competitive, in comparison to these export-driven countries' offerings to one another.[148,149,150] And finally, even with the implementation of trade agreements, Indian merchants make little use of them. The lack of information on FTAs, low margins of preference, administrative costs associated with rules of origin, and non-tariff measures render compliance very costly.[151]

Major trade partners not covered by trade deals

Yet it is crucial to remember that, while some of these regional trade partners are in India's top 10 export markets, they are certainly not the largest. If the share of India's exports taken by Singapore, Japan or Korea doubled, it would not reach the level of its largest trade partners, namely the U.S., the EU, the United Arab Emirates (UAE), or even China. Yet India does not have a trade deal with these countries, other than China.[152]

India and China are both party to the Asia-Pacific Trade Agreement (APTA), an agreement in place since the 1970s, which intends to reciprocally reduce trade barriers, but does not rise to the level of a FTA.[153]

India thus faces the full—and noticeable—force of tariffs imposed by these countries. India's largest export, for example, is refined petroleum (10% by value).[154] The two main importers of this refined petroleum are the UAE, which imports 14% of the total, and the U.S., which imports 8%.[155,156] The former imposes a 5% tariff on such products, the latter over 6%.[157] The world weighted-average tariff, by contrast, is only 2.6%.[158] Or take diamonds, India's second largest export (9% by value).[159] The two largest importers are again the U.S. (31% of total) and the UAE (8.5% of total); the U.S. imposes anywhere between a 0% and 10% tariff, while the UAE imposes a consistent 5% tariff.[160]

Clouds are also darkening over India's trade relations with the U.S. The American Government recently scrapped trade privileges for India under the Generalized System of Preferences (GSP), a tariff system meant to benefit developing countries. In response, India has placed higher tariffs on 28 U.S. products, stoking talk of a potential 'trade war'.[161]

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147. "India's Existing Free Trade Agreements: An impact analysis of merchandise trade," *Confederation of Indian Industry*, August 2018.

148. Nilesh Shah, "Why aren't Indian exports growing?," *Livemint*, December 19, 2012.

149. "Exports of goods and services (% of GDP)," *World Bank*, last accessed September 30, 2019, https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS.

150. Parthapratim Pal and Mitali Dasgupta, "The ASEAN-India free trade agreement: An assessment." *Economic and Political Weekly* (2009): 11-15.

151. VK Saraswat, Prachi Priya and Aniruddha Ghosh, "View: India must tread carefully on free trade agreements," *Indian Economic Times*, May 7, 2018.

152. "India's Trade Agreements: Dynamics and Diagnostics of Trade Prospects," *PHD Research Bureau*, May 2018.

153. "China-India Regional Trade Arrangement Joint Feasibility Study," *China FTA Network*, last accessed September 30, 2019, http://fta.mofcom.gov.cn/topic/enindia.shtml .

154. "India," *Observatory of Economic Complexity*, last accessed September 30, 2019, https://oec.world/en/profile/country/ind/#Exports.

155. Most of the UAE's oil is crude, and it imports refined petroleum to power machinery and vehicles. See: "United Arab Emirates," *US Energy Information Administration*, last updated: March 21, 2017.

156. Ibid.

157. "Tariff Download Facility," *World Trade Organization*, last accessed September 30, 2019, http://tariffdata.wto.org/default.aspx.

158. "Tariff rate, applied, weighted mean, all products (%)," *World Bank*, last accessed September 30, 2019, https://data.worldbank.org/indicator/tm.tax.mrch.wm.ar.zs.

159. "India," *Observatory of Economic Complexity*, last accessed September 30, 2019, https://oec.world/en/profile/country/ind/#Exports.

160. "Tariff Download Facility," *World Trade Organization*, last accessed September 30, 2019, http://tariffdata.wto.org/default.aspx.

161. "Trump calls India's tariff hike 'unacceptable,' demands its withdrawal," *CNBC*, June 27, 2019

Overall, in 2017 the weighted-average tariff on exports to the EU, India's largest export market, was 4.4% for non-agricultural products, while non-agricultural exports to both the U.S. and the UAE faced a weighted-average 2.9% tariff, again above the world average.[162] The lack of FTAs thus weighs upon India's exports in a real sense. Overall, the country ranks only 96th in domestic and international market access for goods, and 75th for services, with exporters facing average trade-weighted tariffs of 4.2%, some of the world's highest.

Trade in services

In addition to rising exports, imports, and number of free trade agreements, there has been a rise of India's trade in services. The cumulative value of India's overall goods and services exports during the months of April–June 2019 was estimated at $137.26 billion, registering a growth of 3.1%.[163] There is increasing recognition of the role services play in India's economy, with services now making up to almost 50% of India's GDP, up from 30% in 1970.[164] Services already account for one-third of India's trade, and forms a significant share of the emerging economies primary resource: human capital.[165] Not only have services led to being a key driver of India's economic growth and exports, it has also helped to direct India's emergence as one of the fastest growing nations in global services trade. Its services exports have witnessed a growth in commercial services from $156.6 billion to $204.5 billion in 2018, followed by telecommunications, computer, and information services, which grew from $54.5 billion to $58.25 billion.[166] With this growth, comes also the need for good practices of regulatory diplomacy, to ensure India remains, and is established as a strong services exporter with a better institutional framework to regulate, measure, and trade services.

Future trade deals

Winds have shifted recently in India's trade prospects, both for better and for worse. On the one hand, negotiations with the EU have recently resumed, India is looking to broaden its trade deal with South Korea, and the government had shown interest in joining the Regional Comprehensive Economic Partnership (RCEP), a proposed free trade block that would be largest in the world.[167,168,169] However, India finally rejected the trade deal, as propositions regarding strict country of origin norms targeted at China were broadly opposed by other potential members.[170] With a Prime Minister torn between business-friendly policies and nationalistic ones, it is unclear where India's trade policy will go.

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162. "India: Tariffs and Imports," *World Trade Organization*, last accessed September 30, 2019, https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/IN_E.pdf.

163. "India's Goods and Services Trade in June 2019", Press Information Bureau, Government of India, Ministry of Commerce and Industry, July 15, 2019

164. Timothy Taylor, "The Rise of Global Trade in Services", *BBN Times,* October 21, 2019.

165. Akshay Mathur, "Embracing Trade in Services", *Gateway House,* March 8, 2018; Atlas of Economic Complexity

166. "India in World Trade", *Trade Promotion Council of India*, last accessed November 11, 2019, https://www.tpci.in/research_report/india-services-trade/.

167. Sangeeta Khorana., "Is Brexit an opportunity to revive the EU-India trade deal?," *The Conversation*, March 26, 2019.

168. Amiti Sen, "India to hold talks on upgrading bilateral trade pact with South Korea this week," *The Hindu Business Line*, December 11, 2018.

169. "RCEP next steps: on India's free trade agreement," *The Hindu*, June 27, 2019.

170. Kirtika Suneja. "13 RCEP nations oppose India's strict country of origin norms," *Indian Economic Times*, June 12, 2019.

EU negotiations

India's negotiations with the EU exemplify the challenging nature of signing a trade deal. The EU is India's largest export market, yet the two have been unable to finalise a free trade deal despite negotiations starting in 2007.[171,172] Talks first foundered in 2013, after it became clear that reaching an agreement contingent upon Indian tariff reductions and market access, as well as the inclusion of social, environmental and human rights clauses, would be impossible.[173,174] This is not to say India's tariffs were the only sticking point: India wants more visas to be granted to its skilled workers in the service sector and to be designated a 'data-secure nation', the latter comprising an EU statutory status facilitating data transferral from Europe to such a nation "without any further safeguard being necessary."[175,176] The EU has been unwilling to accede to such demands, also hampering the process. But it is notable that while India's qualms were over data status and labour movement, Europe's were over basic tariff levels.

Opportunity

India needs expanding markets for its exports, free entry for outward investment by its multinationals, and few restrictions on its own emigrants in other countries. To do so, it will need to offer reciprocal concessions. Hence, India could be more active in securing reciprocal trade agreements, and there is the opportunity to sign more trade deals with the rest of the world.

The potential trade deal with the EU could be enormously beneficial for the Indian economy. There is also the need to work out the U.S. trading relationship post-GSP. In particular, India should work out what protections need to be given up in order to secure access to American markets. India would have been the third-biggest economy in the RCEP, which comprises half of the world population and accounts for approximately 40% of global commerce and 35% of the GDP. While this trade deal generated immense domestic opposition from various stakeholders, not joining the RCEP is a missed opportunity to gain better access to global markets.[177] It is important that India continue to define its long-term ambition for joining global trade agreements, including how it plans to change its own policies over time.

Part of what could help would be to make its "trade policy architecture nimbler and more proactive, driven by career trade specialists rather than bureaucrats".[178] Furthermore, ensuring a focus on India's commercial interests would help to deliver trade deals that are beneficial for exporters.

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171. "India," *European Commission*, last accessed September 30, 2019, http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/index_en.htm.

172. Sangeeta Khorana, "Is Brexit an opportunity to revive the EU-India trade deal?," *The Conversation*, March 26, 2019.

173. Ibid.

174. Hans Von Der Burchard, "EU hopes Brexit will help deliver an India trade deal," *Politico*, updated: April 12, 2018.

175. Sangeeta Khorana, "The FTA: a strategic call for the EU and India?," *European Council on Foreign Relations*, last accessed September 30, 2019, https://www.ecfr.eu/what_does_india_think/analysis/the_fta_a_strategic_call_for_the_eu_and_india.

176. "Adequacy Decisions," *European Commission*, last accessed September 30, 2019, https://ec.europa.eu/info/law/law-topic/data-protection/international-dimension-data-protection/adequacy-decisions_lt.

177. Harsh V. Pant, "The China factor in India's RCEP move," *The Hindu*, November 9, 2019.

178. Asit Mishra, "India faces difficult trade test amid US-China row, rising protectionism," *Livemint*, May 30, 2019.

IMPORT TARIFF BARRIERS (INDIA RANK: 152ND)

Typically, tariffs to trade raise the price of products and reduce the volume of trade, creating barriers between people and the true market value of goods. We evaluate the average applied tariff rate, the complexity of tariffs, and the share of imports free of tariff duties.

India has some of the highest barriers to trade in the world. Due to the extensive use, complexity and severity of tariffs, India ranks only 152nd out of the 157 countries in the Index for Import Tariff Barriers.

A crucial element of the 1991 reforms was the reduction of restrictions to international trade and foreign investment. The average applied tariff rate has fallen from 80% in 1990. Nonetheless, India still levies tariffs on over 80% of its imports (one of the highest figures globally), and its simple-average applied tariff rate is 8.9%.[179] Furthermore, there are compound tariff rates, which tax the same importer multiple times for the same product.

As part of the liberalisation, India reduced its applied tariffs but not its bound tariffs. Consequently, the published bound rates (in other words, the maximum rate of raise pledged by the government to the WTO) are a lot higher than the current rates. This was driven by a desire to safeguard the nation's sovereignty—thereby preserving the freedom to reverse liberalisation selectively.[180] As articulated by the U.S. International Trade Administration, "given this large disparity between bound and applied rates, U.S. exporters face tremendous uncertainty because India has considerable flexibility to change tariff rates at any time."[181]

179. "Tariff rate, applied, simple mean, all products (%)," *World Bank*, last accessed September 30, 2019, https://data.worldbank.org/indicator/tm.tax.mrch.sm.ar.zs.

180. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

181. "India - Import Tariffs," *US International Trade Administration*, last accessed September 30, 2019, https://www.privacyshield.gov/article?id=India-Import-Tariffs.

India's protectionism

This protectionism is deeply rooted in Indian history. From the country's birth in 1947, leaders of all political parties sought 'economic independence' to buttress their newfound political independence.[182] A balance of payment crisis in 1956-57 cemented this dedication to autarky, and for the next 20 years trade steadily suffocated in the grip of rent-seeking industrialists, ambitious bureaucrats, politicians bent on Indian self-sufficiency, and socialists wishing to mimic the economic model of the Soviet Union.[183,184] Thus the share of non-oil, non-cereals imports in GDP fell from an already low 7% in 1957-58 to 3% in 1975-76.

Reform came in earnest only in 1991. A balance of payment crisis shook the country once again, pushing it to the door of the IMF, which bailed out the government on the condition of trade liberalisation.[185] The following record growth in the 2000s helped tame India's protectionist tendencies. But those tendencies have triumphed in some areas (like agriculture), with their mark lingering in others.[186]

While the incumbent Bharatiya Janata Party (BJP) that was in power from 1998 to 2004 did considerably liberalise the economy, its reforms were sponsored by a notably free-trade prime minister and finance officials.[187,188] Other parts of the party were less enthused about these reforms.[189] Like the socialist regimes that ruled India in its first decades, these parts of the party sought to create a self-sufficient country. It feared that foreign trade and investment could dilute Indian culture and be the thin end of a wedge for foreign domination.[190] Such a stance is supported by the lobbying of small farmers and labour unions, both of whom have arms in the BJP and are formidable voting blocks.[191,192]

The government places its highest tariffs on raisins and coffee (100%), alcoholic beverages (150%), and textiles (some ad valorem equivalent rates exceed 300%), but tariffs for most agricultural products remain similarly high.[193] India's main imports are crude petroleum, on which it places a 5% tariff; gold, with a 10% tariff; and diamonds, another 10% tariff.[194,195] In 2018, India raised the tariff rate on coal briquettes, India's fourth largest export, from 2.5% to 10%.[196] Together, these four commodities comprise 40% of India's imports by value.[197]

182. Swaminathan S. Anklesaria Aiyar., "India's New Protectionism Threatens Gains from Economic Reform," *Cato Institute*, October 18, 2018.

183. Ibid.

184.Arvind Panagariya, "India's Trade Reform," *Brookings Institute*, India Policy Forum 2004

185. Szu Ping Chan, "Why India is one of world's most protectionist countries," *BBC*, April 11, 2019.

186. Swaminathan S. Anklesaria Aiyar., "India's New Protectionism Threatens Gains from Economic Reform," *Cato Institute*, October 18, 2018.

187. Arvind Panagariya, "India's Trade Reform," *Brookings Institute*, India Policy Forum 2004.

188. Swaminathan S. Anklesaria Aiyar., "India's New Protectionism Threatens Gains from Economic Reform," *Cato Institute*, October 18, 2018.

189. Ibid.

190. Ibid.

191. Szu Ping Chan., "Why India is one of world's most protectionist countries," *BBC*, April 11, 2019.

192. Swaminathan S. Anklesaria Aiyar., "India's New Protectionism Threatens Gains from Economic Reform," *Cato Institute*, October 18, 2018.

193. Trade and Agriculture Directorate Committee for Agriculture, "Review of Agricultural Policies in India," *Organisation for Economic Co-operation and Development*, July 4, 2018.

194. "India," *Observatory of Economic Complexity*, last accessed September 30, 2019, https://oec.world/en/profile/country/ind//#Exports.

195. "Tariff Download Facility," *World Trade Organization*, last accessed September 30, 2019, http://tariffdata.wto.org/default.aspx.

196. Ibid.

197. "India," *Observatory of Economic Complexity*, last accessed September 30, 2019, https://oec.world/en/profile/country/ind//#Exports.

India is ranked 105th for the complexity of its tariffs.

The averages discussed above likewise neglect the complexity of the Indian tariff system. In 2016, the World Economic Forum ranked India 105th for the complexity of its tariffs.[198] While the implementation of the unified Goods and Service Tax in 2017 somewhat eased the burden, the tariff system is still blemished by unanticipated factors, namely multiple differing rates and various surcharges.[199] Although the Indian Government does publish customs tariff rates, there is no single official publication that provides complete information on import tariffs and tax rates.[200]

The complexity and unpredictability of tariff rates is unlikely to be resolved, due to increased protectionism. Many Indian commentators see replacing foreign imports with domestically produced goods as the inspiration behind the Prime Minister's 'Make in India' campaign, signalling a possible return to protectionism.[201,202,203,204,205] The government's 2019 Union Budget points to such a resurrection, with the BJP raising tariffs on 37 goods.[206] The move concentrated tariffs on electronics, intending to bolster the government's 'Make in India' industrial campaign; chemicals, plastics and rubber; paper; automobile and steel. China is likely to be the most impacted trade partner, accounting for one fourth of the affected items by import value.

The Prime Minister also seemed comfortable raising tariffs on the U.S., as retaliation firstly for Washington's refusal to exempt Delhi from higher taxes on steel and aluminium imports, and secondly for their decision to rescind India's preferential trade status in 2019.[207] It is far too early to say whether the Prime Minister will turn his back on the liberalising trend for good, but India's tariff barriers show little sign of being torn down soon.

Import restrictions and quotas

Quotas play a relatively small role in Indian trade policy, and are concentrated in agricultural sectors. There are still a few quotas lingering from the heyday of protectionism, but these are confined to imports from specific neighbours like Bangladesh or Nepal, or products like marble and pulse vegetables.[208,209,210] India also makes use of tariff rate quotas on certain agricultural products.[211]

The Directorate General of Foreign Trade (DGFT) maintains a list of items with restrictions on imports into the country.[212] As of October 2019, the list by DGFT had 428 restricted items. Amongst others, these include livestock, certain types of flora and fauna, arms and ammunitions, and communications equipment. In addition, around 88 items are prohibited from being imported. Products under price controls include medical devices such as coronary stents and knee implants. Quotas also still exist for milk, corn and oils.

198. "Global Enabling Trade Report," *World Economic Forum*, last accessed September 30, 2019, http://reports.weforum.org/global-enabling-trade-report-2016/technical-notes-and-sources//.

199. "India - Import Tariffs," *US International Trade Administration*, last accessed September 30, 2019, https://www.privacyshield.gov/article?id=India-Import-Tariffs.

200. Ibid.

201. Ibid.

202. Vivek Dehejia, and Pravin Krishna. "India's protectionist folly," *Livemint*, February 12, 2018.

203. Narendar Pani., "Budget smacks of a return to protectionism," *The Hindu Business Line*, July 5, 2019.

204. Tadit Kundu., "Will protectionism help govt's 'Make in India' plan?," *Livemint*, July 16, 2019.

205. Natasha Agarwal, "Data: where India's trade protectionism lies?," *Observer Research Foundation*, May 29, 2018.

206. Narendar Pani., "Budget smacks of a return to protectionism," *The Hindu Business Line*, July 5, 2019.

207. "India announces retaliatory trade tariffs against the US," *BBC*, June 15, 2019.

208. "India rejects request to remove import quotas on four Nepali products," *Kathmandu Post*, February 12, 2019.

209. Sanjay Notani, "International trade in goods and services in India: overview," *Thomson Reuters Practical Law*, last accessed September 30, 2019, https://uk.practicallaw.thomsonreuters.com/w-009-2204?transitionType=Default&contextData=%28sc.Default%29#co_anchor_a637237.

210. Madhvi Sally, "Pulses import quota for processors likely to be raised," *Indian Economic Times*, May 27, 2019.

211. Trade and Agriculture Directorate Committee for Agriculture, "Review of Agricultural Policies in India," *July 4 2018*, p. 187.

212. "Restricted Items," *Director General of Foreign Trade*, last accessed October 9 2019, . http://dgft.gov.in/policies/restricted-items

For example, in 2017 and 2018, various pulses (including peas and some types of lentils) were made subject to import restrictions. In July 2017, the Indian Government published trade notices announcing that it had increased the import quota on various pulses; yet the report prepared by the Office of the U.S. Trade Representative pointed to processing delays caused by extensive clearance documentation required by the customs authority.

Opportunity

For consumers to see better-priced goods and for the development of its industries, India has an opportunity to reduce the complexity, rate, and number of tariffs. In particular, focussing on tariffs on highly tariffed intermediate goods might help to boost manufacturing. Furthermore, any willingness to lower tariffs will lead to a greater likelihood of trade deals.

Other solutions include reducing the use of quotas to avoid shifting back to protectionist ways, and simplifying the tariff structure by bringing the applied and bound rate together.

MARKET DISTORTIONS (INDIA RANK: 63RD)

Market Distortions hinder one of the most compelling and powerful forces of the market: fair competition. The true value of goods changes price through state interference, resulting in a society that supports inefficient and ineffective industries. These distortions can arise from both regulatory restrictions as well as subsidies, and can thus damage the prosperity of a nation, as the state's finite resources are inefficiently managed and diverted from projects that could deliver much greater benefits to society. Our measure of Market Distortions evidences the disruption of competitive markets, as caused by subsidies, taxes, and non-tariff measures (NTMs).

By their very nature, Market Distortions can be difficult to measure, with broader conclusions often drawn from proxy measures. India's rank of 63rd for Market Distortions represents the impact of the muted effect of taxes and subsidies on much of its domestic economy and the government's behind-the-border barriers including import licences, regulatory standards, and labelling requirements.

Import licences

The country continues to require import licenses for sectors it wishes to protect from competition, such as the automobile industry, electronics, defence, and certain "small scale industries".[213,214] Indeed, for some, the government bans private importation entirely and monopolizes the trade itself, mainly for current petroleum products, bulk agricultural products (such as grains and vegetable oils), and some pharmaceutical products.[215] Nonetheless, India is steadily replacing licensing and discretionary controls over imports, through both deregulation and simpler import procedures.[216]

Standards compliance

More pervasive in the realm of non-tariff measures are country-of-origin, labelling, and standards requirements. The World Bank reports that such NTMs are most pervasive in India for textiles and food products—domestic sectors the government earnestly favours.[217,218]

213. "India - Trade Barriers," *US International Trade Administration*, last published: August 2, 2019.

214. "India - Import Requirements and Documentation," *US International Trade Administration*, last published: August 5, 2019.

215. "List of Items under STE for imports," *Directorate General of Foreign Trade*, last accessed September 30, 2019, https://www.dgft.gov.in/document/ste-items.

216. "India - Import Requirements and Documentation," *US International Trade Administration*, last published: August 5, 2019.

217. "India Non-Tariff Measure (NTM) Summary," *World Integrated Trade Solution*, last accessed September 30, 2019, https://wits.worldbank.org/tariff/non-tariff-measures/en/country/IND.

218. Swaminathan S. Anklesaria Aiyar., "India's New Protectionism Threatens Gains from Economic Reform," *Cato Institute*, October 18, 2018.

But their ambit extends further: according to the Bureau of Indian Standards (the government agency responsible for maintaining domestic and foreign goods at Indian norms), there were 18,781 standards in effect as of March 2016. Of these, only 5,119—less than 30%—harmonise with international standards, leading to criticism from the U.S. Trade Representative who described labelling regulations as "onerous" and "India specific".[219,220] It has also raised concerns about the lack of clarity around labelling packages that contain genetically engineered goods.[221]

There are 109 products, from electronics to cement to dried milk, subject to mandatory compliance with specified Indian quality standards.[222,223] Generally, these 109 products must be tested and certified by the Bureau of Statistics in India, with prohibitively stringent standards in place for those becoming licensed certifiers overseas.[224] The Office of the U.S. Trade Representative has raised concerns about the requirement of a 'No Objection' certificate from state governments for importing animal genetics, while domestic producers are not required to do so, and the latest policy for mandatory testing and certification for telecommunications equipment by Indian laboratories.[225]

The workings of these testing agencies are slow and opaque. At Jawaharlal Nehru Port, for example, the average time taken by the Food Safety and Standards Authority of India (FSSAI) was 7.9 days for the issuing of a provisional 'No Objection' certificate.[226] Many agencies provide only manual clearance, requiring a completely separate paper trail that undermines previous government efforts to unify all paperwork under one 'single window'.[227]

Tax and subsidies

Market prices can be distorted through taxes, subsidies, and price controls. Numerous sectors—from textiles to apparel, paper to toys, leather goods to wood products—receive various forms of assistance, including exemptions from customs duties and internal taxes.[228] To promote exports, India not only continues to offer subsidies to its textiles and apparel sector, it seeks to expand the relevant programmes. Other domestic support is provided to several industries to make them competitive on an international scale.[229] Such policies mesh with and strengthen the import restrictions in those same industries against foreign competition.

In two sectors, agriculture and energy, subsidies are particularly important. India has long protected its farmers, with the agricultural sector never truly experiencing the liberalising forces in the rest of the Indian economy.[230,231] Even today the government spends nearly 20% of its budget on measures that suppress domestic food prices, support food producers, and maintain import trade barriers.[232] Fertiliser subsidy takes the lion's share (47%) of all subsidies and the

219. "Trade Standards in India: What You Need to Know for India Bound Exports," *Dezan Shira and Associates*, last accessed September 30, 2019.

220. Bradley Dunseith, "Labelling and Customs Regulations in India," *Dezan Shira and Associates*, March 28, 2017.

221. Office of the United States Trade Representative (2019). "2019 National Trade Estimate on Foreign Trade Barriers, United States," *United States Trade Representative*, 2019.

222. Vasundhara Rastogi, "India Mandates BIS Certification for Import of IT and Electronic Products," *India Briefing*, January 16, 2019.

223. "India - Standards for Trade," *US International Trade Administration*, August 5, 2019.

224. Ibid.

225. Office of the United States Trade Representative (2019), "2019 National Trade Estimate on Foreign Trade Barriers, United States," *United States Trade Representative*, 2019.

226. "Port Logistics: Issues and Challenges in India," *Dun & Bradstreet*, 2018.

227. Ibid.

228. "India - Trade Barriers," *US International Trade Administration*, last published: August 2, 2019.

229. Ibid.

230. Swaminathan S. Anklesaria Aiyar., "India's New Protectionism Threatens Gains from Economic Reform," *Cato Institute*, October 18, 2018.

231. Arvind Panagariya, "India's Trade Reform," *Brookings Institute*, India Policy Forum 2004.

232. Peter Varghese, "An India Economic Strategy to 2035," *Australian Department of Foreign Affairs and Trade*, April 27, 2018.

budgetary allocation.[233] Major market-distorting regulations include the Essential Commodities Act and Agricultural Produce Market Committee Act that restrict price, supply, and distribution for domestic producers: this hinders the development of private markets.[234] The current government has furthered these policies. In 2018, it announced a lifting of the minimum support price of crops—the price at which the government guarantees to purchase crops if the market falls below this threshold—to 50% over production costs.[235] It has also pledged to double farmer's incomes from 2016 to 2022 using a $360 billion fund.[236]

The energy sector is also distorted. The government officially spent $23 billion in 2017 on energy subsidies, with distribution and transmission companies taking over half.[237] Such subsidies represent a hefty 10-30% of distribution company funds, whose finances are in dire straits, due to the regulation that dictates the price at which power is sold to consumers (see "Resources" for more detail).[238] Around 70% of India's energy subsidies aim to keep prices low for consumers or to connect households with modern energy, such as the Ujjwala program for cooking gas or the Saubhagya program for electricity.[239] Most of this spending on energy consumption, particularly electricity, is poorly targeted, with many benefits being captured by higher-income households.[240]

Subsidies in India

Historically, the range and magnitude of subsidies provided by the union and state governments in India have been quite large, although they are not as large in absolute terms as either the U.S. or China. Subsidies are broadly classified as merit subsidies, which consisted of goods and services deserving of subsidies, and non-merit subsidies, which have no rationale behind their subsidisation. Some examples of merit subsidies are elementary education, prevention and control of diseases, social welfare and nutrition, soil and water conservation, and ecology and environment.[241] Trends show that the non-merit category has been receiving a much larger share of the total allocated budget. Most subsidies are classified under revenue expenditures of the government, with explicit central government budgets being: i) Food, ii) Fertilizers, iii) Petroleum, iv) Export, v) Railways, vi) Interest subsidy, and vii) Debt relief to farmers. Food subsidies form the highest share of total subsidies, their average share being around 48% between 2014-15 and 2016-17. Fertilizer subsidies had the second highest share at around 27%. Between 2013-14 and 2017-18, the share of major subsidies — which include petroleum, fertilizer, and food subsidies — has declined from 2.2% of GDP to 1.1% of GDP.[242]

In recent years, there has been an increasing tendency to resort to off-budget financing of subsidies. The primary means for this is to deter payment of subsidy bills to the next financial year. In a 2018 report, the Comptroller and Auditor General of India (CAG) noted that these liabilities are growing. For instance, in the year 2016-17, the fertilizer subsidy expenditure was INR 701,000 million while the carryover liability was INR 390,570 million.

233. Zia Haq, "Subsidies may be a hidden culprit in India's farm crisis," *Hindustan Times*, November 2, 2018.

234. Ibid.

235. "What is minimum support price (MSP) and does it really benefit farmers?," *India Infoline News Service*, September 9, 2018.

236. Tom Miles, "Trump and Modi's lavish farm payouts prompt questions at WTO," *Reuters*, June 17, 2019.

237. "India's Energy Transition: Subsidies for Fossil Fuels and Renewable Energy," *International Institute for Sustainable Development*, December 2018.

238. "Electricity Subsidies In India And Its Impact On Distribution Company Finances," *Prayas Energy Group*, May 29, 2019.

239. "India's Energy Transition: Subsidies for Fossil Fuels and Renewable Energy," *International Institute for Sustainable Development*, December 2018.

240. Tara Laan and Vibhuti Garg., "India's Energy Subsidies Moving in the Right Direction," *International Institute for Sustainable Development*, last accessed September 30, 2019, https://www.iisd.org/library/indias-energy-subsidies-right-direction.

241."Budget Subsidies in India", National Institute of Public Finance and Policy, New Delhi, 2013.

242 "Economic Survey 2018-19", Volume II, Government of India New Delhi, 2019.

Under the Essential Commodities Act 1955, the government can set the price of certain commodities (such as foods, cotton, iron, petroleum, auto parts, pharmaceuticals, textiles, steel products). The government can also regulate the manufacture and distribution of these commodities.

There are price controls in a number of industries, which undermine the attractiveness of those industries for foreign investors. In the medical sector, price controls, labelling requirements, and complex regulation limit competition, meaning that many devices are simply not imported. Removing them would significantly increase the size of the medical market.

Other examples include food, oil-related products such as kerosene, cooking gas, aviation fuel, coal, natural gas, fertiliser, electricity, water, and rail services. They are all sold at well below their production cost.

Opportunity

There are a large number of sectors where greater competition would improve Indian industry and long-term competitiveness. In general, India could better enforce World Trade Organisation (WTO) treaties, considering it is a member of the organisation. There are a number of other changes India could make. First, it could remove requirements for importers of particular products to have import licences.

Second, country-of-origin, labelling, and standards requirements could be reduced or designed to align with global standards. Furthermore, India could eliminate restrictions on genetically modified organisms, aligning with WTO principles.

Thirdly, India could end price controls. In particular, India could end them on medical devices and on drugs, which would make competition fairer between domestic and foreign producers.

Fourthly, there is also an opportunity to reduce government subsidies across the board. In particular, the government should revisit the subsidy allocation in fertiliser and fuel. The challenge is to do this in a way that still allows the government to achieve other objectives, such as stable prices for consumers and farmers. Fewer subsidies would ultimately benefit both Indian consumers and the government—more competition would lead to better access to goods, while the government would have funds to allocate elsewhere, including transfer programs to compensate the poorest in society and to stabilise their income.


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INVESTMENT ENVIRONMENT (INDIA RANK: 76TH)

Ideas and businesses need investment to develop and grow effectively. Long-established businesses and new entrepreneurs both require investment, while the investors need the protection and confidence to back them; without secure property rights, investment becomes scarce.

Over the last four decades, international financial market sophistication has grown considerably, alongside economists' understanding of the role of capital in economic growth and prosperity.[1,2] A good Investment Environment will ensure that domestic and foreign financing is available for commercial ventures, allowing micro-enterprises to grow into Fortune 500 companies.

INDIA SWOT Analysis of Investment Environment

STRENGTHS	WEAKNESSES
• Liberalising sectors that were previously closed to private investment • New bankruptcy code formalises existing frameworks, frees up bank lending by removing bad loans, and boosts court capacity • Alignment with international intellectual property and licensing standards, such as WIPO, as well as individual trading partner regimes e.g. Japan • Growing venture capital activity, particularly on large transactions with international interest such as Amazon and Walmart (which owns Flipkart)	• Problems in contract enforcement, due to lack of capacity in courts and widespread corruption • High rates of piracy, counterfeiting, breach of copyright in major industries, software, and the government's ineffective management of apparel • Poor asset quality in the banking sector, leading to low capital availability for businesses • Ongoing discord between the Reserve Bank of India (RBI) and the central government over loosening monetary policy has added to uncertainty • For foreigners wishing to work, registration procedures and limitations on work are comparatively stringent
OPPORTUNITIES	**THREATS**
• Reforming the banking system to increase the availability of capital to the private sector • Further improving the IBC to help facilitate insolvency in a wider range of circumstances • Digitising land ownership will help with property transfer and land administration • Greater strengthening of intellectual property rights to attract foreign investment, as well as protecting highly innovative Indian firms • Investing in court systems to speed up contract enforcement • Further removing restrictions on FDI to open up the market to more capital and increasing the number of countries whose citizens are given short-term visas on entry should also help attract foreign investment	• Vulnerability in parts of the banking system, which could affect credit availability • The real or perceived risk of expropriation by the government could prevent businesses from making decisions to expand or invest.

1. Anne O. Kreuger. "Financial markets and economic growth," *IMF*, September 28, 2006, https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp092806.

2. Stanley Fisher. "The importance of financial markets in economic growth" *(Speech*, Campos de Jordao, Brazil, August 21, 2003), Citigroup.

Evaluating Investment Environment

The structural aspects of how to measure an Investment Environment reveal two overriding concerns: how effectively investments are protected, and whether the infrastructure facilitating the flow of investment to opportunities is present.

We measure the quality of a given Investment Environment through analysing a number of indicators of the health of the **Financing Ecosystem**, including the availability of equity, debt financing, and the cost of bank lending.

Investor Protection is one of the key responsibilities of any government wishing to attract any sustained investment, either foreign or domestic. Investor Protection ranges from legal safeguards to the availability and disclosure of a company's financial performance.

We measure the extent to which **Property Rights** are protected; a genuine protection and enforcement of rights serves to drive economic growth. If ideas are welcomed and legally protected, they can be backed by investment.

An investor also needs to be confident that commercial agreements can be upheld, rendering the quality of **Contract Enforcement** a key concern.

Finally, we assess the **Restrictions on International Investment**. The benefit of international investment goes beyond supporting the accumulation of capital—it also facilitates the transfer of technology, know-how, and skills, while helping local firms access foreign markets.

India is ranked 76th for the Investment Environment, down one place since 2009. Its strongest element is Financing Ecosystems, where it comes 36th, as India has a large amount of venture capital and good financing options for SMEs. Its weakest element comes in Restrictions on International Investment, where it ranks 125th, although it has improved by seven places. Given India's size, it is still an attractive place for foreign investors, but some of its policy settings could be improved. There are significant capital controls, restrictions on foreigners visiting, as well as other restrictions on foreign direct investment. Its most improved element has been Contract Enforcement, where it has risen by 39 places over the decade, thanks largely to improving judicial administration and the rise of alternative dispute resolutions mechanisms, which have been championed by the government.

FINANCING ECOSYSTEM (INDIA RANK: 36TH)

The Financing Ecosystem ensures that money is available for investment from sources including banking, bank debt, and corporate debt, alongside more sophisticated financial markets. A wide range of financing options for businesses is also desirable; basic financing options are better suited for businesses at differing stages of maturity, with individuating revenue and risk profiles. Our Financing Ecosystem measure captures the availability of money, from banking to corporate debt and more sophisticated financial markets.

India ranks 36th for its Financing Ecosystem, signalling a slight deterioration since 2009. India's gross domestic saving rate is 29% of GDP, above the world average of 25%. The amount of credit going to the private sector is 50%, steadily rising from 28% back in 2000. The defining characteristic of India's financing ecosystems is the frailty of the banking system, as a result of exposure to bad loans.

The IMF has described India's financial system as "precarious".[3] Many public sector banks have insufficient capitalisation, subduing the availability of bank credit for private investment.[4] The key issue has been the high ratio of non-performing loans, estimated to be about 15% of all loans in 2018 by Standard and Poor's.[5] As a proportion of bank assets, non-performing loans have increased from 2.7% in 2011, to 10.0% in 2017.

Credit constraints in the banking sector have made room for the rise of non-bank financing companies (NBFCs), which in 2019 accounted for approximately 50% of all debt lending. However, a series of multibillion-dollar loan defaults have also threatened these lenders, whilst heightening the risk of contagion to other shadow lenders, which are closely interconnected with the banking sector. The RBI has identified the considerable risk posed by further defaults to individuals and businesses across the lending spectrum, ranging from the mortgage market to steel conglomerates.[6] This has made India's financing ecosystem among the most vulnerable of the G20 countries.[7,8]

India's stock market is the fifth-largest in the world.

The financing environment is better developed for large and late stage investors, who are able to access finance through private equity lending. Funding can be raised from both domestic and international investors, in addition to the stock market, which is the fifth largest in the world (by market capitalisation). A study by Bain & Company, a consultancy firm, found that in 2018, $26.3 billion had been raised from approximately 793 deals, a slight increase from the previous year.[9] Consumer tech and BFSI (Banking, Financial Services and Insurance) continue to be the largest sectors by value (40% of investment in 2018). The overall trend has been for investors to exercise caution and back high-quality deals.

The most prominent example of high-value deals include online consumer retail firm Flipkart (owned by Walmart), ridesharing company Ola, as well as in healthcare (hospitals and pharmaceuticals). Higher exit rates have been seen as a sign of confidence in the Indian private equity environment.

Micro, medium, and small enterprises

The unstable banking sector translates into high borrowing costs, particularly for micro, small, and medium enterprises (MSMEs), which account for more than 80% of total industrial enterprises. Traditionally MSMEs have accessed finance through unofficial mechanisms, such as family networks and unofficial lenders (often lending at usurious interest rates).[10]

In order to increase financial accessibility for underserved and rural firms, Indira Gandhi nationalised banks that held around 70% of assets and also introduced the policy of priority sector lending, stipulating that 40% of bank lending must be directed towards agriculture or those sectors of the economy without timely or adequate credit.[11] The same policy has increased the number and distribution of commercial bank branches, which have multiplied from around 8,000 to over 65,000 in 30 years, resulting in a near doubling of branches per head of population (see Figure 6).[12]

3. "India financial system stability assessment," *IMF*, December 21, 2017.

4. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

5. PTI, "India's weak banking system to strengthen over 2 years: S&P," *Indian Economic Times*, July 31, 2018.

6. Siddharthe Singh, Anirban Nag and Unni Krishnan, "India Monitoring for 'Signs of Fragility' Among Shadow Banks," *Bloomberg*, July 22, 2019.

7. "India financial system stability assessment," *IMF*, December 21, 2017.

8. Henny Sender, "India is failing to reap the benefits of China-US trade war," *Financial Times*, July 24, 2019.

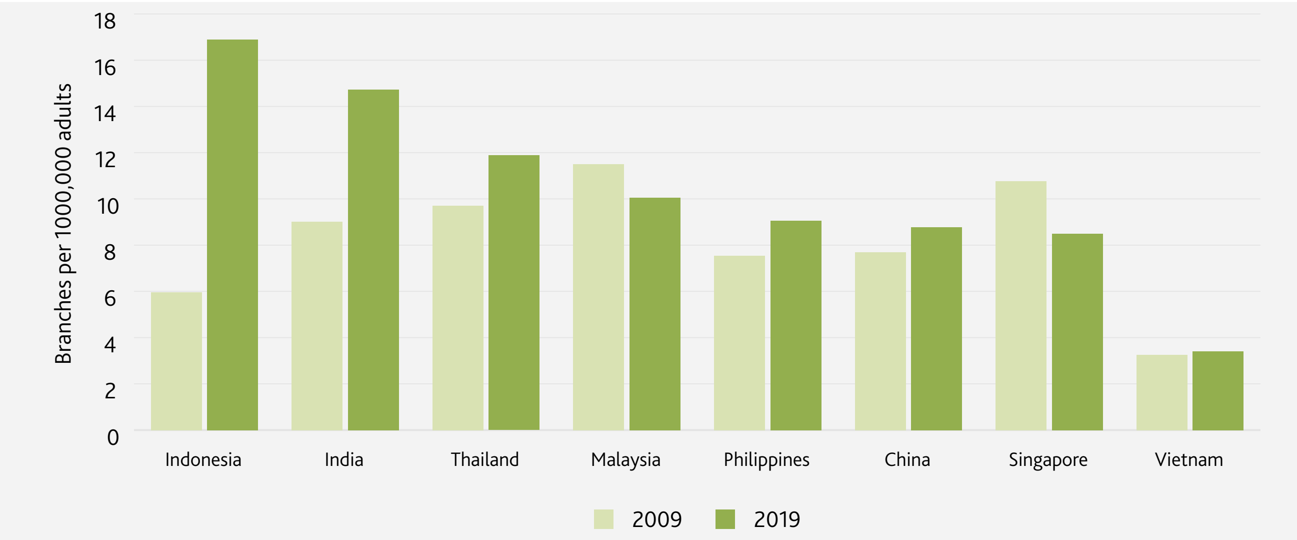
9. "India Private Equity Report 2019," *Bain & Company*, 2019.

10. C.H. Venkatachalam, "Public Sector Banking and the Unmet Expectations of Rural India," *The Hindu Centre for Politics and Public Policy*, December 22, 2017.

11. Ibid.

12. Samar Srivastava, "Economic Milestone: Nationalisation of Banks (1969)," *Forbes India*, August 12, 2014.

Figure 6: Commercial bank branches



Source: World Bank Development Indicators

Yet there is still insufficient credit available for smaller enterprises. A recent International Finance Corporation (IFC) study concludes that in South Asia, over 80% of MSMEs do not receive the amount of credit they desire. The credit gap for MSMEs in India is $230 billion.[13] This has prompted calls for further strengthening of institutional networks and government bodies, such as SIDBIE (Small Industrial Bank of India), to promote the finance and development of MSMEs.[14]

Opportunity

While there is some strength to the provision of credit and venture capital, India's major challenge is the quality of its banking system. There needs to be an increased focus on strengthening the banking system, particularly the state-owned banks, so that credit can still be extended to businesses that need it. If credit dries up because of non-performing loans and under capitalised banks, small and medium businesses will be most affected by the loss of capital.

In particular, some of the reforms that could be considered for the banking system include privatising some of the state-owned banks, and ensuring that alternative financing institutions meet the requisite regulatory standards.[15]

13. IFC (2017). "Enterprise Finance Gap: Reassessment of the systematic shortfall in financing micro, small and medium enterprises. IFC, World Bank Group.," *International Finance Committee*, Working Paper, 2017.

14. "Financing India's MSMEs: Estimation of Debt requirement of MSMEs in India," *International Finance Corporation*, November 2018.

15. Satyajit Das, "Indian banks – reform not rescue," *Nikkei Asian Review*, February 27, 2019.

INVESTOR PROTECTIONS (INDIA RANK: 61ST)

Investor Protections are a necessary component of ensuring a business environment that is investable, thereby enabling the flow of capital to ventures. We evaluate the degree of Investor Protection, from expropriation risk to minority shareholder rights, including the cost of insolvency, time to resolve insolvency, and the extent of director liability.

India ranks 61st in Investor Protections. While it has improved slightly, this represents a decline of seven places over the decade, as peer countries have improved at a faster rate. India's main strength is in its measures of corporate governance, while its insolvency regime is a weakness.

Corporate governance

Historically, the record of India's corporate governance system in protecting shareholders' rights has been poor, with recourse to the judiciary failing to yield consistently successful results.[16] Moreover, shareholder patterns show intense concentration of shareholdings with business families or the government.[17] This is true even for publicly listed companies.[18] Controlling shareholders can further entrench their positions through practices such as cross-holdings and pyramid structures, ultimately leaving minority shareholders exposed to the actions of the former.[19]

Historically, India's corporate governance regime has been poor.

The 2013 Companies Act included certain protections to the rights of minority investors in India, with specific provisions granting investors the power to appeal to the National Company Law Tribunal (NCLT). Set up in 2016 under the Companies Act, the Tribunal is a quasi-judicial body that hears issues and resolves disputes related to Indian companies. In cases of oppression or mismanagement, minority shareholders can approach the Tribunal in order to seek redress or to ask for an investigation into the companies' affairs.

Minority shareholders are in a weak position, since access to evidence, such as information, accounts, or records supporting their claim of wrongdoing, may not be possible when a company's management remains vested with controlling shareholders.[20] However, provisions of the Companies Act state that limited contractual rights may be granted, as defined in the terms of the Shareholders' Agreement, to the venture capital and private equity investors who acquire minority stake in any company. These rights pertain to proportional board representation as well as information and inspection rights, amongst others. Nevertheless, implementation issues arise for these as well.[21]

In practice, however, the rights of minority shareholders are poorly protected, especially in state-controlled companies.[22] For instance, when the state-owned Oil and Natural Gas Corporation Ltd purchased the government's stake in Hindustan Petroleum Corporation Ltd (HPCL) in early 2018, they asked minority shareholders to vote on the related party transaction two months after it took place.[23] HPCL's other shareholders received no benefit from this transaction while the government sold its stake at a 12% premium to the prevailing prices.[24]

16. Umakanth Varottil, U. (2014). "The protection of minority investors and the compensation of their losses: a case study of India." *NUS-Centre for Law & Business Working Paper*, (14/01).

17. Ibid.

18. Ibid.

19. Ibid.

20. Puneet Rathsharma and Kunal Mehta, "Challenges in Protecting the Rights of Minority Shareholders," *Business World*, January 2, 2018.

21. Umakanth Varottil, "The protection of minority investors and the compensation of their losses: a case study of India." NUS-Centre for Law & Business Working Paper 14/01 (2014).

22. Mobis Philipose, M. (2018). "The government has a troubling message for minority shareholders," *Livemint*, December 10, 2018.

23. "Reform Update – Protecting Minority Investors – India," *Department of Industrial Policy & Promotion*, May 7, 2018.

24. Ibid.

Insolvency Practices

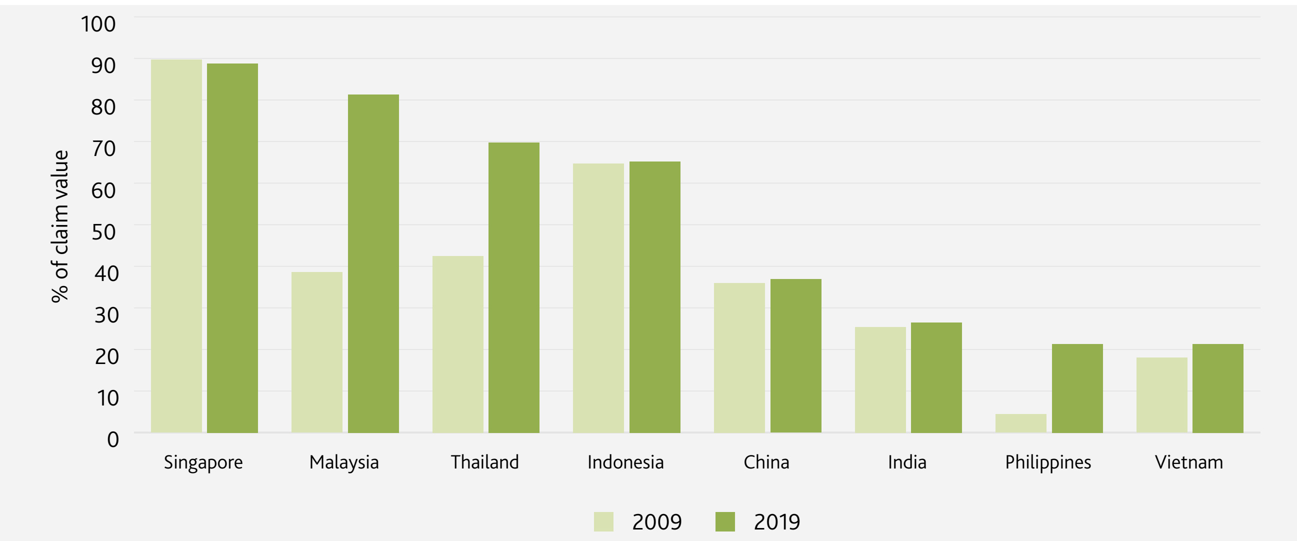
Previously, winding down companies was very difficult. India performs poorly in terms of the recovery rate from insolvent companies, and has seen little change since 2009 (see Figure 7). However, the new Insolvency and Bankruptcy Code (IBC) attempts to improve this: one objective aims to improve the functionality of the credit ecosystem by bringing about predictability and transparency in the resolution process and outcomes.[25]

India's shareholder rights improvements

In order to improve India's rank in the World Bank's measure of shareholder rights, the Government of India and the Securities and Exchange Board of India (SEBI) instituted a series of reforms, including amendments to the 2013 Companies Act, which put the following provisions in place:[26]

- The company is required to provide the notice for the shareholders' meeting minimum 21 days in advance;
- If there is an order under Section 243 of the Act that terminates or sets aside the employment of managing directors, or managers, or directors, they are prohibited from taking up a position as managing directors or managers or directors in the company for a period of five years from the date of the order;
- Changes in the shareholding position of promoters and top ten shareholders representing a reduction or increase by 2% or more of the paid-up share capital should be reported within 15 days.

Figure 7: Insolvency recovery rate



Source: World Bank Doing Business, 2019

25. Rajeswari Sengupta and Anjali Sharma, "Understanding the recent ordinance amending the Insolvency and Bankruptcy Code," *Ideas for India*, March 23, 2018.

26. Ibid.

A study of insolvency cases admitted in the NCLT between December 2016 and May 2017, shortly after the law was passed, found a behavioural change among credit market participants: the enforcement of rights had evidently empowered some creditors, especially operational ones.[27] It also found that the insolvency petition was triggered in cases where the size of debt default was substantially higher than the threshold set by law.[28] Between 2016 and 2019, insolvency proceedings under the IBC returned 210% of the liquidation value for creditors.[29] It remains to be seen whether this initial improvement translates into an improved recovery rate measured by the World Bank.

Evolving insolvency law

Arvind Subramanian, former Chief Economic Advisor to the Government of India, is famously said to have remarked that, after undertaking wide ranging economic reforms in 1991, India moved from "socialism without entry to capitalism without exit".[30] He was referring to the absence of a comprehensive and effective framework for the timely resolution of insolvency and bankruptcy among Indian firms. Recovery by creditors had to follow a process set up under various acts such as Indian Contract Act 1872, the Recovery of Debts Due to Banks and Financial Institutions Act 1993, and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002. The process was slow and painful, leaving low productivity firms hobbling along. This situation remained grim for several years, with a large number of 'zombie firms', that is, "firms which ought to have been liquidated through a bankruptcy process, but [were] kept alive artificially by banks and/or taxpayers".[31]

Based on recommendations from the Bankruptcy Laws Reforms Committee report, the IBC was enacted in 2016, providing a timeline of 180 days to conclude a corporate insolvency resolution process, extendable by a one-time extension of up to 90 days.[32] The code covers insolvency of individuals, unlimited liability partnerships, limited liability partnerships, and companies.

In effect, the IBC acts as a forum for creditors to collectively resolve the issues that arise when companies fail, stemming from the notion that creditors are in the best position to ascertain whether to resolve or liquidate a distressed firm.[33] The Code paved the way for the establishment of the Insolvency and Bankruptcy Board of India, a regulatory body with the powers to oversee the functionality and constitution of Insolvency Professionals, Insolvency Professional Agencies, and Information Utilities.[34] The Code established that the NCLT would be the Adjudicating Authority, exercising jurisdiction over companies and limited liability entities. Appeals from the order of NCLT would be heard in the National Company Law Appellate Tribunal. The International Comparative Legal Guide has deemed the Code largely creditor-friendly.[35]

In 2019, the IBC (Amendment) Bill was passed. The Bill, among other things, distinguishes between financial creditors and operational creditors, placing the former above the latter while specifying payouts to operational creditors and extending the deadline for completion of insolvency cases to 330 days.[36]

27. Chatterjee, S. G. Shaikh, & B. Zaveri (2017). Watching India's insolvency reforms: a new dataset of insolvency cases, WP-2017-012 Indira Gandhi Institute of Development Research, Mumbai.

28. "About IBBI," *Insolvency and Bankruptcy Board of India*, last accessed October 1, 2019, https://ibbi.gov.in/about.

29. Ajay Shah, "Preventing a zombie economy," *Business Standard*, December 27, 2015.

30. "Addressing the insolvency code's many dilemmas," *Livemint*, updated: April 8, 2018.

31. Ibid.

32. MS Sahoo, "Our bankruptcy code is world-class," *Hindu Business Line*, April 12, 2019.

33. "Reform Update – Protecting Minority Investors – India," *Department of Industrial Policy & Promotion*, May 7, 2018.

34. "About IBBI," *Insolvency and Bankruptcy Board of India*, last accessed October 1, 2019, https://ibbi.gov.in/about.

35. Nahram Vakil and Gausia Shaikh, "India: Corporate Recovery and Insolvency 2019," *ICLG*, May 15, 2019.

36. "The Insolvency and Bankruptcy Code (Amendment) Bill," *PRS Legislative Research*, Ministry of Finance, 2019.

Opportunity

While measures of corporate governance are strong, insolvency practices are India's primary area for improvement. While the implementation of the IBC appears to be making a positive difference, further progress is possible. The purpose of further reforming these arrangements is so that capital moves smoothly to alternate uses.

Some of these improvements include ensuring the code provides for the treatment of insolvency of a group of companies, allowing for pre-packaged insolvency resolution, improving information availability throughout the process, and ensuring greater consumer protection where a large number of consumers will be affected by bankruptcy.[37]

PROPERTY RIGHTS (INDIA RANK: 85TH)

Property Rights are crucial in enabling the accumulation of wealth and an effective participation in commerce. People avoid taking risks where Property Rights are weak, substantially impacting upon investment, the productivity of entrepreneurial activity, and wealth accumulation. The risks to Property Rights range from expropriation, to limits on repatriations of profits and restrictions on the sale or transfer of assets. Our measure of Property Rights captures the extent to which rights over land, assets, and intellectual property are protected.

Slowly rising over the past decade, India is now placed 85th in the world for Property Rights. It has been overtaken by the improvement of its peers, and has slipped seven places in the global rankings over the last decade, losing most ground in terms of the registration of property. In contrast to real property, protection of intellectual property has improved over the decade.

Real property

Physical property rights are weak, due to poor registration and administration. Numerous factors contribute to the difficulties, notably a reported lack of adequate mechanisms to establish land titles, even in the case of constant habitation by the same family or indigenous community for several generations.[38]

Registering a property requires nine separate procedures, takes 69 days and costs 8% of the property value.

Formalised ownership is disincentivised by overly burdensome processes, as registering a property requires nine separate procedures, 69 days, and costs approximately 8.3% of the property value (nearly double the number of procedures required in high-income OECD countries).[39,40,41] As a result, India ranks 138th for property registration procedures, with it taking both a long time and high cost to register property (see Figures 8 and 9).

Difficulties in buying and selling properties often stem from challenges in tracing ownership through hand-written and poorly maintained records. This means that the time taken to resolve disputes is extremely long, with cases averaging 20 years in the Supreme Court.[42] An estimated 22 million property disputes are pending in courts across India, accounting for approximately two-thirds of civil-law cases.[43] Crucially, this means that those involved in disputes are unable to use their properties as collateral to borrow money through formal routes. In cities, up to 50% of

37. "Insolvency and Bankruptcy Code: The journey so far and the road ahead," *EY*, December 2018.

38. Tim Hanstad, "Eight land-related topics that need to be prioritised and urgently addressed in India," *Land Portal,* February 23, 2018.

39. "Procedures to register property (number)," *The World Bank,* last accessed October 1, 2019, https://data.worldbank.org/indicator/IC.PRP.PROC.

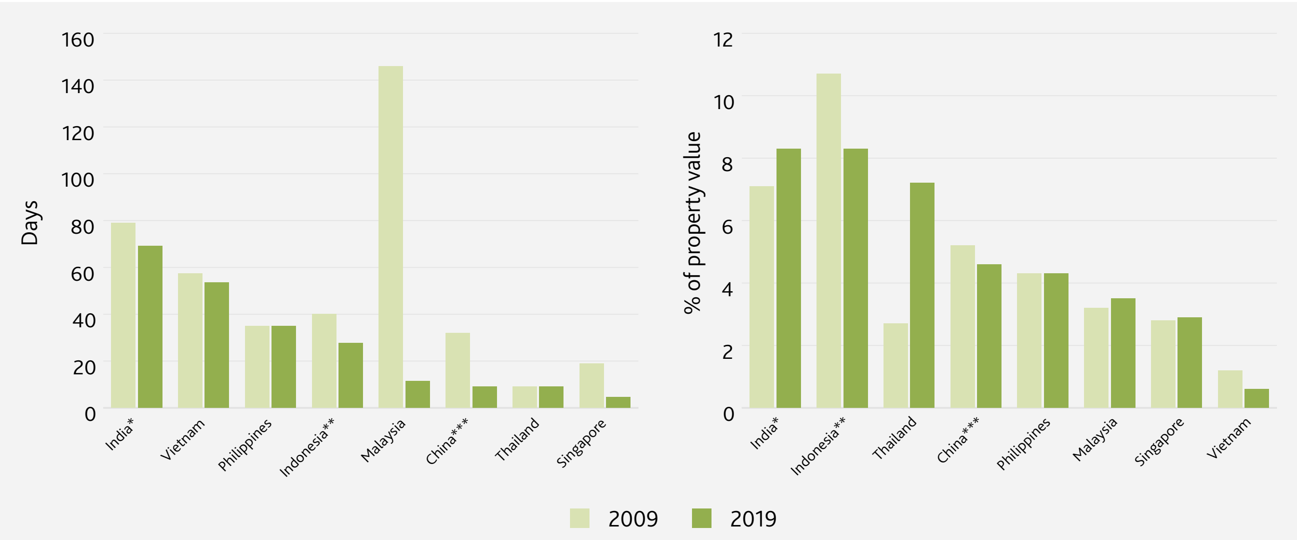
40. South Asian average (6.8) and almost double that of OECD high income countries (4.9).

41. "Property Rights," *India Institute*, last accessed October 1, 2019, http://indiai.org/property-rights/.

42. "Land Acquisition in India: A Review of Supreme Court Cases 1950-2016," *Centre for Policy Research,* April 2017.

43. "Millions of land, property cases stuck in courts," *Deccan Chronicle,* August 9, 2016.

Figure 8: Time to register a property **Figure 9: Cost to register a property**



Source: World Bank Doing Business, 2019

* 2009 score is Mumbai only; **2009 score is Jakarta only; ***2009 score is Shanghai only

real estate is disputed, with delays in developing real estate causing property bubbles, and rising costs of home ownership contributing to overcrowding.[44] This is reflected in the World Bank's measure for the quality of land administration, where India ranks 106th in the world.

The government has sought to address this issue, by digitising records as part of the wider 'Digital India' drive. In many cases, this builds on efforts by individual state governments, notably Karnataka, Rajasthan, and Uttar Pradesh, where initiatives to cut through red tape and lower costs have seen local governments acting as a guarantor for land titles, and even using block-chain technology as a means of registering property and counteracting fraud.[45] Although the aim to digitise all land records by 2021 is seen as ambitious, there has been major progress in Goa, Odisha, and Tripura.[46] The initiative is deemed one of the most important and well-delivered projects ever undertaken by local governments.[47,48]

Expropriation

However, the government has not always been seen to act in property owners' best interests. A 2015 bill to increase the government's powers of forcible land acquisition has been widely criticised as coercive and limiting to people exercising their property rights, particularly farmers. The government has claimed that the use of eminent domain (the power to take private property for public use) is necessary to drive economic growth, especially when large plots are required for Special Economic Zones (SEZs). In Gujarat, for example, approximately 27% of land has been acquired for SEZs. Yet this comes at an economic cost to owners, who may have received more competitive prices through direct negotiations with businesses.[49,50,51]

44. Vaidehi Tandel and Sahil Gandhi, "Why is India's real estate market stagnating?," *Hindustan Times*, April 10, 2019.

45. Meghna Bal, "Securing Property Rights in India through Distributed Ledger Technology," *Observer Research Foundation Occasional Paper 105*, January 2017.

46. Prachee Mishra and Roopal Suhag, "Opinion: Modernizing land records in India," *Livemint*, September 10, 2018.

47. "Opinion: The need for digitizing land records in India," *Livemint*, updated: August 7, 2018.

48. Ibid.

49. "Property Rights," *India Institute*, last accessed October 1, 2019, http://indiai.org/property-rights/.

50. S. P. Kiran and D. V. Gopalappa, "Special Economic Zones And Land Acquisition Policy In India." *International Journal of Social Science and Economic Research 2*, no. 2014-2017-1931 (2017): 4376-4385.

51. "Land Acquisition in India: A Review of Supreme Court Cases 1950-2016," *Centre for Policy Research*, April 2017.

Software piracy rates are around 60%.

Retroactive taxation has been used, particularly against foreign companies. The Supreme Court, in a case between the government and Vodafone, ruled that a government amendment to apply retrospective capital gains to Vodafone was allowed. This was made through a transfer pricing mechanism.

Intellectual property

Strong intellectual property rights are important for international trade and for India, a country that aspires to be a global leader in the production of software and ICT services. Already ICT contributes approximately 13% to India's GDP.[52] Complaints regarding overly burdensome property rights that are out-of-step with international regulations, are now being addressed. Since 2017, India has been a member of the World Intellectual Property Organisation (WIPO) and the Japanese Patent Prosecution Highway (PPH) to encourage the formation of global knowledge hubs and enable greater fluidity in the exchange of ideas with international partners.[53,54]

According to a 2016 WEF report, software piracy rates (unlicensed software units as a percentage of total software units) in India are around 60%.[55] There is also significant government use of illegal software. The Software Alliance estimates the commercial value of unlicensed software is \$2.5 million (placed second behind China with \$6.8 million) in 2017.[56]

India also has very high rates of counterfeit and substandard medicines, as well as online and physical piracy.[57] This has drawn particularly strong criticism from the U.S. Trade Body and the European Commission: businesses wanting to enter the Indian market are advised to proceed with caution, as intellectual property regulations are unnecessarily cumbersome, and breaches are inadequately addressed.[58]

The U.S. drug makers lobby group Pharmaceutical Research and Manufacturers of America (PhRMA) has also recently urged the United States Trade Representative (USTR) to put India on a priority watch list of countries, because of "serious intellectual property deficiencies".[59] In particular, PhRMA was especially critical of India's use of compulsory licencing of Nexovar, an anti-cancer drug manufactured by the German pharmaceutical company Bayer.[60] As with physical property rights, however, the overburdened court system means that intellectual property breaches are rarely addressed.

Opportunity

The administration of property ownership can be improved, notably the procedures needed to register property. The government could invest to improve the quality of land records, in order to introduce more liquidity into the market. Digitising records should help with this, while also allowing more people to use their land as collateral.

Improved protection of intellectual property would also boost India's international standing and cement free trade deals. There are also benefits for Indian companies directly. Intellectual property is crucial for an 'Innovation Economy'.[61] Particularly as India aspires to move up the value chain in terms of advanced manufacturing and software development, Indian firms will need to be able to protect their own intellectual property.

52. "India – Information and Communication Technology," *US International Trade Administration*, last published January 8, 2019.

53. "Japan-India PPH to start in 2019," *Ministry of Economy*, Trade and History, October 30, 2018.

54. "India Joins Three Key WIPO International Classification Treaties," *World Intellectual Property Organisation*, June 7, 2019.

55. "The Global Information Technology Report 2016," *World Economic Forum*, July 6, 2016.

56. "Software Management: Security Imperative, Business Opportunity," *BSA Global Software Survey*, June 2018.

57. "India," *The Global Innovation Policy Center*, February 2019.

58. PTI, "India remains on USTR's 'Priority Watch List' for IPR violations," *The Hindu Business Line*, April 26, 2019.

59. "US pharma concerns on IP rights and compulsory licensing in India," *The Pharma Letter*, February 28, 2019.

60. "Bayer cancer drug faces new patent problems in India," *The Pharma Letter*, April 10, 2017.

61. Arpita Mukherjee and Alka Chawla, "India as an innovation economy: the role of IP and ICT." *European Business and Technology Centre*, White Paper (2018): 31.

Some recommendations for better intellectual property protection include the Trade Related Intellectual Property Agreement (TRIPS)-based requirements. There are also requirements on provisional measures for infringement. Specialised intellectual property courts would help, alongside limitations on compulsory licencing (or complete removal).

To further strengthen private property rights, the government could focus on removing the risk of expropriation, by ensuring there is a clear and transparent use of eminent domain when acquiring land for public projects, and that it will refrain from retrospective taxation.

CONTRACT ENFORCEMENT (INDIA RANK: 104TH)

Contract Enforcement is a critical proxy for trust, allowing economies of scale to grow beyond an immediate circle of associates and family. Delays and costs in resolving contract disputes benefit neither party. Our measure captures both the efficacy and efficiency of a country's systematic enforcement of the rights of a contract holder.

India is particularly poor at Contract Enforcement, ranking 104th, although this does represent a significant improvement on a decade ago—up by 39 places. The primary concern for businesses and individuals seeking redress is the delay in judgement; over time, many large commercial cases either become irrelevant, or overly costly, leading to their eventual abandonment.

The World Bank estimates that legal costs in India generally reach 31% of the value of the claim, which is in line with the South East Asian average, but more expensive than the regional economic leaders, with Japan at 23% and South Korea at 13%.[62]

More concerning than cost is the delay in judgements. India has over 30 million civil and criminal cases pending, of which 40% are over five years old with many lasting for 15 years or longer.[63] Furthermore, it appears that this backlog is growing.[64] The slogan 'justice delayed is justice denied' has been popularised by those seeking to reform the system.

India has over 30 million civil and criminal cases pending, of which 40% are over five years old.

The combination of high costs and delays are very damaging for business. The inefficiencies of the system have been particularly costly for MSMEs, as a greater proportion of their time and capital is necessarily tied up in legal disputes. The cost to business is significant, as these issues can create a disincentive to forming partnerships with suppliers. A study has found that resolving congestion in courts could boost aggregate productivity of the manufacturing sector by an average of 5%, rising to 10% in Uttar Pradesh and West Bengal, which were found to have the largest backlogs.[65]

By introducing the 2015 Commercial Court Acts amendment, the High Court stipulated that the amendments are put in place to "make commercial courts more accessible to common people".[66] In order to speed up the process, designated judges with commercial expertise were placed in local courts.[67] However, the reforms have not addressed the underlying issues facing courts (most notably the bottlenecks caused by the lack of qualified staff, non-digitised documents, and mistrust in rulings), resulting in more disputed cases.

62. "Enforcing Contracts," *The World Bank Doing Business*, last accessed October 1, 2019, https://www.doingbusiness.org/en/data/exploretopics/enforcing-contracts.

63. "3.3 crore cases pending in Indian courts, pendency figure at its highest: CJI Dipak Misra," *Business Today*, June 28, 2018.

64. Vivek Kaul, "Why pending court cases have been going up," *Livemint*, February 11, 2019.

65. Johannes Boehm and Ezra Oberfield, Misallocation in the Market for Inputs: Enforcement and the Organization of Production. No. w24937. National Bureau of Economic Research, 2018.

66. Arunav Kaul and Leah Verghese, "Commercial courts: serving justice or ease of doing biz," *Deccan Herald*, May 17, 2019.

67. "Arbitration in India: Dispute Resolution in the World's Largest Democracy," *Herbert Smith Freehills*, July 11, 2017.

Alternative dispute resolution

Partly as a result of these issues, alternative dispute resolution mechanisms, such as the Lok Adalat (People's Court) have continued to be a popular alternative to the court process. Working on the principles of conciliation and negotiation, rulings by the courts are legally binding. Lok Adalats are engaged with all levels, from State Authority and High Court to the local community; they can be used for labour disputes, financial claims, and land claims (most frequently contested by small businesses and individuals).[68] However, they may not be appropriate for larger commercial queries between MSMEs or supplier disputes, where one of the parties is significantly larger.

At the opposite end of the spectrum, large and international companies may choose to have their cases heard at International Arbitration Centres, based out of Singapore and Dubai. As well as guaranteeing the physical infrastructure for large cases, which is often lacking in India, these courts deliver speedy resolutions and independent judges. The latter is particularly important, as widespread corruption among judges—most notably bribery, guaranteeing outcomes, and undeclared vested interest in companies—continues to plague the Indian legal system.[69]

The government is interested in promoting India as a centre for international arbitration. In 2016, Prime Minister Modi announced his intention to make India a "vibrant ecosystem for institutional arbitration".[70] This year, Cabinet has approved the International Arbitration Centre Bill 2019, which aims to make India a centre for alternative dispute resolution.[71]

Opportunity

The primary challenge for the government is to make sure that the resolution of cases and enforcement of contracts is timely. There is also the need to reduce the influence of corruption in cases. Ensuring that courts have sufficient resources and adequately trained staff will ease the burden on the court system. There is also a further opportunity to improve alternative dispute resolution in India, given the government's strong support. If successful, this will allow more companies to settle their disputes in India.

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68. "Lok Adalat," *National Legal Services Authority*, last accessed October 1, 2019, https://nalsa.gov.in/lok-adalat.

69. Michael Hwang and Kevin Lim, "Corruption in Arbitration—Law and Reality." *Asian International Arbitration Journal 8*, no. 1 (2012): 1-119.

70. Alison Ross, "Modi makes institutional arbitration a priority," *Global Arbitration Review*, October 24, 2016.

71. PTI, "Bill to encourage arbitration of commercial disputes," *Indian Economic Times*, July 15, 2019.

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RESTRICTIONS ON INTERNATIONAL INVESTMENT (INDIA RANK: 125TH)

Overall, international investment has been shown to positively effect economic growth. Research suggests that international investment is typically more productive than domestic, given the higher risks it faces. The benefit of foreign direct investment (FDI) is not only the inflow of capital; FDI also brings healthy competition in the form of product and service innovation, fresh working practices, and new efficiencies in productivity.

India attracted $42 billion in foreign investment in 2018.

India ranks 125th in the world, gaining seven places in the global rankings, mostly as a result of peer countries imposing more barriers. The country has become a more attractive destination for foreign investment, attracting $42 billion in 2018.[72] The FDI policy regime has switched from a positive list to a negative list. Foreign investors can, in principle, invest in most sectors with minimal government policy barriers, although transaction costs on the ground remain high. Generally, even where permitted, foreign investment to gain 100% ownership into India by non-Indians can be prevented by significant regulatory hurdles.

There have been reforms that target the rules governing FDI, and improving the ease of doing business for foreign investors. These include opening up sectors previously closed to FDI, such as aviation, energy, defence and pharmaceuticals, and increasing the proportion of investment that foreign entities can hold, in many cases from below 49% to 100%.[73] The government has also eased the mechanisms through which foreign firms invest by removing the need for investment to flow through the 'government route'. The majority of investment can now flow through the automatic route (i.e. directly to the investment without government approval).[74]

In 2018, India liberalised its e-commerce regulation, attracting investment from Amazon and (Walmart-owned) Flipkart. Both companies have had to make amendments regarding their operations in the Indian market, due to restrictions aimed at protecting local trade, as concerns had been raised over the heavy discounting and aggressive competitive tactics practised by the new entrants.

To promote openness, the Indian Government may continue lifting restrictions and leveraging technology. Agencies such as the Invest India promotion and facilitation agencies have popularised the e-visa platform to ease movement of people for both business and tourism purposes. There is support for further free trade: in a recent survey, 71% of respondents were found to be in favour of foreign trade.[75]

72. "Foreign direct investment, net inflows (BoP, current US$)," *The World Bank*, last accessed November 20, 2019, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD.

73. "FDI Policy," *Invest India*, last accessed October 1, 2019, https://www.investindia.gov.in/foreign-direct-investment.

74. Prashant Prakhar, Kishore Joshi and Pratibha Jain, "India: FDI Reforms in India: Government Committed towards Ease of Doing Business," *Mondaq*, updated: January 17, 2018.

75. Kat Devlin, "A Sampling of Public Opinion in India," *Pew Research Centre*, March 25, 2019.

Examples of restrictions on foreign ownership

FDI is restricted in a number of areas.

Retail

The government has placed a general prohibition on foreign multi-brand retail corporations (such as Walmart) from entering the country, fearful of their destructive influence on small businesses.[76] A mandate directing single-brand companies such as Apple to locally source at least 30% of their materials for products sold in India has only recently been lifted.[77] A weariness of giants (such as Amazon) gaining market share has led the government to introduce several regulations in e-commerce that complicate the operations of foreign players.[78]

Media

The digital frontier has also experienced governmental interference. FDI in media is strictly limited: investments into cable networks, radio stations, and newspaper companies require the permission of the government.[79]

Specifically, broadcast services must have a presence in India, any satellite services can be sold only when there is no Indian alternative and only when domestic firms lack capacity, and foreign investment in news and current affairs is limited.[80]

Banking

For foreign banks to provide services to Indian citizens they must be approved by the RBI and be physically present in the country, and a majority of any bank's board of directors must be in-country Indian nationals. Furthermore, the central bank has mandated foreign firms to store their payment data "only in India" for "unfettered supervisory access."[81]

Education

The Foreign Educational Institutions Bill of 2010 allows foreign universities (with 20 years' experience in their home country) to set up branches in India. However, it also requires them to have 500 million rupees in an Indian bank and does not allow them to repatriate any funds.

Capital flows

Ongoing changes in opening up the economy by easing restrictions on investment have been successful in attracting FDI. However, India has refrained from full-scale capital account liberalisation. There are a number of policy tools in place to curb the volatility and price inflation that accompanies an influx of capital through FDI. Short-term debt in particular has been tightly controlled. The aim has been to avoid a build-up of excessive foreign debt of a volatile nature, and which could challenge the use of foreign exchange interventions to steady the value of the rupee.[82] At the same time it has been permissive on equity flows.[83] Furthermore, access to foreign currency is limited.

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76. "India will not permit foreign firms in multi-brand retail: Piyush Goyal," *Business Standard*, updated: June 19, 2019.

77. "Relaxing local sourcing norms would be a huge relief for Apple: Experts," *Livemint*, updated: July 5, 2019.

78. Newley Purnell and Rajesh Roy, "Amazon, Facebook and Walmart Need to Watch Their Backs in India," *The Wall Street Journal*, updated: January 29, 2019.

79. "Indian FDI Restrictions," *UK India Business Council*, last accessed October 1, 2019, https://www.ukibc.com/india-guide/how-india/fdi-restrictions/.

80. Shanker A. Singham, U. Srinivasa Rangan, Robert Bradley, and A. Molly Kiniry, "Anti-Competitive Market Distortions and Their Impact" *Legatum Institute*, May 2016.

81. Aditya Kalra., "India's RBI says foreign firms can process abroad, but must store data in India," *Reuters*, June 26, 2019.

82. Ayush Singh, Vinaytosh Mishra, and Akhilendra Singh, "Impact of Rupee-Dollar Fluctuations on Indian Economy." *Retrieved April* 18 (2016): 2018.

83. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

FDI into India and effect on the retail sector

FDI is an important source of non-debt finance in India, accounting for 14.2% of GDP, an almost 10-fold rise since 2005 when it was 1.5%.[84] India attracted 77% of FDI flowing into Southeast Asia in 2018, making it the tenth-largest recipient of FDI globally that year (although still behind fellow BRICs China and Brazil).[85]

The service sector attracts the highest value of FDI ($9.16 billion), followed by computer software and hardware ($6.42 billion). The latter has been less successful in courting investment, particularly from clients such as Apple, in part due to concern around the quality of Indian manufacturing. However, opportunities may arise with the U.S. (which only sends approximately $3 billion of FDI per year) looking to diversify its manufacturing away from China.[86,87,88]

The retail sector accounts for approximately 10% of GDP and provides employment to 8% of the total workforce.[89] Further growth is projected, spurred by the growing affluence of consumers, and the industry is expected to generate $1.1 trillion by 2020.[90] The structure of FDI inflows in retail specifies that 30% of sourcing must be local, regardless of whether the goods will be sold domestically or abroad. This change in rules has already drawn investment from global firms such as IKEA, and apparel makers such as Uniqlo, H&M, and Tommy Hilfiger. The influx of global firms is expected to boost the need for local manufacturing hubs, attract funds to update machinery, and upskill physical workers and managers.

Business visits

India also does particularly poorly for the access for foreigners to visit. At present, visa-free entry is available to citizens from only three countries, while citizens from 12 countries are granted a visa on arrival.[91] There are however, plans to extend the number of countries who can gain a visa on arrival.

Opportunity

The Government of India aims to attract $100 billion FDI over the next two years. Attracting this depends on a range of factors discussed throughout this report, but one way to help do so would be to continue lowering barriers to foreign investment, building on the progress already made.[92] The benefits of this investment is not only the capital, but also the expertise that will enter India alongside the capital. Furthermore, reducing capital controls and increasing the ability of foreigners to visit on a short-term basis would make it easier for investors to travel on a short term basis.

There are a number of improvements, including reducing regulatory barriers to foreign investment and reducing entry requirements into a number of sectors. Some suggestions include: opening up access to foreign currency, and loosening restrictions on rupee conversion, lowering barriers to entry for foreign banks, opening up professional services by ending India specific licencing requirements, reducing barriers to entry for foreign universities and tertiary institutions, and allowing foreign nationals (who qualify) to become equity partners in Indian firms.

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84. "About FDI in India," *India Brand Equity Foundation*, last accessed October 1, 2019, https://www.ibef.org/economy/foreign-direct-investment.aspx.

85. "World Investment Report," *UNCTAD*, 2019.

86. "About FDI in India," *India Brand Equity Foundation*, last accessed October 1, 2019, https://www.ibef.org/economy/foreign-direct-investment.aspx.

87. "Foreign Direct Investment," *Department for Promotion of Industry and Internal Trade*, last accessed October 1, 2019, https://dipp.gov.in/foreign-direct-investment/foreign-direct-investment-policy.

88. Shariq Khan, "US-China trade war: Why China's loss hasn't been India's gain," *Indian Economic Times*, July 18, 2019.

89. Utsav Masharu and Muhammad Ali Nasir, "Policy of foreign direct investment liberalisation in India: implications for retail sector." *International Review of Economics 65*, no. 4 (2018): 465-487.

90. "Doing Business in India 2018-2019," *EY*, January 2019.

91. "List of Countries Exempted From Visa Obligations to Visit India," *Immigration World*, December 1, 2014.

92. Rajesh Rai, "India eyes $100 billion FDI in next two years: Suresh Prabhu," *Livemint*, December 27, 2018.

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ENTERPRISE CONDITIONS (INDIA RANK: 42ND)

A healthy economy is both dynamic and competitive, where regulation supports business by allowing and encouraging it to respond to the changing priorities of society. An economy focussed on protecting incumbents, however, will enjoy lacklustre growth and job creation. Entrepreneurial activity is one of the key drivers of long-term prosperity, and its importance will only grow as the pace of technological change increases alongside the drive of a supporting workforce. Given the pace of change inherent to the information age, a society's ability to react quickly to new firm— and market-level opportunities—is critical to overall Economic Openness.

INDIA SWOT Analysis of Enterprise Conditions

STRENGTHS	WEAKNESSES
• The 12 million people entering the workforce each year generate the potential for a demographic dividend • The Competition Commission is reasonably effective in enforcing anti-monopoly and anti-competitive behaviour • Ongoing reforms to improve the ease of starting and doing business • Simplifying regulation, notably the unified Goods and Services Tax (GST) • Active Special Economic Zones (SEZs) in many regions, cities and coastal areas	• Labour market weakness, including high and rising unemployment for youth • High burden of regulation at both government and state level affecting all aspects of business, particularly labour relations and purchase of land • High rates of entrepreneurship and firm formation, combined with very low levels of productivity, which does not scale into employment generating companies • Implementation of GST has imposed costs on small and medium enterprises (SMEs), particularly the introduction of multiple rates
OPPORTUNITIES	**THREATS**
• Reducing licencing requirements and government oversight in a range of sectors • Review the role of public sector undertakings (PSUs), with the aim of increasing contestability in the market • Reducing time and cost for new businesses registering • Expanding the size of SEZs, to gain agglomeration benefits and economies of scale • Simplifying GST, to reduce compliance costs for small business • Streamlining labour market regulation to help provide greater prospects for job growth	• Potential of the 'demographic dividend' not being fulfilled, due to lack of the right skills for business • Northeastern states risk being left behind due to a lack of investment in business infrastructure, little effort to attract FDI, or efforts to counteract existing challenges with formal employment • The continued presence of PSUs might prevent investment in some industries

Evaluating Enterprise Conditions

These factors can, in part, be measured by considering the regulatory and bureaucratic impediments to starting and growing a business, alongside the cultural attitudes of a nation's workforce. We examine the Domestic Market Contestability, the Environment for Business Creation, Regulatory Burdens, and Labour Market Flexibility.

The most critical element for Enterprise Conditions is Domestic Market Contestability, which measures competitiveness and openness as the essential stimulators of innovation and efficiency. While there is no such thing as a perfectly contestable market, it has long been understood that basic principles—from anti-monopoly policy to limitations on market dominance—reap considerable benefits.[1]

The Environment for Business Creation captures the legislation and policies encouraging start-ups. A supportive business environment is critical. If the framework of enterprise is important, so too are the prevailing views and attitudes of a populace. This entails various market freedoms, namely an entrepreneurial environment with active entrepreneurism.

We also measure the Burden of Regulation. In markets where sufficient trust and self-regulation allows industries and services to focus on innovation and production, a good government must ensure that regulation does not generate unnecessary administration. Taxation is a necessary part of any society. While the shape of the optimal tax system has long been debated, the manner in which the tax is raised can be critical, ideally being as simple and non-distortive as possible.[2]

Finally, we measure Labour Market Flexibility. While the debate over the degree to which labour markets might be liberalised remains unsolved, evidence proves that highly restrictive labour markets entail costs associated with facilitating enterprise.[3]

India ranks 42nd for Enterprise Conditions, having risen 22 places since 2009. This is driven by large rises in the Environment for Business Creation and Burden of Regulation. In particular, India has improved in a number of areas measured by the World Bank's Doing Business survey; for example, it has reduced the number of tax payments per year from an average of 41 to 14 since 2009. These changes make it easier to start a business in India. Overall, it is making good progress towards the government's stated goal of being in the top 50 worldwide by 2020.

Nevertheless, there are significant challenges, not least in improving the ease with which firms can compete in various sectors throughout India. While in some areas, India has a vibrant and dynamic economy, some sectors are dominated by state-owned enterprises (SOEs) or are overly regulated, reducing the competitiveness of the market.

In the following sections, we review the performance of India in each of the distinct elements of Enterprise Conditions, from Domestic Market Contestability through to Labour Market Flexibility.

1. William J. Baumol, John C. Panzar, and Robert D. Willig, "On the theory of perfectly-contestable markets." *In New developments in the analysis of market structure*, pp. 339-370. Palgrave Macmillan, London, 1986.

2. Gregory N. Mankiw, Matthew Weinzierl, and Danny Yagan, "Optimal taxation in theory and practice." *Journal of Economic Perspectives 23*, no. 4 (2009): 147-74.

3. Roxana Radulescu and Martin Robson, "Does labour market flexibility matter for investment? A study of manufacturing in the OECD." *Applied Economics 45*, no. 5 (2013): 581-592.

DOMESTIC MARKET CONTESTABILITY (INDIA RANK: 49TH)

Progress and prosperity often come as a consequence of an open, fair and competitive market. Crucially, governments can ensure that there is both domestic and international competition, as well as a strong and effective anti-monopoly policy. A fair and effectively enforced competitive market benefits all by helping to stimulate improvements in efficiency and innovation. Our measure of Domestic Market Contestability captures how open the market is to new participants, versus protection of the incumbents.

India ranks 49th in Domestic Market Contestability, consistent with its 2009 rank.

Licencing regime

Under India's formerly widespread licencing regime, the "Licence Raj", there was little incentive to be innovative or to focus on quality.[4] The end of the licence regime in 1991 resulted in a manufacturing boom and the entry of multinational companies, with many Indian industries becoming far more competitive as a result.[5]

India has removed restrictions for the production of certain goods by small business only.

One of the more positive reforms has been the removal of restrictions where only small businesses could produce certain goods. These restrictions, which were intended to protect small firms from competition, often prevented smaller firms from expanding for fear they would lose the right to manufacture those protected products. The reforms opened the way to larger-scale manufacturing of goods, bread, pickles and chutneys, wooden furniture, fireworks, laundry soap, and exercise books, which ultimately lowered costs for consumers.[6]

The most recent deregulation of licences took place in 2015, when the government lifted the ban on provisions designed to protect indigenous manufacturers from unequal industry competition. The move aimed to encourage greater investment and technologies whilst enhancing competition in the Indian and global market for traditional food products and artisanal metal work.[7]

Banking services must also provide funds to priority sectors identified by the government, including agriculture, SMEs, and the housing sector.[8] These priority sector-lending requirements limit competition and increase the interest rate.

Nevertheless, having been clawed back, licencing remains. Compulsory licences still exist for producing alcoholic drinks, tobacco products, electronics, aerospace and defence equipment, industrial explosives, and hazardous chemicals.[9] There are also licences required for industries that are located within 25 kilometres of a city with a population of more than one million.[10]

In addition to licencing, there are other significant restrictions on services. According to the OECD Services Restrictions Index, the lowest restrictions are in engineering, air transport, and sound recording, although these are still worse than many countries.[11] For example, while India allows for 100% foreign owned airlines, foreign airlines are not allowed to buy equities in Indian airlines that carry passengers.

4. N Madhavan, "From Licence Raj to digital disruptions," *The Hindu Business Line*, updated: January 27, 2019.
5. Ibid.
6. "Big companies can now produce 20 items reserved for small industries," *Indian Economic Times*, updated: April 14, 2015.
7. Vasundhara Rastogi, "Industrial Licensing: Norms and Policy," *India Briefing*, September 6, 2017.
8. PTI, "RBI tweaks norms for priority sector lending," *Indian Economic Times*, August 13, 2019.
9. Vasundhara Rastogi, "Industrial Licensing: Norms and Policy," *India Briefing*, September 6, 2017.
10. Ibid.
11. "OECD Services Trade Restrictiveness Index: India," *OECD*, December 2018.

The most restrictions are in rail, architecture and accounting services. Rail is a prohibited sector, and architecture and accounting are both licenced professions, where only Indian nationals can obtain a permanent licence (foreign firms or professionals can obtain a limited licence). These restrictions give Indian firms an advantage, and their purpose is no longer to protect the consumer but to protect domestic industry, which ultimately disadvantages the consumer.

India recently eased foreign equity limits in the insurance sector and civil aviation. It removed equity limits in airport services and broadcasting.[12]

Contestability in the education sector[13]

There is extensive government intervention in the tertiary education sector. Only non-profit universities can be accredited. There are very high barriers to entry for new universities to be able to confer a degree. The government decides how many seats are available in private institutes and universities. In primary education, schools must have government-trained teachers to offer proof of completion of primary school.

According to a 2001 Centre for Civil Society study, it takes 14 different licenses from four different authorities to open a private school in New Delhi—a task that could take years.

Competition regime

India's competition regime was reformed in 2002, with the enactment of the Competition Act. Its main aim was to "prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect interests of consumers, and to ensure freedom of trade".[14] It regulates anti-competitive agreements (particularly cartels), abuse of dominant position, and combinations (such as mergers, acquisitions and amalgamations). The Competition Act is enforced across India, however, several territories (Tamil Nadu, Karnataka, Rajasthan) also have their own.[15]

The Competition Commission of India (CCI) was established under the Competition Act. The CCI is active, dealing with cases involving large multinationals such as GlaxoSmithKline and Sanofi in recent years, who were found to have colluded in the supply of vaccines procured by the Indian Government.[16] The CCI also engages with multinational bodies such as the OECD and UNCTAD, the U.S. Federal Trade commission, EU Directorate General for competition, amongst others.

The CCI has some powers outside of a normal mandate for a competition authority. There is for example, a requirement that foreign acquisition of pharmaceutical firms must be approved by the CCI. In deciding whether to approve acquisitions, the CCI is charged with "balancing" the need to attract foreign direct investment (FDI) with public health concerns.[17]

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12. Ibid.

13. Shanker A. Singham, U. Srinivasa Rangan, Robert Bradley, and A. Molly Kiniry, "Anti-Competitive Market Distortions and Their Impact" *Legatum Institute*, May 2016.

14. Competition Act of 2002," *Competition Commission of India*, last accessed October 1, 2019, https://www.cci.gov.in/sites/default/files/cci_pdf/competitionact2012.pdf.

15. "Public Procurement and Competition Law," *Competition Commission of India*, last accessed October 1, 2019, https://www.cci.gov.in/sites/default/files/presentation_document/p4.pdf?download=1.

16. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

17. Akansha Aggarwal, "Pharmaceutical Antitrust in India," *Lexology*, last accessed October 1, 2019, https://www.lexology.com/library/detail.aspx?g=6b5e8ede-9eb1-4a9d-ac69-4b928eebb0e5.

Competition Commission engagements

One of CCI's early and significant decisions was to fine 11 of the largest cement manufacturers in the country (including local subsidiaries of leading international groups) around $1 billion for fixing prices and production quantities.[18] After China, India is the world's second largest producer of cement, rendering the ruling particularly important. Few industries have been immune, with prominent cases brought against major players in car manufacture, telecoms, transport, and pharmaceuticals industries.[19]

The global shift in focus to digital markets extends to India, with the CCI reviewing several cases in innovation- and technology-driven markets.[20] In 2018, the CCI ordered an investigation into Google for allegedly abusing the dominant position of the Android operating system to block rivals. The firm faced similar complaints from the European Commission, and from the U.S. Federal Trade Commission. If found guilty, the CCI has powers to impose fines up to 10% of the relevant turnover if a company is found to have abused its dominant position. The case is likely to go on for several years, but is evidence of the powers held by the CCI.[21]

Government involvement in the market

The government also plays a significant role in the market, providing products such as banking services, tea, textiles, petrol, broadband, coal, fighter jets, artificial limbs, and hotels.[22] In defence, for example, state-run defence enterprises in India have undertaken production activity worth $24 billion over the past three years, representing 80% of total capital procurement funding over that time.[23] State-owned enterprises are known as public sector undertakings (PSUs).

Indian state monopolies have dominated key sectors of the economy for over 70 years; only recently have they begun to liberalise and give private, domestic, and foreign suppliers access. For instance, Indian Railways (the fourth largest system in the world) used a single supplier to build the rail network, the state-owned Steel Authority of India (SAIL). Taking away that monopoly has opened up annual acquisitions worth up to $700 million to the private sector.[24] 2019 will mark the first delivery of a significant steel order by a private company, Jindal Steel and Power Ltd.[25]

There are state-mandated monopolistic industries, such as coal, oil, and telecommunications, where even in a buoyant economy there are losses.[26] This includes telecoms operator BSNL, which offers 3G services in a market where 4G is the norm. A further problem is that PSUs dominate an already scarce pool of capital, sitting on assets worth an estimated $500 billion.

18. "CCI fines cement companies $944 million for price fixing," *Reuters*, August 31, 2016.

19. Geeta Gouri, "Adoption of Competition Law – the Indian experience," *University College London*, November 2018.

20. Cyril Shroff and Avaantika Kakkar, "India: Abuse of Dominance," *Global Competition Review*, March 19, 2019.

21. Aditya Kalra, "Exclusive: Google appears to have leveraged Android dominance – India watchdog," *Reuters*, June 28, 2019.

22. "Most of India's state-owned firms are ripe for sale or closure," *The Economist*, June 1, 2017.

23. Jon Grevatt, "State-owned enterprises continue to dominate defence production in India," *Jane's 360*, July 23, 2019.

24. "Indian Railways could end steel company SAIL's monopoly," *Railway Pro*, March 29, 2017.

25. "Rail steel industry in India to see robust growth," *Commodity Inside*, April 29, 2019.

26. "Most of India's state-owned firms are ripe for sale or closure," *The Economist*, June 1, 2017.

State-owned financial institutions control around 70% of all banking assets.[27] These banks hold the majority of bad loans, and experts say that "years of politically influenced lending have left state banks unable to evaluate loans on their merits", and have "also fostered a severe risk aversion which hinders job-generating growth".[28]

Being exposed to competition, in general, has not triggered PSUs to perform.[29] For example, Air India has lost money continuously since 2007, barely managing an operating profit even after a crash in the price of aviation fuel propelled its private-sector rivals to vast riches. Public ports have gone from handling nearly three quarters of goods being shipped in and out of India less than a decade ago to just over half now. The combined losses of 65 loss-making PSUs amount to 1% of GDP.[30]

The reasons for poorly performing PSUs have been widely discussed. Management is overly conservative and CEOs are not always chosen on merit. There is also a fear of taking decisions that might attract the attention of auditors. Furthermore, low pay pushes much of the talent into the private sector.[31]

There has been some movement toward greater reform. Some PSUs have been closed or sold, and there are discussions around Air India being sold.[32] However, there are challenges around this—many ministries are protective of their PSUs, and bureaucrats have power of patronage through the giving out of government contracts. As a result, the government has divested minority stakes, but has been slow to sell off controlling stakes in these companies, which is necessary to enable real transformation.

A further problem is that many of the sectors dominated by the government are also regulated by the government—meaning that regulation is generally weak—regulatory bodies' funding is dependent upon politicians.

Opportunity

Reducing licencing regulations would help to improve dynamism in many sectors. For example, the government could loosen restrictions on professional services, such as in accounting and architecture. In the education system, the government could reduce the number of licences needed to open new tertiary institutions, and open up education to for-profit providers. The government could also allow foreign-trained and licenced teachers.

A further opportunity applies to the CCI, where its scope could be reduced to cover just issues of competition, not general regulatory oversight. The CCI could be more proactive in initiating inquiries on its own.

The government could continue to remove restrictions in certain industries, particularly in foreign investment. India recently eased foreign equity limits in the insurance sector and civil aviation. It removed equity limits in airport services and broadcasting.[33] This would help to open up the market to foreign firms.

The government could continue to reduce the number of PSUs and state monopolies—especially in tradable sectors. Where PSUs are operating poorly, the government could examine the root causes and consider reform by winding them down or selling them. This would free up central government resources and allow for more competition in the market.

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27. Saheli Choudhury, "Bad debts may still be a headache for India's state banks, asset manager says," *CNBC*, April 10, 2019.
28. Amy Kazmin, "Government reluctant to relax grip on India's state-owned banks," *Financial Times*, September 23, 2019.
29. "Most of India's state-owned firms are ripe for sale or closure," *The Economist*, June 1, 2017.
30. Vijay Joshi (2017), *India's long road: the search for prosperity*. Oxford University Press, 2017.
31. "Most of India's state-owned firms are ripe for sale or closure," *The Economist*, June 1, 2017.
32. Ibid.
33. "OECD Services Trade Restrictiveness Index: India," *OECD*, December 2018.

ENVIRONMENT FOR BUSINESS CREATION (INDIA RANK: 40TH)

Entrepreneurial activity is the manifestation of a healthy and dynamic society, in which ideas are constantly being created, developed, and tested. Crucially, the process of translating ideas into success must be as easy and accessible as possible. Government, and hence society, can benefit by providing a supportive environment that appreciates and values entrepreneurial contributions towards improvements in prosperity.

It takes between 16 and 17 days to start a business, compared to 2 in Singapore.

The Indian government has been active in its actions to provide a fertile environment for business creation. The formation of Special Economic Zones (SEZs), and promotion of competition between states have contributed significantly to stimulating business across the country. India now ranks 40th globally for its environment for business creation, up 38 places since 2009.

The ease of starting a business has improved drastically, mainly through improving registration processes, and removing fees or capital requirements.[34] Nonetheless, the OECD has expressed concerns that the complexity of regulation procedures and administrative burdens on start-ups, which act to protect incumbent firms, inhibit entrepreneurial activity and constrain the growth of firms.[35] For example, it takes between 16 and 17 days to start a business in Delhi or Mumbai, compared to eight in Beijing and less than two in Singapore (see Figure 10). It costs between 12% and 16% of income per capita to register a business, compared to 0% in Beijing and 6% in Jakarta (see Figure 11).

Figure 10: Time to start a business

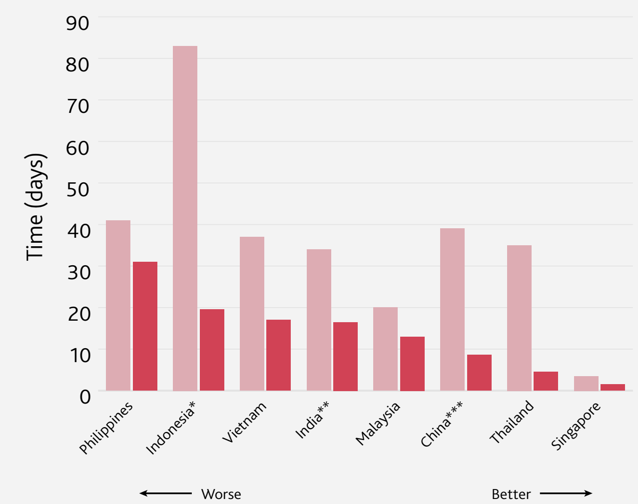
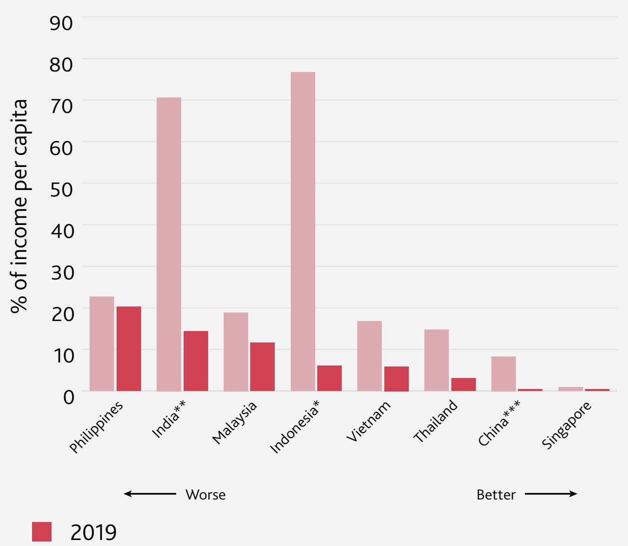


Figure 11: Cost to start a business



Source: World Bank Doing Business, 2019

*2009 score is Jakarta only; **2009 score is Mumbai only; ***2009 score is Shanghai only

State governments have played an increasing role in determining the local environment for business creation. This is in part thanks to the Union Government's initiative to stimulate competition between states, based on the same framework as the World Bank's Doing Business ranking, as well as an increased autonomy in determining spending.

34. "Training for Reform: Economy Profile – India." *Doing Business 2019. A World Bank Group Flagship Report*, 16, last accessed September 30, 2019, https://www.doingbusiness.org/content/dam/doingBusiness/country/i/india/IND.pdf.

35. "India Policy Brief: Regulatory Reform," *OECD Better Policies Series*, November 2014.

Telangana state case study

An example of how a state can become business friendly comes from Telangana. Separated from Andhra Pradesh in 2014, the state made the business hub of Hyderabad its capital.

Over the past decades, Hyderabad has been developing as a hub for biotech, technology, and the pharmaceutical industry. Named the second most dynamic city in the world by the World Economic Forum, approximately 90% of employees work in services. However, even in comparison to both regional and global countries in the World Bank Doing Business report, the state scored relatively poorly both in terms of the time-frame and procedures needed to set up a new business.

The new government has brought in legislation to address this. For instance, the Telangana State Industrial Project Approval and Self Certification Act legally guarantees that any new enterprise or investment in manufacturing or services of more than 200 crore ($2.5 billion) will be approved within 15 days, and all other investments within 30 days. Importantly, if there are delays in confirming the approval, the investor is to assume that approval has been granted and proceed with the investment. The state has also introduced fines for each day of delay to the office responsible. This is seen as an active departure from the red tape and lack of transparency, which are known constraints on Indian business.

Cluster development

India has a long history of using clusters to promote export-led growth. Clusters aim to address challenges that micro, small, and medium enterprises (MSMEs) face, often including obstacles to formalisation, access to knowledge services, access to timely and adequate finance, improved competitiveness, availability of skilled manpower, access to the latest technology, and marketing.[36] Substantial progress has been initiated, both by the government and individual ministries. India now has 373 SEZs, 142 of which are under construction, with a further 62 planned.[37] This constitutes about half the zones (737) in Southeast Asia, but is dwarfed by the 2,543 zones already operating in China. Over 60% of India's SEZs specialise in ICT-related manufacturing and services.[38]

36. Aastha Singal, "How's Indian Government Handholding MSMEs?," *Entrepreneur,* June 26, 2019.

37. "World Investment Report," *UNCTAD,* 2019.

38. Ibid.

Shutterstock.com

Examples of SEZ development

One example of a central government initiative is the Sagarmala Programme's focus on developing 14 Coastal Economic Zones with adjacent Coastal Employment Units. The initiative recognises the importance of port modernisation to international trade: 90% of India's import and export cargo by volume passes through ports, representing 70% of goods by value.[39] The Sagarmala Programme will combine with the government's flagship 'Make in India' programme, which is focused on increasing employment as well as foreign and domestic investment in manufacturing. The Zones will connect with the industrial corridors, which, in turn, will see continued development between industrial hubs across the country.

Individual ministries create their own initiatives. Notably, the Ministry of MSMEs has adopted the cluster development approach as a key strategy for productivity enhancement, competitiveness, and capacity building of MSMEs in the country.[40] From 2018-19, 17 Common Facility Centres and 11 Infrastructure Development projects were established.[41] These initiatives are aimed at fostering growth of the 26 million MSMEs, 70% of which are concentrated around 1,086 industrial clusters by addressing some of the issues which prevent them from scaling.[42]

States, which are encouraged to compete with one another for business by the central government, establish SEZs. It is telling that Tamil Nadu has 70 clusters, double that of Haryana. Other major clusters are based in Kerala, Maharashtra (both 23), and West Bengal (20). Fourteen states have just one or no clusters. The majority of these are in the northwest.[43]

Nevertheless, there are several weaknesses with India's SEZ policy.[44] Firstly, it allows India's services sector to participate, which is a sector that does not need incentives for growth, rather than the manufacturing sector. Secondly, the designated areas for SEZs are very small, with a maximum size of 5,000 hectares, although this can be relaxed on a case-by-case basis. Often they need to be larger to gain the benefit of economies of scale.[45]

Thirdly, there are early signs that demand from private firms is not sufficient in supporting the continued development of SEZs. Slowing demand will be compounded by ongoing difficulties in negotiating Land Acquisition Laws and the government's plans to phase out direct tax benefits by 2020.[46]

Skills mismatches

In the latest World Bank Enterprise Survey, 9.4% of Indian firms say that labour skill is a business constraint, an improvement from 14.5% in the previous survey, which is 26th in the world. Nevertheless, there are still challenges in providing the right skills required by employers. Nearly 35% of young people are unemployed, while relatively uneducated workers have more employment.[47] One of the challenges is encouraging greater collaboration between private firms and education providers.

39. Megha Manchanda, "Employment to be main criterion for coastal economic zones," *Business Standard*, April 17, 2018.

40. "Plan to increase the number of MSMES in the country," *Ministry of Micro*,Small & Medium Enterprises, June 24, 2019.

41. "Micro and Small Enterprises – Cluster Development Programme," *Development Commissioner for MSMEs*, last accessed October 1, 2019, http://www.dcmsme.gov.in/MSE-CDProg.htm.

42. "MSME Cluster Development Programme," *India Filings*, last accessed October 1, 2019, https://www.indiafilings.com/learn/msme-cluster-development-programme/.

43. "Micro and Small Enterprises – Cluster Development Programme," *Development Commissioner for MSMEs*, last accessed October 1, 2019, http://www.dcmsme.gov.in/MSE-CDProg.htm.

44. NG Junior Luwang, "Special Economic Zones in India suffer from policy flaws," *Indian Economic Times*, February 8, 2008.

45. Ibid.

46. "World Investment Report," *UNCTAD*, 2019.

47. Bloomberg, "View: Here's what we know for sure about jobs in India," *Indian Economic Times*, April 18, 2019.

Opportunity

India could continue to reduce the time and cost for businesses entering the formal economy. While this is often done at a state level, there may be opportunities to ensure that lower performing states can be brought up to a similar level.

The government should also ensure that SEZs are delivering maximum impact. Where appropriate, consideration should be given to expanding the size of SEZs, to gain agglomeration benefits and economies of scale.

Furthermore, greater emphasis should be placed on matching graduates with employers and ensuring training institutions are providing the skills required by firms. Greater collaboration between government and industry, and greater information for graduates about skills that are in demand, would help this.

BURDEN OF REGULATION (INDIA RANK: 41ST)

A large administrative burden results in companies focusing resources on complying with these regulations, rather than innovating and creating. The process of complying with tax regulations, for instance, should be uncomplicated and quick. While the potentially detrimental impact that taxation can have on businesses is widely understood, so too is the method of tax collection and the complexity of taxes being levied. Our measure captures how much effort and time are required to comply with such regulations.

The number of tax payments has fallen from 41 per year to 14.

India ranks 41st for the Burden of Regulation, having improved dramatically over the last 10 years, rising 93 places in the global rankings. Indian regulation was characterised by the 'Licence Raj', where the central government coordinates and runs business and industry. While large parts of it have been dismantled, some sectors are still heavily regulated.

A particularly visibly damaging consequence involves incumbent firms, who cause regulations to be passed by exerting influence over regulatory bodies, or gain access to insider information about policy change ahead of official announcements. A recent example from the pharmaceutical industry saw 16 (out of 112) firms adjust their products in time to avoid hefty fines, and gain market share. Especially with large players, weak policy design is complicated by weaknesses in implementation of regulation and punishment for breaches.

Tax payments

India has seen improvements in the ease of paying taxes. For example, the number of procedures required for businesses to complete has been significantly reduced from around 41 per year in 2009, to 14 in 2019 (see Figure 12).[48,49] This is less than Indonesia (43), but more than China (9). Paying taxes takes on average 215 hours. This is similar to Indonesia and China (both 207), but a long way behind Singapore (63) (see Figure 13).

A number of procedural factors may also contribute to the burden, such as inadequate communication regarding changes, and the negative effect on compliance exerted by a mushrooming of new initiatives, particularly among MSMEs.[50] Furthermore, government officials retain significant discretion in how to administer tax regulations—this risks encouraging and perpetuating corruption.

48. "Overall ranking and data tables," *PwC*, last accessed October 1, 2019, https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019/overall-ranking-and-data-tables.html.

49. "Ease of Doing Business in India," *World Bank*, last accessed September 30, 2019, https://www.doingbusiness.org/en/data/exploreeconomies/india.

50. Sanjay Sanghvi, "Does India really need a direct tax code?," *Indian Economic Times*, July 3, 2019.

Figure 12: Tax payments

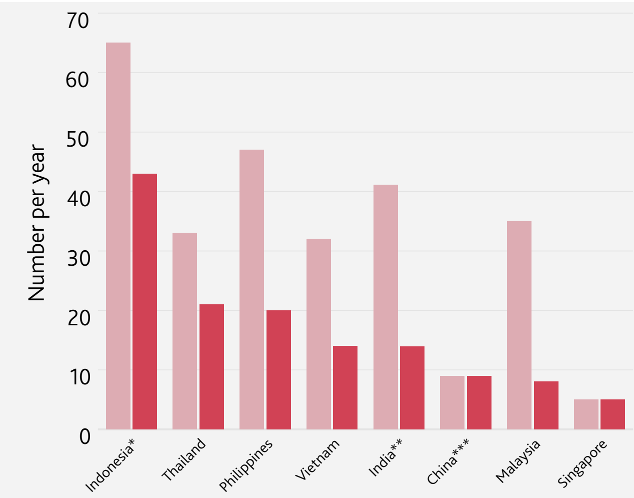
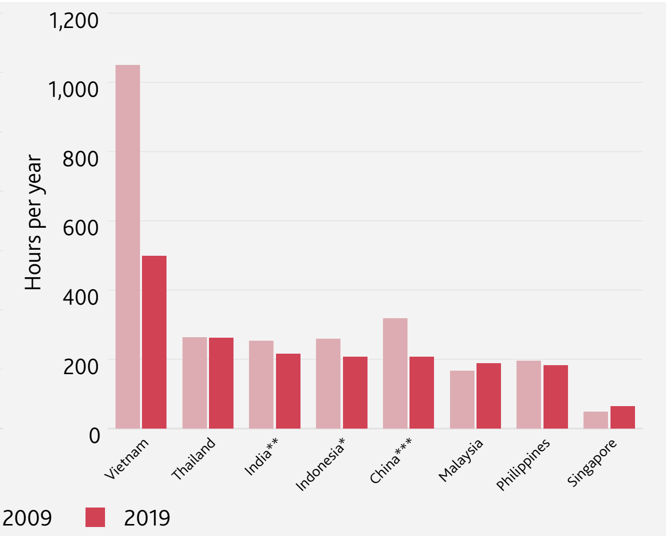


Figure 13: Time spent filing taxes



Source: World Bank Doing Business, 2019

*2009 score is Jakarta only; **2009 score is Mumbai only; ***2009 score is Shanghai only

One of the important changes has been the introduction of the unified GST in 2017, which replaced all other indirect taxes. Although the change is a simplification, because it replaced state level VAT taxes, analysts at the World Bank have pointed out that among the 115 countries that have a unified tax system, India's is the most complex and has the second-highest rate. The GST has four tax slabs — 5%, 12%, 18%, and 28% — while 49 other countries have just one.[51]

However, another review of the GST, announced in the budget following Prime Minister Modi's 2019 re-election, suggests that changes to GST rates are likely to be ongoing. It is considered one of the most important tools at the government's disposal that is used to stimulate production in a particular sector (such as automobiles) and the wider economy.[52,53]

Construction permits

The time to obtain a construction permit has fallen from 144 days to 95.

The construction industry is a large part of the economy, with the expansion and running of businesses significantly affected by building regulations. A residential project can require up to 50 separate permits before construction begins; securing these can take years and involve several additional permits after construction ends, before a property can be handed over to the customer.[54] Additional customer protection regulations introduced in 2017 are expected to further disrupt the sector.[55]

The government has sought to streamline the process of obtaining building permits. Based on the cities of Delhi and Mumbai, the World Bank has found that the time needed to obtain a permit has fallen from 144 days to 95 days, while the cost of completing all procedures to build a warehouse has fallen from 23% of the total value, to 5%.[56,57] This now compares favourably with

51. Kamalika Ghosh and Nupur Anand, "A year on, India's biggest tax reform is still a work in progress," *Quartz India*, July 2, 2018.

52. Andy Mukherjee, "no silver bullet: benefits of bank mergers to be visible only in long term," *Business Standard*, September 2, 2019.

53. Rohit Vaid, "Auto industry's pain percolates to other businesses," *Livemint*, August 11, 2019.

54.Aliya Ram, "India property developers face tough building rules," *Financial Times*, May 7, 2017.

55. Ibid.

56. Hemanta Doloi, David Week and Atul Bora, "Role of Regulatory Framework for Supporting Construction Industry in India." *EPiC Series in Education Science* 1 (2017): 351-360.

57. "Doing Business Report: With Strong Reform Agenda, India is a Top Improver for 2nd Consecutive Year," *The World Bank*, October 31, 2018.

China, where it takes 155 days at 2.9% of building value, and with Indonesia where it takes 200 days at 4.4% of building value.

These improvements, however, may apply to only these two cities, which have introduced the single window electronic permit applications to gather documents from all agencies.[58] The same cannot be said for other parts of India, where regulations and standards vary across and within states, as municipal and urban authorities seek to exert influence over the sector.[59]

Opportunity

Having seen significant improvement in reducing the burden of regulation on business, India could improve further in enacting consistent and purposeful regulations. In many places regulations could be simplified, particularly for small business.

The government could continue to improve the ease with which businesses pay taxes by, for example, clarifying the federal and sub-federal tax codes, ending retroactive tax collection and reducing discretion in enforcement of tax policy. In addition, the different tax slabs for GST could be reduced and streamlined.

Streamlining construction procedures across India could also be a priority, and ensuring that the cost of obtaining planning permission continues to fall could stimulate construction.

LABOUR MARKET FLEXIBILITY (INDIA RANK: 32ND)

Labour Market Flexibility helps to simultaneously ensure the availability of jobs and the protection of workers. Without a well-functioning labour market, jobs are likely to be scarce, with those available potentially unappealing and with little redress available for those in a bad employment situation. Our measure captures the level of dynamism and flexibility in the workplace, for both employer and employee.

India ranks 32nd for Labour Market Flexibility. Weaknesses in India's labour regulations has encouraged employers in the formal sector to economise on labour. However, labour market flexibility has been improving, as the government tries to address informality and create jobs, having risen 21 places over the last decade. A number of improvements to contracting have been made, which should simplify hiring processes.

Job creation as a priority

The government has stated job-creation as one of its priorities, with another major challenge being the movement of people into the formal labour force. The unemployment rate is currently 6.1%, the highest it has been since 1973.[60] This is an increase from 2.2% in 2012 and is particularly high among people aged 15-29. In urban areas, 18.7% of men and 27.0% of women in this age group are looking for jobs, while in rural areas this is 17.4% and 13.6%.[61]

The Modi 2014 election campaign pledge to 'create' 10 million new jobs each year has been deemed unfulfilled, with reports suggesting that the number is closer to 5 million.[62] The World Bank has assessed that a continuation of the present employment rate would require 8.1 million new jobs per year.[63]

58. "Business Reforms in India," *World Bank Doing Business*, last accessed October 3, 2019, https://www.doingbusiness.org/en/reforms/overview/economy/india

59. Munieshwer Sagar, "Punjab to bring unified building rules: Here's what it means," *Hindustan Times*, December 21, 2017.

60. "India job data spells trouble for Narendra Modi," *BBC*, January 31, 2019.

61. Ibid.

62. "One crore jobs if BJP comes to power: Narendra Modi," *DNA India*, November 21, 2013.

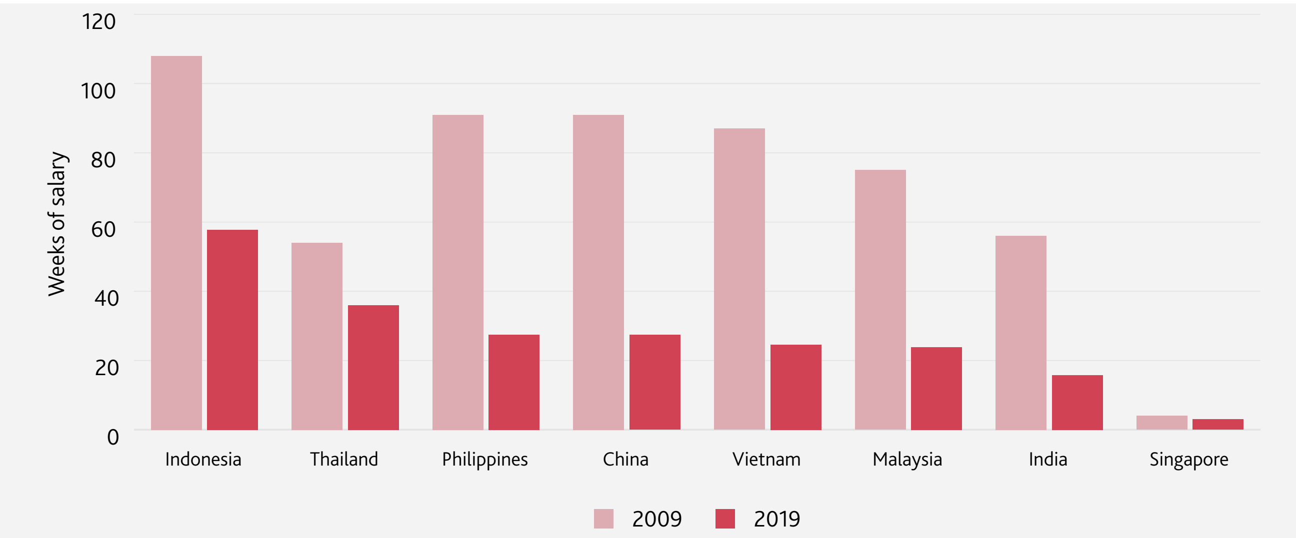
63. PTI, "India must create 8.1 million jobs annually: World Bank report," *Indian Economic Times*, updated: April 16, 2018.

Restrictive regulations

Inflexible labour regulations are a major barrier to achieving the goals of increased job creation and formalisation. Rules governing employment are generally restrictive, particularly in manufacturing. Under the Industrial Disputes Act, a manufacturing firm with 100 workers or more cannot dismiss anyone without prior agreement from the government.[64]

The government's changes to employment contract flexibility are believed to correlate with a shift in government policy towards job creation, rather than ensuring job security.[65] For example, redundancy costs have reduced from 56 weeks of salary in 2009, to just 16 weeks in 2019 (see Figure 14), placing India 74th in the global rankings, a rise of 36 places. In 2018, the government amended labour rules to promote free labour movement and facilitate labour policies for companies, primarily by allowing companies to hire workers on fixed term contracts. The reforms remove restrictions, giving private companies greater flexibility in deciding their employment practices.[66] One of the aims is to allow firms to be more competitive, by hiring workers depending on requirements, which may change seasonally.[67] The rules extends that which is already practiced in the clothing industry, into other sectors of employment.[68]

Figure 14: Redundancy costs



Source: World Economic Forum

Complexity

Another constraint to labour market flexibility is the complexity of labour laws, with 44 laws currently regulating labour. The government has plans to consolidate these laws into four codes – relating to wages, industrial relations, social security and welfare, occupational health, safety and working conditions.[69] For example, in 2019, the Labour Code on Industrial Relations proposes to merge the current central government laws governing wages (for example, the Minimum Wages Act, the Payment of Wages Act, the Payment of Bonus Act, the Equal Remuneration Act) into a single act.[70]

64. Prasanna Mohanty, "5 contentious issues holding up India's labour law reforms," *Business Today*, July 11, 2019.
65. Remya Nair, "Modi govt amends labour rules to encourage contract jobs," *Livemint*, March 21, 2018.
66. Ibid.
67. "Fixed-Term Employment Contracts are Formalised across India," *Global Payroll Association*, May 30, 2018.
68. "Industrial Employment (Standing Orders) Act, 1946," *Bihar Government*, April 23, 1946.
69. Prasanna Mohanty, "5 contentious issues holding up India's labour law reforms," *Business Today*, July 11, 2019.
70. PTI, "Govt planning new labour legislation by merging 44 laws under 4 categories," *Business Today*, June 11, 2019.

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In addition, at a state level, the minimum wage has wide variations. The highest is in Haryana (New Delhi), at INR 9,100 ($133) per month, and the lowest is in Arunachal Pradesh at INR 1,794 ($26). There are also variations within states. For example, Tamil Nadu sets 76 separate categories for minimum wages based on employment sectors, skills, and other factors. Furthermore, the Minimum Wages Act of 1948 has not been effectively implemented in most parts of the country. The Economic Survey of 2018-19 says the law does not cover all wage workers, where "one in every three wage workers in India has fallen through the crack".[71]

Opportunity

India's labour market presents both an opportunity and a risk. As the labour force expands by millions every year, India could reap a substantial demographic dividend from its young population. However, it needs to take advantage of that opportunity. As the government moves to place greater emphasis on job creation, ensuring there is greater labour market flexibility will require streamlining various laws and providing greater certainty for wage determination.

The laws regarding government approval for major redundancies could be removed. However, in order to secure wider acceptance of these reforms, a reform of severance benefits is likely to be required. There should also be a reform of how the government can offer assistance to workers, such as retraining and job-search support.

71. Prasanna Mohanty, "Labour reforms: No one knows the size of India's informal workforce, not even the govt," *Business Today*, July 15, 2019.

GOVERNANCE (INDIA RANK: 46TH)

The importance of good governance to long-term economic growth cannot be overstated.[1] Even when extraneous factors such as culture are taken into account, both economic and political institutions are evidently significant determinants of a country's prosperity level.[2] Governance underpins economic activity; investment and enterprise is attracted only if, and when, a country is governed well. Investment and prosperity require the effective rule of law, which itself is dependent upon trust in a robust set of effective and accountable state institutions.[3,4] Good governance is most robust when it has been established over time through natural evolution and is essentially a codification of cultural expectations and behaviours.[5]

INDIA SWOT Analysis of Governance

STRENGTHS	WEAKNESSES
• The tripartite structure of the executive, judiciary, and parliamentary branches provides a largely effective check on power • Independent institutions, such as the Election Commission, ensure free elections • The Supreme Court is seen as socially progressive and a strong defender of human rights • The Constitution guarantees equal rights to all citizens • Freedom of information and independent statistical measures partially hold the government to account	• Over 30% of MPs hold serious criminal records, and only 6% of criminal cases against MPs end in convictions • Corruption among public officials is widespread, yet tolerated • High concentration of media ownership, with 76% of written press owned by four corporations • Court rulings are perceived to be ineffectual, due to lack of resources for enforcement • Ineffective delivery of public services by union and state government • Poor communications of changes in policies, especially since multiple policies are being changed simultaneously
OPPORTUNITIES	**THREATS**
• Executive acting with constraint to provide investors and businesses with certainty over future policy decisions • Reforming campaign finance to increase transparency of elections • Reducing government litigation to relieve the burden on the court system • Strengthening prevention measures for corruption • Improving quality of the civil service and administrative procedures to improve government effectiveness • Improving coordination between central and state governments, including ensuring central initiatives are not diverting state funds in a poor way • Empowering regulators to lead to more efficient and impactful regulations	• Executive actions are carried out without due parliamentary process, leading to uncertainty • Potential threat of Supreme Court independence being undermined • Continued threats to civil society, sometimes involving lethal violence against press and NGOs investigating government activities

1. Douglass C. North. *Institutions, institutional change, and economic performance*. Cambridge University Press, 1990.
2. Daron Acemoglu and James Robinson, "The role of institutions in growth and development." Leadership and growth 135 (2010).
3. Guillermo O'Donnell, "The quality of democracy: Why the rule of law matters." *Journal of democracy 15*, no. 4 (2004): 32-46.
4. Stephan Haggard and Lydia Tiede, "The rule of law and economic growth: Where are we?." *World Development 39*, no. 5 (2011): 673-685.
5. Richard V. Adkisson and Randy McFerrin, "Culture and good governance: A brief empirical exercise." *Journal of Economic Issues 48*, no. 2 (2014): 441-450.

Evaluating Governance

Governance can be conceptually split between the structural and operational aspects of how political and administrative power is checked and applied.

The first of these structural aspects of Governance is **Executive Constraints**, including the existence of the separation of powers and the level of checks and balances in a governing system, particularly with respect to the executive. The second is **Political Accountability**, or the degree to which the public can hold public institutions accountable. The third is the **Rule of Law**, which encompasses the judiciary's fairness, independence, and effectiveness (in applying both civil and criminal law), along with the accountability of the public to the law.

We assess three different ways in which administrative power is applied. The first is **Government Integrity** (for example, transparency and the absence of corruption). The second is **Government Effectiveness**, which is the ability of government to set and implement a policy. The final area is **Regulatory Quality**, which captures the extent to which regulations are administered and enforced in a manner that supports economic activity.

India ranks 46th in Governance, up four places from 2009. It has been a democracy since independence, and today is the world's largest democracy. Political Accountability is its major strength, where it ranks 39th.

There are also challenges and opportunities. India is weakest in Regulatory Quality, where it ranks 77th, with challenges in both the quality of regulations and their enforcement. A further challenge is also executive power being exercised without proper process, and in the case of demonetisation this had severe economic consequences. It is also important to note that the quality of governance varies across different states, with different effects for business throughout.

EXECUTIVE CONSTRAINTS (INDIA RANK: 50TH)

A well-functioning government relies upon clearly defined, separated powers, with bodies such as the judiciary, media, and civil society exerting appropriate levels of external checks and balances on the executive. Appropriate action also needs to be taken when officials violate their power. Our measure accounts for the extent of institutionalized constraints on the executive's decision-making powers, such as through the separation of powers into different bodies, and the degree to which checks and balances are in practice.

India ranks 50th globally for the strength of constraints on its executive, based on the practice of a clear formal separation of powers in India. However, one consequence of the prevalence of corruption has been that officials are not seen to be sanctioned for misconduct (110th globally).

Until recently, the judiciary and Supreme Court have been effective in limiting executive power. However, with recent unilateral decisions made by the Modi Government, the effectiveness of these constraints is being tested.

Perhaps the best example where the exercise of executive power significantly impacted the economy was the demonetisation decision of 2016. An estimated 86% of currency was taken out of circulation in 2016, without an act of Parliament. The announcement, that INR 500 and INR 1,000 notes would be taken out of circulation immediately, was made in an unscheduled live television address, causing widespread panic: the reported impacts were 150 million people without pay for weeks, a loss of 1.5 million jobs, and 100 suicides.[6,7] Although the stated aim was to take decisive action against the black market and increase bank account ownership, the method used raised questions (including from Nobel Laureate Amartya Sen) regarding Prime Minister Modi's commitment to democratic rule, especially given the abridgement of property rights, discrimination against persons, and cost to life.[8,9] The case against the government has now been brought to the Supreme Court.

There are concerns that the Reserve Bank of India may be losing its independence.

In a separate arena, many have concerns that the Reserve Bank of India (RBI) has lost some of its independence. The government has wanted to use the RBI's reserves to help shore up state-owned banks, or support government spending. This interference with the RBI's independence is thought to have led to the governor's resignation in 2018.[10] In 2019, the new governor authorised a $25 billion transfer to the government from the RBI's reserves.[11]

The economic consequences from the exercise of executive prerogative without constraint have already been felt with the demonetisation. The primary problem for investors is certainty – when the executive acts in an uncertain way, it affects the confidence that businesses and investors can have that their assets and interests will be protected.

Wider constraints

The federal states and their governments may have a certain level of autonomy, but the extent to which they exert power over the executive is questionable. India is a union, not a federal state; this means that it remains within the gift of the central government to assign or retract power from state level governments, with all major powers being centralised. This includes taxation, legislation (even overriding state level legislation, if deemed in the national interest) and importantly, the power to suspend the autonomy of state governments under Article 356.[12] The central government's power over the states is likely to be weakened further from the dilution in financial control that will come as a result of the award of the 14th Finance Commission.[13]

India has a broad civil society, with over three million registered civil society organisations (CSOs) funded domestically and by foreign investors. Nevertheless, the power of civil society has been declining for many years, particularly steeply since the Bharatiya Janata Party-led (BJP) Government has been in power.[14] Civicus describes India as an 'Obstructed Civil Space', meaning that civil society organisations exist, but are undermined by state authorities.[15]

6. "The Guardian view on Modi's mistakes: the high costs of India's demonetisation," *The Guardian*, August 31, 2018.
7. Jeffrey Gettleman, "Modi's Cash Crackdown Failed, Indian Bank Data Shows," *The New York Times*, August 30, 2018.
8. "Why demonetisation notification is illegal and violates the constitution," *Indian Economic Times*, December 11, 2016
9."Nobel laureate Amartya Sen: Note ban undemocratic, like an unguided missile," *India Today*, January 28, 2017.
10. "Urjit Patel: India's central bank governor resigns," *BBC*, December 10, 2018.
11. Amy Kazmin, "India central bank's payout to Modi government sparks warnings," *Financial Times*, August 27, 2019.
12. "The 2019 Indian general elections and the demise of political federalism," *Centre on Constitutional Change*, August 6, 2019.
13. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.
14. Rohini Mohan, "Narendra Modi's Crackdown on Civil Society in India," *The New York Times*, January 9, 2017.
15. "Monitor: Tracking Civic Space," *last accessed October 1*, 2019, https://monitor.civicus.org/.

Opportunity

The primary opportunity for the government is to ensure that economic participants consider that it is acting within constitutional constraints. In a recent meeting with the Prime Minister in New York, major U.S. CEOs discussed consistency of policy making, among other topics.[16] Ensuring that the executive respects constitutional processes would enhance the certainty and transparency of policy making, and this would raise investor confidence in the government's policy making process, and provide more certainty over regulatory changes.

POLITICAL ACCOUNTABILITY (INDIA RANK: 39TH)

Political Accountability is important for promoting democracy and ensuring prosperity. It provides a democratic means to monitor government conduct and prevent both the concentration of power and collusion between the state and big businesses. Our measure of Political Accountability captures the degree to which the public can hold public institutions to account, which covers a range of mechanisms of accountability such as periodic elections and the degree of political pluralism.

India ranks 39th in the world for Political Accountability, having risen 15 ranks over the past decade. This is India's strongest element in Governance, and reflects the fact that politicians can be held to account through elections in India, and that the media has a role to play in providing accountability. However, there are some risks to political accountability through campaign financing, and to the independence of the media.

Fairness of elections

Indian elections are widely acknowledged to be the largest exercise in free democratic elections globally, with up to 600 parties contesting the 2019 elections. A poll taken ahead of the 2019 election found that 58% of well-educated Indians agree that the state allows democratic values to flourish, although this rate does decrease to 26% for those with lower levels of education.[17]

Elections are managed by an impartial Election Commission, whose members are appointed by the President and can be removed from office by Parliament.[18] The Election Commission has recently attempted to improve the electoral process by introducing electronic voting machines, among other initiatives.

However, the two dominant parties – the BJP and the Congress Party – have both been criticised for being un-democratic, for varying reasons. The Congress Party has been accused of nepotism and dynastic rule, with members of the Nehru-Gandhi family at its helm since Independence. The BJP's Hindu Nationalist stance has been argued to threaten the secular constitution.[19]

16. Seema Mody, "Powerful group of US CEOs meet Modi, raise concerns with growth in India," *CNBC*, September 26, 2019.
17. Kat Devlin, "A Sampling of Public Opinion in India," *Pew Research Centre*, March 25, 2019.
18. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.
19. Christophe Jaffrelot, "The Fate of Secularism in India," *Carnegie Endowment for International Peace*, April 4, 2019.

Democracy in India

As well as being home to almost one in five people on earth, India is one of the most linguistically, culturally, and religiously diverse countries in the world. India has many deep divisions and inequalities based on caste, religion, language, region, ethnicity, and economic status. These disparities make it more difficult to agree on national goals than would be the case in more homogenous societies.[20]

Adopted after Independence in 1947, the Constitution and political structure was designed to guarantee equal rights for all.[21] Federalism, for instance, includes power sharing between the union and state governments that enables policies to be adapted to regional needs.

Universal suffrage by secret ballot is ensured and well exercised across the seven Union Territories and 29 states (two new states of Telangana and Andhara participated for the first time in the 2019 election). Elections take place every five years to elect members for the Lok Sabha (Lower House). The leader of the party with a majority becomes Prime Minister, holding executive power over the union and federal governments. Parliamentary sovereignty and judicial reviews ensure that political processes are subject to checks, with an independent Election Commission looking to ensure free and fair elections.[22]

The 2019 elections, in which 900 million people were eligible to vote, saw a 67% participation rate, signalling an almost steady rise since the first elections (45%). In the most recent election, 45 million young people became eligible to vote.[23]

For many states, voting rates were the highest on record, with West Bengal, Tripura, Nagaland, and Manipur boasting participation rates of over 80%. However, lower levels of turnout in majority Muslim states such as Kashmir (29%), and states with larger Dalit populations such as Maharashtra (61%), suggest lack of access to voting for some of the population.[24]

Electoral finance

In the 2019 elections, parties and candidates spent $8.6 billion on elections

As in many countries, electoral finance persists as a major issue. In the 2019 elections, parties and candidates spent $8.6 billion, twice as much as the 2014 election and costlier than the 2018 U.S. election ($6.5 billion).[25,26] As with all previous elections, reports of corruption were rife, with large amounts of cash, food, travel and promises of lucrative contracts reported by both the Electoral Commission and the Centre for Media Studies.[27,28] Often this money is given with the expectation that a company will receive future government contracts.[29]

There is evidence of electoral cycles in some sectors. For example, there has been a tendency for cement consumption to fall before elections as builders divert money to fund campaigns; in

20. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

21. Wendy Doniger and Martha C. Nussbaum, eds., *Pluralism and democracy in India: Debating the Hindu right*. Oxford University Press, 2015.

22. "Why Did India Choose Pluralism?" *Global Centre for Pluralism*, April 2017.

23. Saumya Tewari, "With 45 million new voters, parties need to talk jobs, education in 2019," *Business Standard*, February 15, 2019.

24. Bharti Jain, "Lok Sabha elections: At 67.1% turnout's a record, Election Commission says," *Times of India*, May 21, 2019.

25. Archana Chaudhary and Jeanette Rodrigues, "Why India's Election is Among the World's Most Expensive," *Bloomberg*, March 11, 2019.

26. Sangeeta Tanwar, "Indian Political Parties spent $8 billion on this year's elections – nearly half was by the BJP," *Quartz India*, June 5, 2019.

27. "India cancels polling in southern constituency over 'vote buying'," *Aljazeera*, April 17, 2019.

28. Nithya Subramanian, "What's the price of a vote in India? A new report comes up with a startling number," *Scroll.In*, June 8, 2019.

29. Milan Vaishnav, "Political Finance in India: Déjà Vu All Over Again," *Carnegie Endowment for International Peace*, January 31, 2019.

a separate study, mill-owners have been found to pay less for sugar cane during election years, in order to fund campaigns.[30,31] This threatens the potential for any level playing field between companies seeking government contracts.

Some of the criticism surrounds the change in electoral financing rules by the BJP Government, which introduced 'electoral bonds' that allow unlimited and anonymous donations by companies and individuals. The BJP captured 95% of all political funding, accounting for half of all electoral spending.[32,33]

Politics and crime

There are some issues with criminality in politics. A study has shown that candidates with a criminal record have an 18% chance of being elected, whilst a 'clean' candidate has a 6% chance.[34] The likelihood is higher in regions where the government is failing to carry out its functions in delivering services, dispensing justice, or providing security. This is in part because those with criminal convictions are perceived to be more effective as they can finance their own campaigns, secure votes through bribery or intimidation, and, in 'Robin Hood' fashion, promise to deliver where the current government has failed.[35,36]

Long delays in bringing criminals to justice and the personal risks of reporting officials mean that criminal activity of MPs is often left unreported. The Association for Democratic Reform (ADR), an NGO, found that data submitted by the central government to the Supreme Court revealed only 6% of criminal cases against MPs and Members of Legislative Assemblies (MLAs) ended in convictions, with 18 out of 29 states not bringing any cases.[37,38]

Role of the media

On the surface, India seems to have one of the most competitive media environments in the world, with over 100,000 registered newspapers and magazines, 400 television news channels and over 500 radio stations providing information in every language found across the country.[39] However, this does not necessarily guarantee pluralism in the media, as the four largest print media publishers account for over 76% of readership share.[40] Due to concentrated media ownership, even laws requiring diversity of ownership are inadequate and routinely ignored. This can partly be attributed to the Press Council of India's limitations in imposing sanctions for violations.[41] Reporters without Borders have found that both locally and nationally, owners of the media have strong political affiliations with the Prime Minister and ruling party BJP, thereby exerting significant influence.[42,43] The subsequent impact of these practices on existing competition laws are important to assess.

30. Devesh Kapur and Milan Vaishnav, "Quid pro quo: Builders, politicians, and election finance in India." *Center for Global Development Working Paper* 276 (2013).

31. Sandip Sukhtankar, "Sweetening the deal? Political connections and sugar mills in India." *American Economic Journal: Applied Economics 4*, no. 3 (2012): 43-63.

32. "Factbox: India's elections – rules on campaign financing and spending," *Reuters*, May 1, 2019.

33. Mukulika Banerjee, "The new Indian elections: Free but not fair," *LSE South India Centre*, May 2019.

34. Soutik Biswas, "Why do Indians vote for 'criminal' politicians?" *BBC*, January 16, 2017.

35. Ibid.

36. Neeta Lal, "India's Criminal Politicians," *The Diplomat*, December 19, 2018.

37. Ibid.

38. Jeffrey Gettleman, Hari Kumar and Suhasini Raj, "Top Court Intervenes in Rape Case That Has Stunned India," *The New York Times*, August 2, 2019.

39. "Media Ownership Monitor: Who owns the media in India?," *Reporters Without Borders*, May 29, 2019.

40. Ibid.

41. Aarti Betigeri, "The bad news for press freedom in India," *The Lowy Institute*, June 18, 2019.

42. "Media Ownership Matters," *Reporters Without Borders*, last accessed October 1, 2019, http://www.mom-rsf.org/.

43. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

India continues to perform poorly on the World Press Freedom Index, ranking 140th out of 180 countries in 2019. The main reason for this tends to be attacks (six of which were fatal in 2018) on journalists who speak out against the ruling BJP party or investigate cases of political corruption in rural areas.[44]

Opportunity

As in many countries, campaign finance reformation could help in the reduction of the role of money in elections by making donations more transparent. In particular, India could revisit the introduction of electoral bonds, recent amendments around election financing rules allowing foreign companies registered in India to make political donations, and the removal of the 7.5% cap on political donations. This will reduce the potential for companies receiving government contracts unfairly or regulatory forbearance, in exchange for political donations.[45]

There could also be greater enforcement of existing laws on media ownership and corruption. These would ensure greater scrutiny of government and decisions.

44. "India drops down on World Press Freedom Index," *Indian Economic Times*, April 18, 2019.

45. Milan Vaishnav, "Political Finance in India: Déjà Vu All Over Again," *Carnegie Endowment for International Peace*, January 31, 2019.

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RULE OF LAW (INDIA RANK: 56TH)

An independent, impartial, and effective judiciary is a cornerstone of democracy, ensuring that both the civil and criminal law is applied fairly and appropriately. It also means that business disputes are settled in an open, unbiased, transparent, and predictable manner, which is essential for business development and investment. There needs to be a level playing field for state agents and firms so the latter can thrive. Our measure of the Rule of Law captures these elements, along with the accountability of the public to the law.

India ranks 56th for the quality of its rule of law, and the Indian judiciary is relatively strong and independent from the executive and legislative branches. The Supreme Court is highly regarded in India and, in recent years, has contributed significantly in fields such as the persecution of human rights violations. For example, it has been responsive to privacy concerns during the introduction of unique biometric identification cards, has stepped in where regulators have failed to enforce regulations such as in urban planning, and is considered to be progressive in social issues, such as LGBT rights. Notably, it has recently recognised the importance of its role in terms of crucial economic impact and regulation. The judgement in the Shivshakti Sugar Mills case set the precedent for this point. The Supreme Court Justices overruled a high court decision of shutting down a sugar cane factory because it was close to a nearby sugar cane factory.[46] The Supreme Court said that the court "needs to avoid that particular outcome which has a potential to create an adverse effect on employment, growth of infrastructure or economy, or the revenue of the state."[47]

There are two major challenges facing the legal system. Firstly, the government is the largest litigant in the courts, and therefore the courts face pressure to grant them favourable judgements.[48] Public interest lawyers have noted that in cases where the executive branch has a major political stake, the Supreme Court has been seen to bow to political pressure. Allegations of corruption in assigning politically important cases to pro-government judges have been investigated by the Central Bureau of Investigation, leading to proposed impeachment of the Chief Justice.[49,50,51]

The Judicial Appointments Bill of 2012 proposed that judges publicly declare their assets, created a judicial code of conduct, and created procedures for dismissing those judges who violated the code. However, it lapsed without being passed by Parliament.[52] Subsequently, one year into his first term, Prime Minister Modi put forward a proposal that would boost his influence over Supreme Court judges, by including a government member on the judge selection panel. The proposal was voted down unanimously by the Supreme Court, ruling that it would "obstruct judicial independence which is the backbone of the constitution."[53]

46. The plaintiff argued that the location where the defendant (Shivshakti Sugar Mills) had set up its factory was not permissible under Clause 6A of the Sugarcane (Control) Amendment Order, 2006.

47. "Shivashakti Sugars Limited v. Shree Renuka Sugar Limited & Ors (2017): It is the duty of the court to have economic analysis of its decision," *Law Briefs*, June 8, 2017.

48. Aditya Kalra, "India's top court scuttles Modi's judicial reform move," *Reuters*, October 16, 2015.

49. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

50. Apurva Vishwanath, "What happens when corruption scandals hit the Supreme Court? Nothing," *The Print*, November 9, 2018.

51. Jeffrey Gettleman, Hari Kumar and Kai Schultz, "Hundreds of Cases a Day and a Flair for Drama: India's Crusading Supreme Court," *The New York Times*, September 27, 2018.

52. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

53. Aditya Kalra, "India's top court scuttles Modi's judicial reform move," *Reuters*, October 16, 2015.

The Supreme Court hears approximately 700 cases per day.

The second main challenge (also discussed in Contract Enforcement) is the lack of resources that cause delays in the hearing of cases (sometimes decade-long), and the undermining lack of enforcement once judgements are made. India has only 12 judges per million people, compared with 50 in the UK and 108 for the U.S.[54] At the same time, approximately 700 cases are heard each day in the Supreme Court, compared to 70 per year in the U.S. Supreme Court.[55,56,57] For instance, the Indian Supreme Court may get involved in cases involving failure on the part of other government agencies that endangers human life, including uncollected rubbish in urban areas and environmental matters. However, apart from issuing statements and bringing incidents to media attention, judgements are not systematically enforced.[58,59]

Opportunity

There are opportunities to improve the functioning of the courts by investing in the quality of staffing and establishing a better case management system.

Some have suggested that a judicial appointments commission might improve the selection of judges. Properly constituted, this would lead to a "structured relationship between the executive and the judiciary in the appointment of judges", leading to better judicial appointments.[60]

To reduce the large workload on judges, further opportunities lie in reducing the number of cases the government brings to the court. There could be better selection of appeals, perhaps through a "revised national litigation policy, which should be made binding and enforceable against officers".[61] This would reduce pressure (real or perceived) on the courts.

Furthermore, better use of alternative dispute resolution (ADR) mechanisms could allow the government to resolve disputes with citizens. More selective use of the courts and use of ADR would provide confidence to investors and reduce both the perceived and real risk of expropriation, by not pursuing every potential case.

GOVERNMENT INTEGRITY (INDIA RANK: 55TH)

Corruption has a serious and significant negative economic impact, reducing public trust and the legitimacy of the state. It raises inequality, discourages private sector development, and, by reducing government revenue, limits the ability of governments to invest in productivity-enhancing projects. Transparency supports public accountability and helps to build trust in the government, in turn supporting social stability and economic growth. Our measure considers corruption within each branch of government and public office. Additionally, by measuring transparency, it evaluates the degree to which the government fosters citizens' participation and engagement through open information and transparent practices.

54. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

55. Jeffrey Gettleman, Hari Kumar and Kai Schultz, "Hundreds of Cases a Day and a Flair for Drama: India's Crusading Supreme Court," *The New York Times*, September 27, 2018.

56. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

57. "Judicial Independence," *World Economic Forum*, last accessed October 1, 2019, http://reports.weforum.org/pdf/gci-2017-2018-scorecard/WEF_GCI_2017_2018_Scorecard_EOSQ144.pdf.

58. *Bertelsmann Stiftung, BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

59. Jeffrey Gettleman, Hari Kumar and Kai Schultz, "Hundreds of Cases a Day and a Flair for Drama: India's Crusading Supreme Court," *The New York Times*, September 27, 2018.

60. Ibid.

61. "Ten legal reforms that must be on the Modi government's agenda," *Scroll.In*, July 21, 2014.

India ranks 55th for Government Integrity, up 13 places from 10 years ago. Although improving, bribes and extortion continue to be widespread in dealings between companies and the government to obtain contracts and licences which could cause a strain on already scarce national resources. Ordinary citizens find that backhanders to police and government officials are necessary to get the simplest things done.[62]

Level of corruption

Corruption is found at all levels of government, with officeholders able to find loopholes and avoid effective prosecution. Transparency International's 'Corruption Perceptions Index' ranked the Indian Government 78 out of 180 countries on metrics of corruption in 2018, with India's score of 41 falling below the world average of 43.[63]

Petty corruption is prevalent in three areas. First, in accessing public services. For example, 27% of households interviewed confessed to paying a bribe to avail public services (including the Public Distribution System (PDS), electricity permits, hospitals, education, water supply, police services, banking and finance, housing, and land records) in the previous year. The second is in welfare and transfer programmes, whose design flaws have increased the scope for corruption.[64] The third is in poor performance by officials. The costs of this are significant costs to business. For example, a 2019 paper argued that a set of labour regulations and corruption in factory inspectors drove up the cost of labour by up to 35%.[65]

Reasons for corruption

The reasons for corruption in India are various, differing at the union and state level. It has been argued that high taxes and excessive bureaucracy are crucial in explaining the persistent cycle of corruption.[66] Despite overall liberalisation, many essential goods are still subject to price control, which inevitably creates dual markets and the possibility of arbitraging between them.[67]

The International Monetary Fund (IMF) echoed this sentiment, by stating that complicated systems of regulation create opportunities for corruption.[68] Large amounts of paperwork are a factor that encourages bribery, as people are incentivised to pay illegally to advance their own applications. These payments are prevalent across public services (and largely at the state level, rather than the union level), such as for driving licenses, passports, subsidy claims, and so on.

On a larger scale, politicians and officials retain a lot of discretion in the allocation of national resources such as land and mineral licences, and the telecom spectrum. However, anti-corruption laws have many loopholes, and the adjudication and enforcement authorities are not up to the task of preventing and punishing corruption.[69]

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62. Vijay Joshi, *India's long road: the search for prosperity.* Oxford University Press, 2017.

63. "Corruption Perceptions Index 2018," *Transparency International*, last accessed October 1, 2019, https://www.transparency.org/cpi2018.

64. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

65. "Corruption among India's factory inspectors makes labour regulation costly," *Phys.Org*, August 27, 2019.

66. "Survey on Bribery and Corruption: Impact on Economy and Business Environment," *KPMG*, 2011.

67. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

68. Vito Tanzi, "Corruption around the world: Causes, consequences, scope, and cures." *Staff Papers 45*, no. 4 (1998): 559-594.

69. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

Addressing corruption

Part of the reason for Prime Minister Modi's win in 2014 was his promise to fight corruption, although it was a less prominent issue in 2019.[70] The Modi administration has arguably seen fewer corruption scams come to light than previous governments.[71]

Some action has been taken in recent years, with high-ranking officials in central government departments being retired (with three months' pay) for transgressions including bribery, money laundering, criminal conspiracy, extortion, and harassment of tax payers, as uncovered by the Central Bureau of Investigation (CBI).[72]

Countering bribe-giving

In 2011, Kaushik Basu, during his tenure as Chief Economic Advisor to the Government of India, suggested an arguably radical idea to discourage corruption.[73] Currently, the 1988 Prevention of Corruption Act states that both giving and receiving bribes is illegal. Basu's suggested amendment to the Act involves making bribe-giving legal in certain situations.

This way, bribers would be able to report the incident and recover their money. His idea was that creating information asymmetries would break the existing collusion between bribe givers and takers, thus incentivising the givers to be more open about reporting corruption. In 2018, India amended the Act to increase the punishment for bribe givers up to a maximum of seven years. But there is now a seven day window that allows the bribe giver to remain un-penalised, if the bribe is reported within this period. To increase the protection of government officials from false claims, the Act now asserts that an arrest of such officials must first be sanctioned by a relevant authority. There will need to be a balance between the protection given to government officials and citizens. As Basu told Bloomberg Quint, "My big worry is that if you give the bribe giver a window of seven days and a disproportionate protection to the bribe taker, then the seven day window is not going to achieve the kind of thing that I had argued."[74]

The anti-corruption drive is visible in several of Prime Minister Modi's other financial policies, namely introducing the unified Goods and Service Tax (GST), which removes opportunities for tax fraud, digitising processes to weed out middlemen, and executing the demonetisation of high currency notes in 2016 to tackle black money (although the effect of the latter is debateable).

However, despite the official anti-corruption stance, a 2016 amendment to the corruption law dilutes provisions about public servants' declaration of assets and liabilities by extending deadlines and exempting family members from having to make declarations.

The impact of reforms

On the whole, perceptions of corruption are mixed. On one hand, the perception about the government's efforts to reduce corruption in public services dropped from 41% in 2017 to 31% in 2018. This aligns with research house CMS' 'India Corruption Study', where, in 2018, 75% of households surveyed across 13 Indian states perceived the level of corruption to have increased, or stayed the same, over the previous year.[75]

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70. "Election Results 2014: 5 Factors that Helped BJP and Narendra Modi Win the Election," *NDTV*, May 16, 2014.

71. "India will suffer for Modi's failure to tackle corruption," *Nikkei Asian Review*, May 15, 2019.

72. "Corruption purge: 15 CBIC officials forced to retire," *Indian Economic Times*, June 19, 2019.

73. Kaushik Basu, "Why, for a Class of Bribes, the Act of Giving a Bribe should be Treated as Legal." *Ministry of Finance*, March 2011.

74. Ira Dugal, "Changes To India's Prevention Of Corruption Act Not In The Right Direction, Says Kaushik Basu," *Bloomberg Quint*, August 7, 2018.

75. Nidhi Bhati, "75% households believe corruption increased in last 12 months: CMS-ICS 2018," *Centre for Monitoring Indian Economy*, May 19, 2019.

Compared to the 2005 CMS survey, the number of households paying bribes has come down from 52% to 27%. The World Economic Forum claims that the anti-corruption drive potentially explains the confidence instilled by Indian citizens into their government.[76]

Recent National Institution for Transforming India (NITI) Aayong and IDFC research has stated that for manufacturing firms across all areas of doing business (such as starting a business, land and construction, labour, and environment approvals), most start-ups (firms established since 2015) reported that the costs required to meet various compliances were the same as the prescribed fees.[77] In other words, they did not incur any additional costs for illicit payments or fees charged by intermediaries facilitating approvals. However, a significant number of start-ups still paid more than the prescribed fees.[78]

World Bank recommendations for corruption

The World Bank argues that countries which address corruption use human and financial resources with more efficiency, are better positioned to attract investments, and witness more rapid growth. To leverage these strengths and effectively fight corruption, the Bank puts forward the following recommendations.[79]

Firstly, putting in place institutional systems that mitigate and detect potential risks of corruption occurring.

Secondly, ensuring that there is credible deterrence, including administrative and civil penalties alongside criminal ones. The World Bank, for example, will suspend individuals from its projects if there is sufficient misconduct. India could consider a similar approach for its civil service and major government projects.

Thirdly, understanding the importance of, and influencing "the evolution of norms and standards that can change incentives, strengthen public institutions, and thus move the needle towards positive perceptions of government needed for longer-term and sustainable efforts to combat corruption."[80]

Opportunity

In one of the most wide-ranging reviews of corruption in India, the authors observed: "We find much to commend in the sensible and wide-ranging legislative agenda to combat corruption, including the Right to Service and Public Procurement bills. However, what is most important for combating corruption is not the law on paper but the implementation of the law; the binding constraint, as always, is the government's desire and ability to punish corrupt officials and politicians."[81]

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76. Alex Gray, "A question of confidence: the countries with the most trusted governments," *World Economic Forum*, November 15, 2017.

77. "Ease of Doing Business: An Enterprise Survey of Indian States," *NITI Aayog and IDFC Institute*, 2017.

78. It is important to note, however, that both the CMS and NITI/IDFC studies, rely on households/firms self-reporting that they paid bribes; it does not capture the true extent of corruption in case people did not openly admit their involvement in the same.

79. "Combating Corruption," *The World Bank*, updated: October 4, 2018.

80. Ibid.

81. Sandip Sukhtankar and Milan Vaishnav, "Corruption in India: Bridging research evidence and policy options." *In India Policy Forum*, vol. 11, no. 1, pp. 193-276. National Council of Applied Economic Research, 2015.

Enforcement is a challenge, and it requires a political willingness to drive anti-corruption efforts.[82] This would require a greater focus on issues of corruption by the Prime Minister, and a focus on robust institutions. Further, given that all sides of politics are implicated in corruption, the administration's drive to fight corruption should find some of its expression in independent institutions, especially the independent ombudsmen recently established (the "Lokpal").[83]

Social sanctions and economic incentives could be useful tools in tackling corruption.[84] Technology can also be used to improve the accessibility of Indian government services, which would automatically leave less room for potential corruption to arise.[85] Prime Minister Modi, for example, has said that the Digital India initiative will reduce corruption alongside delivering better public services.[86] This is in line with numerous empirical studies that show the reduction in corruption as a result of increased spending on e-government, with Estonia, the Philippines, and South Korea providing anecdotal evidence.[87,88]

Further, it is important to realise that there are private sector solutions and that the market often favours firms with low or no corruption. A recent study found that Indian firms without political connections outperformed those that did.[89] One proposal to enhance private sector accountability in India is for the establishment of an Indian "business community institution" to create a transparent rating system for corporations.[90] By helping shareholders identify firms indulging in corrupt practices, investors can maximise their own returns, and also shine a spotlight on those firms that are overly corrupt.

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82. Yifei Yan and Alfred M. Wu, "Will Modi Resume the Battle Against Corruption?," *The Diplomat*, August 17, 2019.

83. James Crabtree, "India will suffer for Modi's failure to tackle corruption," *Nikkei Asian Review*, May 15, 2019.

84. Avinash Dixit and Ritika Mankar, "New ideas for fighting corruption in India," *Livemint*, April 23, 2018.

85. Yifei Yan and Alfred M. Wu, "Will Modi Resume the Battle Against Corruption?," *The Diplomat*, August 17, 2019.

86. "Digital India empowered people, reduced corruption: PM Modi," *Indian Economic Times*, July 1, 2019.

87. Jamshed J.Mistry and Abu Jalal. "An empirical analysis of the relationship between e-government and corruption." International Journal of Digital Accounting Research 12 (2012).

88. Thomas Barnebeck Andersen and John Rand. "Does E-Government reduce corruption." (2006).

89. Avinash Dixit and Ritika Mankar, "New ideas for fighting corruption in India," *Livemint*, April 23, 2018.

90. Ibid.

GOVERNMENT EFFECTIVENESS (INDIA RANK: 45TH)

Government Effectiveness includes, but extends beyond, the efficient use of resources and spending through effective government policy design and implementation, while also considering the government's ability to enact its stated strategies. Our measure includes the quality of public services, the quality of government officials, and their independence from government pressures.

India ranks 45th on Government Effectiveness, having risen three places since 2009. At independence, India's administration was excellent by developing country standards. However, there has been insufficient effort to maintain or nurture this capability. The civil service has not changed with the growing complexity of government – with too much emphasis on seniority rather than performance. Consequently, India now suffers from relatively weak state capacity.[91] The central government's ability to implement policy is constrained, often leaving policy objectives undelivered.

Central government

Lant Pritchett describes India as a "flailing state", meaning that while the national institutions at the centre of government "remain sound and functional", they have little effect on the operation of the "field level agents of the state [such as] policemen, engineers, teachers, health workers", who are often beyond the control of government.[92]

Within the civil service, there is a "decline in the quality of recruits, political interference, perverse incentives for career advancement, a lack of specialized expertise, and a perception of widespread corruption".[93] Productivity of front-line government workers is low. Training and skill levels are often below what is required, and absenteeism and work-to-rule practices are prevalent.[94]

Many highlight the poor quality of India's civil service, where civil service recruits are not well placed and performance management information is not collected. For example, in a 2017 report, the Defence Ministry noted that delays in procurement came as a consequence of poor coordination and disjointed planning, among other issues. It also noted that only 8-10% of the 114 schemes contracted in previous three years were completed on time.[95]

Policy vs. implementation

Core institutions determining economic and macroeconomic policy are often far more effective than those ministries implementing services across the country.[96] In that vein, monetary policy has been quite successfully implemented by the RBI.

There have been some policy successes, such as the adoption of the GST in 2017. This, among other initiatives, suggests a positive development in the successful implementation of its policy measures.[97] While in many areas the government lacks a coherent strategy, it has nevertheless highlighted the issue of economic growth as a clear strategic priority.[98]

However, there is a conflict where the expansion of rights is not backed up by the administrative

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91. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

92. Lant Pritchett, "Is India a flailing state?: Detours on the four lane highway to modernization." *Harvard University*, 2009: 4.

93. Milan Vaishnav, "The Indian Administrative Service Meets Big Data," *Carnegie Endowment for International Peace*, September 1, 2016: 12.

94. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

95. "'Make in India' for Defence Failing as There's Tendency to Accept Delays: Defence Ministry Report," *News 18*, updated: February 27, 2018.

96. Lant Pritchett, "Is India a flailing state?: Detours on the four lane highway to modernization." *Harvard University*, 2009: 32.

97. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

98. Ibid.

apparatus to deliver them – government employment schemes (such as the Mahatma Gandhi National Rural Employment Guarantee Act) being a well-documented example. While the Act does provide a large number of people with employment and a source of income, a guarantee of employment does not resolve the implementation irregularities and embedded corruption problems in employment schemes.[99]

Policy coordination

The inability to coordinate with other ministries in project delivery impedes the development of policy, and is further compounded by political interference. For example, the government has been under growing scrutiny from international bodies (such as the IMF), its own former chief economist, and the former head of the Indian central bank for allegedly overestimating the growth of India's economy by up to 2.5%. As well as the international reputational risk for the government, this inaccurate picture of the economy could have led to policy implementation that impeded economic growth.[100] On the project delivery front, the Indian government's attempts to coordinate conflicting objectives are restricted by significant frictions and redundancies among different government agencies.[101]

Nevertheless, the creation of the NITI Aayog represents an explicit effort at improving coordination between national and state governments. Furthermore, the introduction of the GST will mark a major improvement in terms of efficiency and policy coordination. The introduction of a new body, the GST Council, which includes both central and state government representatives, is expected to transform India from a collection of states with border controls and distinct tax systems into a single market.[102]

State level government effectiveness

Progressing beyond a socialist model of governance involved a pivotal decentralisation of power to state-level local governments, through a series of reforms under the Panchayati Raj from 1993.[103] The reforms devolved political, administrative, and fiscal authority. The Modi Government has increased the share of Union Tax revenues managed by state governments to 42%, which is significantly higher than under previous administrations.[104] The 29 state governments account for an increasing proportion of government expenditure in India, reaching 65% of total expenditure in 2018.[105] Joint centre-state competent rule-making has been devolved to the states, who have also been encouraged to play a more prominent role in foreign policy. This is reflected in the creation of a States' Division in the Ministry of External Affairs.[106]

As states have a relatively high level of autonomy over spending, the way in which they choose to invest funds differs widely across the country. For instance, the five states of Uttar Pradesh, Bihar, Karnataka, Telangana, and Maharashtra account for almost half of the capital expenditure done by all 29 states.

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99. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

100. Sameer Hashmi, "*Is India exaggerating its economic growth?*," *BBC*, June 13, 2019.

101. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

102. Ibid.

103. Craig Johnson, *Decentralisation in India: poverty, politics and Panchayati Raj.* Vol. 199. London: Overseas Development Institute, 2003.

104. Bertelsmann Stiftung, *BTI 2018 Country Report — India*, Gütersloh: Bertelsmann Stiftung, 2018.

105. "Indian Economy: States of spending," *CRISIL*, September 28, 2018.

106. Bertelsmann Stiftung, *BTI 2018 Country Report* — India, Gütersloh: Bertelsmann Stiftung, 2018.

Despite these positive improvements, the policy coordination between the central government and individual states is generally poor. In particular, the expenditure needed to provide at least basic levels of public services, and the associated taxation, fail to align.[107] The transfers from the central government to states is problematic. Firstly, there are a large number of schemes, making it "impossible to link a tangible outcome to a specific transfer".[108] Secondly, many states do not match the payments required of them.

There is also a significant difference between the best-performing and the worst-performing states. The former often enable economic development, "providing good infrastructure, efficient administrative processes etc. for private enterprise-led development".[109] In contrast, the latter play the dominant role in development because private enterprise is weak, as well as driving social development.

The 73rd and 74th Amendments to the Constitution merely suggested that state governments transfer powers to the local government, but did not require them to do so. As a result, state governments have preserved tight control over local governments and their resources.[110] This creates a major challenge for urban development. Indian cities are woefully underfunded, in 2006-07 local body revenues were less than 1% of GDP, compared with over 6% in South Africa and 7% in Brazil.[111] As cities grow larger, the problems they face will become more acute.

Opportunity

Weaknesses in government effectiveness significantly affect the economy. One of the primary considerations is the overall scope of government activity. Several services could be contracted out and delivered more efficiently by the private sector, with public authorities providing regulatory oversight. Furthermore, where the state does participate in the economy, it could do so in more competition with the private sector, and on a level playing field.

Within the scope of its operations, there are a number of opportunities for improvement of government effectiveness.

Firstly, the civil service could be improved by a higher quality of recruits (including better use of lateral hires), and a greater use of performance metrics, specifically through using data to place civil servants, and regular performance reviews. There is also the opportunity to build up the capacity of departments, in areas such as procurement.

Secondly, there are a number of administrative changes that could be made to ensure that government departments are more efficient, such as those outlined by the cabinet secretary in 2014 (see "Pre-existing proposals").

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107. M. Govinda Rao, "Making federalism- work- for-india/ India," *East Asia Forum*, June 22, 2016.

108. Ibid.

109. Sudipto Mundle, Samik Chowdhury, and Satadru Sikdar, "Governance performance of Indian states." *Economic and Political Weekly 51*, no. 36 (2016): 55-64.

110. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

111. "Good to Great: Taking the Governance Leap in India," *DASRA*, December 2014.

Pre-existing proposals

In 2014, following a meeting between Prime Minister Modi and the secretaries of all departments, the cabinet secretary gave a number of instructions to ministries to improve their efficiency. The main recommendations were:

- Streamlining processes for submitting information by using ICT,
- Reducing the number of decision-making layers,
- Focusing on building a work culture that is based on the delivery of services and removing archaic processes,
- Greater efficiency in the movement of files through management and decision-makers,
- Faster resolution of issues between ministries (using the Prime Minister's office to help resolve disputes),
- Greater collaboration between departments,
- Better record keeping using digitisation,
- Better handling and more timely resolution of public grievances,
- Removing clutter (physical and bureaucratic formalities), and
- Reviewing the status of goals set by the government, and initiate an action plan to deliver on these changes.[112]

Thirdly, making state and central government work better through better use of funding arrangements. Centrally sponsored schemes (CSSs) currently account for a large amount of state funding, and are a way of implementing central government priorities through the states, with both state and central governments contributing.[113] A state may need to divert resources to a programme that it has little control over, even where that programme does not take into account local conditions.

Fourthly, enabling greater decentralisation, not only from union to state, but also from state to local. Building capacity at local levels and ensuring that sub-national governments, and urban authorities in particular, have access to funding will help to ensure that authorities have the resources they need to effectively run and develop cities.

Finally, programmes and regulations are not applied uniformly across the country, leading to uncertainties for businesses that operate across multiple states. Ensuring greater alignment across states with the central government would ensure better policies and a greater chance of success.

112. "11 ways to make the central government more efficient," *The Times of India*, June 7, 2014.

113. "Good to Great: Taking the Governance Leap in India," *DASRA*, December 2014.

REGULATORY QUALITY (INDIA RANK: 77TH)

Regulatory Quality encompasses all aspects of the running of the regulatory state – whether it be burdensome by impeding private sector development, or smoothly and efficiently run. Our Regulatory Quality measure encompasses both the quality of, and burden imposed by, governmental regulation.

India ranks 77th for Regulatory Quality, seeing little change since 2009. Regulations still often impede businesses, and the need to improve the regulatory environment is recognised. All layers of government have power to regulate, which creates complexity.[114] The OECD notes that there is a lack of "accountability and consistency in the overall regulatory system".[115]

In 2017, India ranked below the global average (in the 40th percentile) on the World Bank Regulatory Quality Index, which measures the perceived ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.[116,117] In this respect, India's performance was worse off compared to other countries in the region, including Indonesia, Sri Lanka, the Philippines, and Malaysia.

One of the overarching challenges is the lack of regulatory impact analysis that takes place, particularly for the enactment of legislation.[118] Currently, legislation and regulations are enacted with little awareness around their impact. Nonetheless, compared to its peers, India scores well (23rd globally) for the efficiency of its legal framework for challenging regulations.

A related issue is the enforcement of regulations. Regulation needs regulators that are competent and independent – and these are in short supply.[119] For example, a comprehensive study of insider trading regulation identified the lack of enforcement as the major challenge.[120] In many cases, the courts have stepped in where regulators have failed to do so.[121] This is likely to result in partial enforcement of regulations.

Developing a regulatory environment

Although costly for both companies to implement, and authorities to monitor, regulations are seen as necessary to ensuring that products do not harm the people involved in the manufacturing process, as well as consumers within India and abroad. The Modi government has promised to strengthen the regulatory framework, with the aim of fostering competitiveness and integration into international trade as a key focus for his administration. The government has expressed the intent to both comply with, and contribute to, developing global standards that secure integration within global value chains, while ensuring applicability to the Indian market.[122] The changes are likely to be felt most strongly in the manufacturing industry, where until recently, health and safety standards or technical regulations were rarely mandatory.

114. "India Policy Brief: Regulatory Reform," *OECD Better Policies Series*, November 2014.

115. Ibid.

116. "Worldwide Governance Indicators," *The World Bank*, last accessed October 1, 2019, http://info.worldbank.org/governance/wgi/index.aspx#doc-cross.

117. "Regulatory Quality," *GovData360*, last accessed October 1, 2019, http://info.worldbank.org/governance/wgi/.

118. Shalini Iyengar, Balakrishna Pisupati and Anirudh Chakradhar, "The imperative of impact assessment," *The Hindu*, October 15, 2018.

119. Vijay Joshi, *India's long road: the search for prosperity*. Oxford University Press, 2017.

120. Anil Kumar Manchikatla and Rajesh H. Acharya, "Insider trading in India–regulatory enforcement." *Journal of Financial Crime 24*, no. 1 (2017): 48-55.

121. Shalini Iyengar, Nives Dolsak and Aseem Prakash, "Should India's Supreme Court Enforce Regulations?" *The Regulatory Review*, March 27, 2018.

122. Philip Grinsted, Alok Kesari and Khushwant Singh, "Quality rules in India: Trade, technical regulations and consumer protection," *Observer Research Foundation Issue Brief,* June 29, 2018.

The challenge will be to ensure that regulations (some of which have been specifically developed for Indian firms by the Indian Strategy for Standards) do not add unnecessary costs, red tape and confusion vis a vis accepted international standards such as those promoted by the WTO.[123] It will be necessary to strike the right balance if India is to fulfil its stated aim of raising the contribution of manufacturing to GDP up to 25% by 2025 and its share of international trade to 3.5% by 2020.[124,125,126]

Non-compliance has already been a contributing factor to India's lower place in global supply chains. Foreign firms have been opting to assemble in India, but not manufacture, costing Indian business and lessening job creation opportunities. Examples include the Chinese mobile phone brand Xiaomi, which despite holding a 35% market share in India, only uses Indian suppliers to assemble handsets, and not manufacture the constituent parts.[127,128]

Opportunity

Ensuring that there is a system-wide assessment of regulatory quality would help to identify the best regulatory solution to a particular problem.[129] This will require concerted efforts and training programmes across the government, as well as support from senior civil servants and ministers to ensure that it enhances decision-making, rather than becoming another bureaucratic loophole.

There could also be greater emphasis on empowering government regulators to systematically enforce regulations across government, through better specification of powers, improved resourcing, and the rooting out of corruption.

123. Ibid.

124. Vineet Khare, "India election 2019: The next manufacturing superpower?," *BBC,* March 13, 2019.

125. Aftab Ahmed and Manoj Kumar, "India's March exports pick up, help contain trade deficit," *Livemint,* April 15, 2019.

126. Philip Grinsted, Alok Kesari and Khushwant Singh, "Quality rules in India: Trade, technical regulations and consumer protection," *Observer Research Foundation Issue Brief,* June 29, 2018.

127. Henny Sender, "India is failing to reap the benefits of China-US trade war," *Financial Times,* July 24, 2019.

128. S. Vidya, "Smartphones still not 'made' in India; key parts still imported from China," *Business Today,* December 24, 2018.

129. Balakrishna Pisupati, "The need for Legislative Impact Assessments in India," *Mongabay,* June 6, 2019.


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CONCLUSIONS

Our work at the Legatum Institute is framed by our perspective that prosperity is created when economic and social wellbeing work together. While true prosperity is about much more than economic success and material wealth, every nation still needs a successful economy to build sustainable prosperity. Our intention in publishing this case study of Indian Economic Openness has been to show the country's great achievements that led to continued impressive growth rates, while also highlighting further opportunities for reform. We hope to provide a holistic and systematic assessment of the policy environment underpinning the Indian economy and, in doing so, seek to understand both its strengths and weaknesses in a comparative perspective.

India has great strengths—since liberalisation in 1990, its economic growth over the last 30 years has lifted hundreds of millions of people out of poverty. It is also the world's largest democracy and has enormous economic potential. It has seen major policy improvements across a number of areas, including loosening restrictions on foreign direct investment, implementing major infrastructure programmes, and improving regulations for businesses.

The further sustainable development of India's economy is dependent on accelerating the growth of the organised sector, being significantly more productive than the informal sector. Currently, it is being held back by weaknesses across all four pillars, and there are still significant reforms that are needed to deliver on India's potential.

Firstly, regulations and policies can be further enhanced to assist businesses.

There are particular opportunities to strengthen the administration of land, enforcement of contracts, and ensuring that insolvencies can be better resolved. More of the land administration and court systems can be automated and digitised, and officials need upskilling in these areas. The recent changes to insolvency law appear to be having positive outcomes, but there are still changes that can be made to improve their coverage and operation.

India has significant market distortions. Subsidies in various sectors, particularly energy and agriculture, mean that the true cost of producing goods and services is not transparent. There are also various non-tariff barriers that mean there are barriers to international trade in goods. Removing these would enhance competition for Indian firms and mean there are more options for Indian consumers.

Improving labour market regulations would help to improve the flexibility with which firms can employ workers. The Modi administration's shift to focus on job creation is a welcome step, and further focus on deregulation will improve outcomes for both individuals and businesses. There also needs to be focus on ensuring that people are being taught the skills that are being demanded by businesses.

Secondly, India can strive to attract more international investment.

Ensuring there is sufficient flow of capital by removing restrictions on international investments would bring a significant inflow of capital and, more importantly, foreign expertise into India. This would be beneficial to Indian companies that are seeking capital. Continuing to remove FDI caps from multiple sectors would help with this objective. Furthermore, the banking system is under particular strain, mainly through state-owned banks' high proportion of non-performing loans. The effect of this is to reduce the amount of capital that is available for businesses, particularly small businesses. Various options are available, such as privatisation or recapitalisation, which would help to shore up the banking sector.

In transport, private investment is not being fully utilised as a potential source of funding for infrastructure. These regulatory challenges are also opportunities. In the transport sector particularly, public-private partnerships should be further matured to improve the quality of investments in Indian transport. In the provision of electricity, better regulations would improve the incentives for private companies to supply electricity.

Thirdly, India could focus on improving the quality of its governance.

Tackling corruption could be a major focus, as well as the role of finance in elections. More transparency around the giving of donations during political campaigns could help to reduce the number of poor contracts handed out by the government. Tackling corruption, which requires a multi-front effort led by political will and utilising technology as well as existing institutions, could also help to bring greater efficiency to the government as well as better outcomes for the economy.

Improving government effectiveness and improved regulatory quality would assist greatly in the delivery of government services. Government effectiveness would be greatly improved through investment in the civil service and better collaboration between local and state governments. Furthermore, implementing a more thorough and comprehensive regulatory regime across governments would help to ensure that the costs and benefits of policies are properly understood, which should lead to greater impact from policies.

In a very plural democracy such as India's, the challenge of securing consensus on reform should not be underestimated. For nearly all dimensions of reform, including those that would benefit the majority of the population, there are powerful interest groups. For example, labour market reform is challenged by trade unions; agriculture market liberalisation is opposed by rural interests that run the agricultural price marketing committees; liberalisation of foreign investment is resisted by domestic firms; land policy has triggered clashes between communities and developers; education reform is contested by teachers' unions; and finally subsidy reform is opposed by recipients, who as citizens would benefit from the resulting higher levels of public investment.[1]

Nonetheless, India's history over the last decades has shown that, with the requisite political will, the world's largest democracy can effect major change to tackle its major challenges. Now is not the time to pull back from the continuation of this remarkable transformation.

1. Vijay Joshi, *India's long road: the search for prosperity.* Oxford University Press, 2017.

APPENDIX

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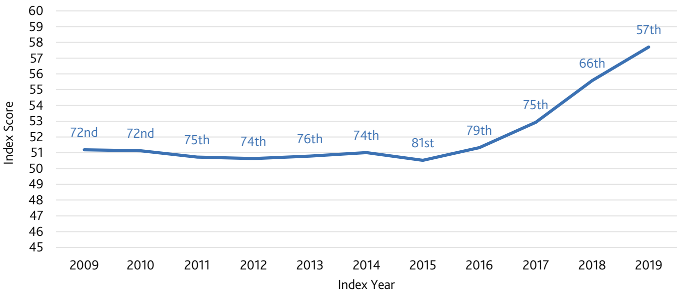
India: Index score 57.7 (57th)

GDP (US$) per Capita: $1,942 (117th)

GDP (US$): $2,601bn (6th)

Economic Openness over time



Pillar Performance

	Rank - Global (1 to 157) 2019	Score 2009	Score 10-year trend	Score 2019
Market Access & Infrastructure	87	37.0		47.9
Investment Environment	76	54.4		56.4
Enterprise Conditions	42	55.1		66.8
Governance	46	58.2		59.8

Breakdown of performance

	Score 2009	Score 10-year trend	Score 2019	Rank - Global (1 to 157) 2019	10-year rank change
Economic Openness	51.2		57.7	57	▲ 15
Market Access & Infrastructure	37.0		47.9	87	▲ 8
Communication	4.9		11.7	103	▲ 9
Resources	9.6		10.6	78	▲ 7
Transport	9.7		11.5	54	▲ 11
Border Administration	2.0		2.3	76	▲ 7
Open Market Scale	0.5		1.5	80	▲ 54
Import Tariff Barriers	1.6		1.5	152	▼ 4
Market Distortions	8.8		8.7	63	▲ 2
Investment Environment	54.4		56.4	76	▼ 1
Property Rights	10.7		11.0	85	▼ 7
Investor Protection	11.4		11.5	61	▼ 7
Contract Enforcement	6.2		8.7	104	▲ 39
Financing Ecosystem	22.4		21.6	36	▼ 3
Restrictions on International Investment	3.8		3.6	125	▲ 7
Enterprise Conditions	55.1		66.8	42	▲ 22
Domestic Market Contestability	23.3		23.0	49	-
Environment for Business Creation	16.8		21.5	40	▲ 38
Burden of Regulation	9.1		15.3	41	▲ 93
Labour Market Flexibility	5.9		6.9	32	▲ 21
Governance	58.2		59.8	46	▲ 4
Executive Constraints	9.3		9.4	50	▲ 2
Political Accountability	11.7		12.7	39	▲ 15
Rule of Law	8.4		8.3	56	▲ 1
Government Integrity	9.5		10.4	55	▲ 13
Government Effectiveness	12.3		12.1	45	▲ 3
Regulatory quality	6.9		6.8	77	▼ 1

Italics: Indicator contains imputed values

Communication (103rd)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
International internet bandwidth	ITU	kilobits per person	0.0		8.9	112	103
2G, 3G and 4G network coverage	GSMA	index score, 0-100	43.9		78.8	112	85
Fixed broadband subscriptions	ITU	number per 100 people	0.3		1.3	102	113
Internet Usage	ITU	percentage of population	4.0		29.5	120	111

Resources (78th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Installed electric capacity	UNESD	kilowatts per capita	0.1		0.3	110	98
Gross fixed water assets	*IBNWS*	*USD per population served*	*65.7*		*65.7*	*101*	*101*
Reliability of electricity supply	WBDB	index score, 0-7	4.9		5.5	69	54
Ease of establishing an electricity connection	WBDB	index score, 0-100	71.9		85.1	72	38
Water production	IBNWS	litres per person per day	194.1		194.1	111	111
Reliability of water supply	WEF	expert survey, 1-7	4.7		4.7	79	79

Transport (54th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Logistics performance	WBLPI	index score, 1-5	3.2		3.5	40	34
Airport Connectivity	WEF	index based on seats and size of airport	1.1		0.9	102	99
Efficiency of seaport services	WEF	expert survey, 1-7	3.3		4.6	104	43
Liner shipping connectivity	UNCTAD	index score, rebased to 100 in 2004	42.2		59.9	28	27
Quality of roads	WEF	expert survey, 1-7	4.4		4.4	52	52
Road density	FAO	km per 100 sq km of land area	125.0		142.7	27	21
Rail density	WBDI	km per sq km of land area	0.0		0.0	41	40

Border Administration (76th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Efficiency of customs clearance process	WBLPI	survey, 1-5	2.7		3.0	49	42
Time to comply with border regulations and procedures	WBDB	hours	125.4		117.6	132	133
Cost to comply with border regulations and procedures	WBDB	USD (current)	308.4		190.1	102	66

Open Market Scale (80th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Domestic and international market access for goods	WTO	constant 2010 USD $bn	3,240.7		16,105.7	83	96
Domestic and international market access for services	WTO	constant 2010 USD $bn	2,871.4		15,553.8	78	75
Trade-weighted average tariff faced in destination markets	WEF	percentage	4.4		4.2	137	129
Index of margin of preference in destination markets	WEF	index score, 1-100	7.7		8.8	144	145

Import Tariff Barriers (152nd)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Share of imports free of tariff duties	WEF	percentage	10.8		13.4	140	143
Average applied tariff rate	WEF	percentage	12.4		13.0	139	143
Complexity of tariffs	WEF	index score, 1-7	4.9		4.9	112	105

Market Distortions (63rd)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Extent of liberalisation of foreign trade	BTI	expert survey, 1-10	7.0		7.0	85	87
Prevalence of non-tariff barriers	WEF	expert survey, 1-7	4.6		4.5	69	55
Non-tariff measures	UNCTAD	number	552.0		552.0	76	75
Distortive effect of taxes and subsidies	WEF	expert survey, 1-7	4.4		4.4	34	34
Energy subsidies	IMF	percentage of GDP	14.3		12.3	140	140

Investment Environment (76th)

Italics: Indicator contains imputed values

Property Rights (85th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Protection of property rights	WEF	expert survey, 1-7	5.0		4.8	50	47
Lawful process for expropriation	WJP	index score, 0-1	0.6		0.6	65	69
Intellectual property protection	WEF	expert survey, 1-7	3.7		4.6	63	47
Quality of land administration	WBDB	Index score, 0-30	2.0		2.0	102	106
Procedures to register property	WBDB	index score, 0-100	53.4		49.3	121	138
Regulation of property possession and exchange	BTI	expert survey, 1-10	8.0		7.0	51	64

Investor Protection (61st)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Strength of insolvency framework	WBDB	index score, 0-16	6.0		8.5	106	96
Insolvency recovery rate	WBDB	percentage	25.4		26.5	102	108
Auditing and reporting standards	WEF	expert survey, 1-7	5.6		4.7	28	66
Extent of shareholder governance index	WBDB	index score, 0-10	8.0		8.7	2	2
Conflict of interest regulation	WBDB	index score, 0-10	5.7		7.3	62	21

Contract Enforcement (104th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Quality of judicial administration	WBDB	index score, 0-18	8.0		10.5	68	42
Time to resolve commercial cases	WBDB	days	481.7		481.7	154	154
Legal costs	WBDB	percentage	10.3		10.3	100	97
Alternative dispute resolution mechanisms	WJP	index score, 0-1	0.5		0.6	153	96

Financing Ecosystem (36th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Access to finance	WBES	percentage	15.8		15.1	58	62
Financing of SMEs	WEF	expert survey, 1-7	4.8		4.8	16	16
Venture capital availability	WEF	expert survey, 1-7	4.0		4.3	27	13
Quality of banking system and capital markets	BTI	expert survey, 1-10	8.0		7.0	46	82
Commercial bank branches	WBDI	branches per per 100,000 adults	9.0		14.7	88	65
Soundness of banks	WEF	expert survey, 1-7	5.9		4.6	51	86
Depth of credit information	WBDB	index score, 0-8	7.0		7.0	21	41

Restrictions on International Investment (125th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Business impact of rules on FDI	WEF	expert survey, 1-7	5.4		4.5	50	79
Capital controls	FI	percentage	0.0		0.0	144	145
Freedom to own foreign currency bank accounts	FI	expert judgement, 0-10	0.0		5.0	128	93
Restrictions on financial transactions	CII	index score, 0-1	0.2		0.2	106	99
Prevalence of foreign ownership of companies	WEF	expert survey, 1-7	5.2		4.5	3	69
Freedom of foreigners to visit	FI	index score, 0-10	0.3		0.3	127	147

Enterprise Conditions (42nd)

Italics: Indicator contains imputed values

Domestic Market Contestability (49th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Market-based competition	BTI	expert survey, 1-10	6.0		6.0	72	71
Anti-monopoly policy	BTI	expert survey, 1-10	6.0		7.0	70	54
Extent of market dominance	WEF	expert survey, 1-7	5.1		4.6	18	21

Environment for Business Creation (40th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Private companies are protected and permitted	BTI	expert survey, 1-10	6.0		7.0	91	67
Ease of starting a business	WBDB	index score, 0-100	45.7		80.5	141	117
State of cluster development	WEF	expert survey, 1-7	4.5		4.6	24	27
Labour skill a business constraint	WBES	percentage	14.5		9.4	48	26
Availability of skilled workers	WEF	expert survey, 1-7	4.7		4.7	35	35

Burden of Regulation (41st)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Burden of government regulation	WEF	expert survey, 1-7	2.9		4.3	100	20
Time spent complying with regulations	WBES	percentage	6.7		1.9	94	16
Number of tax payments	WBDB	number per year	41.1		13.9	111	67
Time spent filing taxes	WBDB	hours per year	252.9		215.9	71	82
Burden of obtaining a building permit	WBDB	index score, 0-100	17.1		61.9	152	105
Building quality control index	WBDB	index score, 0-15	11.5		12.0	58	41

Labour Market Flexibility (32nd)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Cooperation in labour-employer relations	WEF	expert survey, 1-7	4.7		4.7	44	46
Flexibility of hiring practices	WEF	expert survey, 1-7	3.2		4.6	127	14
Redundancy costs	WEF	weeks	56.0		15.8	110	74
Flexibility of employment contracts	WBDB	index score, 0-1	0.8		1.0	37	45
Flexibility of wage determination	WEF	expert survey, 1-7	5.3		4.7	58	109

Governance (46th)

Italics: Indicator contains imputed values

Executive Constraints (50th)

Executive Constraints (50th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Executive powers are effectively limited by the judiciary and legislature	WJP	index, 0-3	2.1		2.1	36	34
Government powers are subject to independent and non-governmental checks	WJP	index, 0-3	1.7		1.8	60	48
Transition of power is subject to the law	WJP	expert survey, 0-1	0.7		0.8	52	44
Military involvement in rule of law and politics	FI	index, 0-10	6.7		6.7	73	81
Government officials are sanctioned for misconduct	WJP	expert survey, 0-1	0.4		0.4	113	110

Political Accountability (39th)

Political Accountability (39th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Consensus on democracy and a market economy as a goal	BTI	expert judgement, 1-10	8.0		9.0	58	40
Political participation and rights	FH	expert judgement, 1-7	2.0		2.0	44	41
Democracy level	CSP	expert judgement, -10-10	9.0		9.0	38	37
Complaint mechanisms	WJP	expert survey, 0-1	0.6		0.7	56	29

Rule of Law (56th)

Rule of Law (56th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Judicial independence	WEF	expert survey, 1-7	5.3		4.4	25	52
Civil justice	WJP	index, 0-5	2.6		2.5	109	122
Integrity of the legal system	FI	expert judgement, 1-10	6.7		7.5	51	37
Efficiency of dispute settlement	WEF	expert survey, 1-7	4.4		4.5	36	34

Government Integrity (55th)

Government Integrity (55th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Use of public office for private gain	WJP	index, 0-4	1.2		1.4	100	82
Diversion of public funds	WEF	expert survey, 1-7	3.6		4.6	67	33
Right to information	WJP	expert survey, 0-1	0.5		0.6	83	43
Publicised laws and government data	WJP	expert survey, 0-1	0.5		0.6	38	48
Transparency of government policy	WEF	expert survey, 1-7	4.4		4.4	50	50
Budget transparency	IBP	index, 0-100	53.0		48.0	52	79

Government Effectiveness (45th)

Government Effectiveness (45th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Government quality and credibility	WGI	index, -2.5 - +2.5	-0.1		0.1	67	66
Prioritisation	BTI	expert judgement, 1-10	8.0		7.0	42	49
Efficiency of government spending	WEF	expert survey, 1-7	3.6		4.5	51	19
Efficient Use Of Assets	BTI	expert judgement, 1-10	6.0		6.0	53	51
Implementation	BTI	expert judgement, 1-10	7.0		7.0	47	41
Policy Learning	BTI	expert judgement, 1-10	8.0		7.0	26	36
Policy Coordination	BTI	expert judgement, 1-10	7.0		7.0	42	42

Regulatory quality (77th)

Regulatory quality (77th)	Source	Unit	Value 2009	Value 10-yr trend	Value 2019	Global Rank 2009	Global Rank 2019
Regulatory quality	WGI	index, -2.5 - +2.5	-0.3		-0.3	84	93
Enforcement of regulations	WJP	expert survey, 0-1	0.4		0.5	132	96
Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	4.7		4.4	20	23
Delay in administrative proceedings	WJP	expert survey, 0-1	0.4		0.4	107	131

List of data sources and acronyms

Code	Organisation
BTI	Bertelsmann Stiftung Transformation Index
CII	Chinn-Ito Index
CSP	Center for Systemic Peace
FAO	Food and Agriculture Organisation
FH	Freedom House
FI	Fraser Institute
GSMA	Groupe Spéciale Mobile Association
IBNWS	International Benchmarking Network for Water and Sanitation Utilities
IBP	International Budget Partnership
IMF	International Monetary Fund
ITU	International Telecommunications Union
UNCTAD	United Nations Trade Data
UNESD	United Nations Energy Statistics Database
WBDB	World Bank Doing Business Index
WBDI	World Bank Development Indicators
WBES	World Bank Enterprise Surveys
WBLPI	World Bank Logistics Performance Index
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WJP	World Justice Project
WTO	World Trade Organisation

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October 2019