
Country Profile 2008

India

This Country Profile provides an overview of the country's politics, resources and economy. It is revised and updated annually.

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Economist Intelligence Unit

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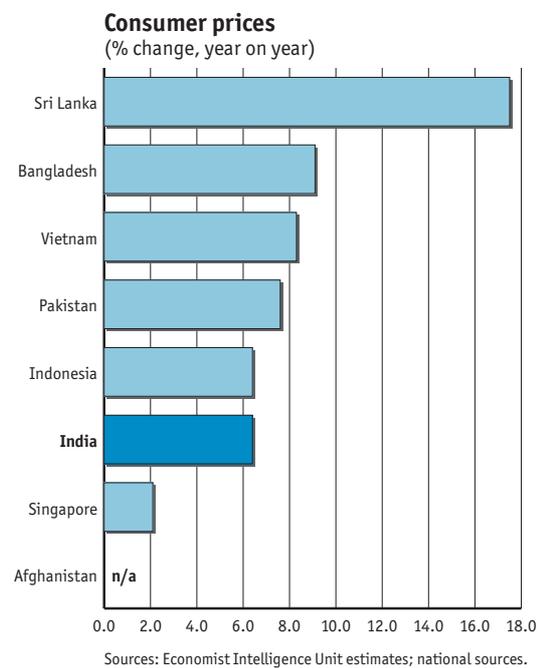
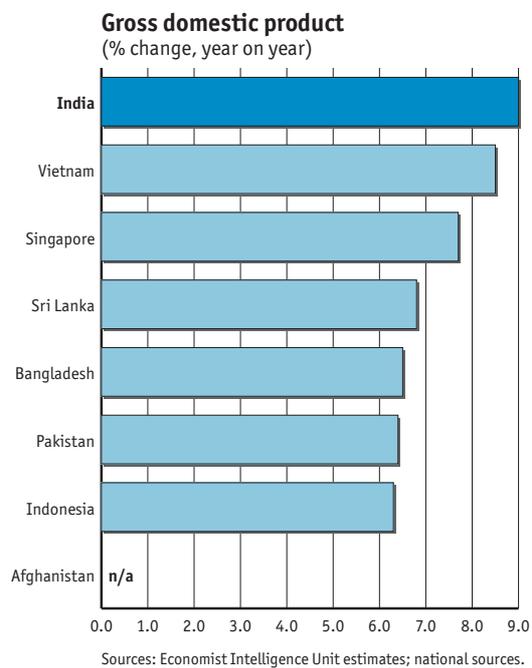
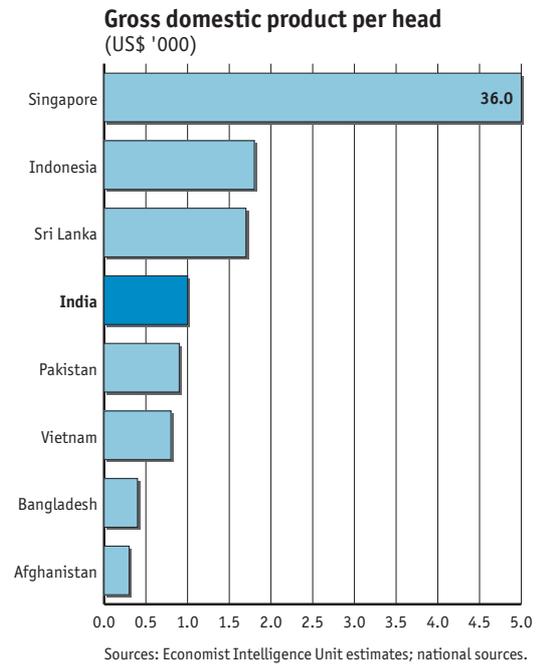
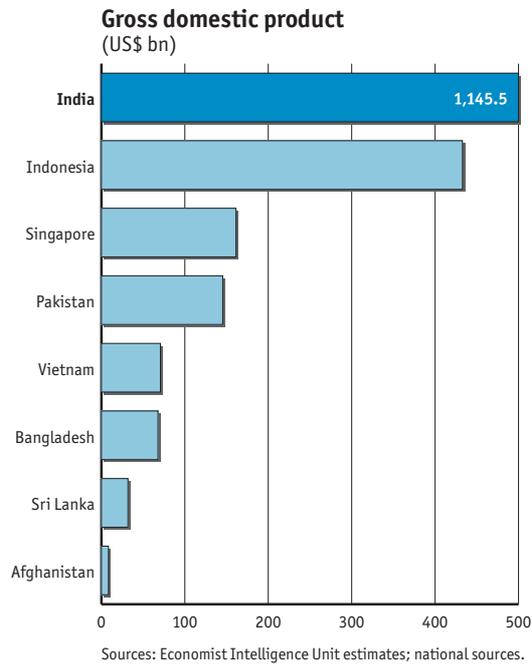
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Comparative economic indicators, 2007



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India

Basic data

Land area	3,287,263 sq km (including Indian-administered Kashmir); 57% is agricultural land and 16% forest area
Population	1.13bn (mid-2007)
Main towns	Population in millions, 2001 census
	Mumbai (Bombay) 16.4
	Kolkata (Calcutta) 13.2
	Delhi 12.8
	Chennai (Madras) 6.4
	Bangalore 5.7
	Hyderabad 5.5
Climate	Varied; humid subtropical in Ganges basin, semi-arid in the north-west, tropical humid in north-east and most of the peninsula, tundra in the Himalayas; all areas receive rain from the south-west monsoon in June-September; the south is also served by the north-east monsoon in January-March
Weather in New Delhi (altitude 218 metres)	Hottest month, May, 26-41°C (average daily minimum and maximum); coldest month, January, 7-21°C; driest month, November, 4 mm average rainfall; wettest month, July, 180 mm average rainfall
Languages	Hindi is the national language and primary tongue of 30% of the population. There are 14 other official languages: Bengali, Telugu, Marathi, Tamil, Urdu, Gujarati, Malayalam, Kannada, Oriya, Punjabi, Assamese, Kashmiri, Sindhi and Sanskrit. English is widespread in business circles and as a second language
Religion	Hindu (80.5% in 2001 census); Muslim (13.4%); Christian (2.3%); Sikh (1.9%); Buddhist (0.8%); Jain (0.4%)
Measures	Metric system. Numbers are often written in lakhs (100,000) and crores (10m)
Currency	Rupee (Rs)=100 paise. Average exchange rate in 2007: Rs41.2:US\$1. Exchange rate on June 6th 2008: Rs42.63:US\$1
Fiscal year	April 1st-March 31st
Time	5 hours 30 minutes ahead of GMT
Public holidays	January 26th; August 15th; October 2nd; also major Hindu, Muslim, Christian and other religious holidays

Highlights

- Politics**
- The Indian National Congress party and the Bharatiya Janata Party (BJP) are the two main national political parties. The Left Front grouping of parties, led by the Communist Party of India (Marxist), has gained increasing importance since the Congress-led United Progressive Alliance government took power in 2004.
 - The Economist Intelligence Unit's 2006 democracy index ranks India 35th out of 167 countries, putting it among the 50 countries considered "flawed democracies". India scores very well for its electoral process and civil liberties, but less well for political participation and political culture.
 - The BJP won several important victories in state election polls in late 2007 and early 2008, including in Gujarat and Karnataka. The latter was particularly important because it allowed the party to form a state government in southern India for the first time.

Demographics and resources

- The rate of urbanisation is increasing, but the population remains predominantly rural, with nearly 60% living in villages with less than 5,000 people. The population is also extremely heterogeneous.
- The government continues to prioritise infrastructure development, but its spending in the sector is still relatively low, given the scale of the work that is needed. At 5% of GDP, India's spending on infrastructure trails far behind that of China (around 10% of GDP).

The economy

- The services sector, led by the information technology (IT) industry, remains the most important driver of economic growth. The contribution of industry to GDP has been increasing but is still below 30%.
- Manufacturing production has been expanding rapidly, but the industrial sector as a whole remains relatively small, at about 20% of GDP. The government wants to raise this percentage to 25% to help boost employment.
- India's strong national performance masks considerable interstate variation in terms of economic growth, economic policy, population and human development. The southern and western states, where the software industry and industrial activity are concentrated, enjoy much stronger rates of growth than the northern and eastern states.
- India's trade/GDP ratio has increased considerably in the past decade, but its level of trade integration remains low compared with that of other Asian countries.
- The US and China are India's most important trading partners. Middle Eastern countries also feature prominently among India's trading partners, particularly as import sources.
- New-generation engineering and software exports are gaining importance at the expense of India's traditional exports of textiles and jewellery. Mineral oils and crude oil are among the most important imports.

Politics

India is a parliamentary federal democracy with an indirectly elected president, currently Pratibha Patil. The prime minister, Manmohan Singh, leads the United Progressive Alliance (UPA), a coalition dominated by the Congress party, which fell short of a majority in the May 2004 general election. The minority UPA government is currently being supported by the Left Front, a group of left-wing parties dominated by the Communist Party of India (Marxist). The next general election is due by May 2009.

Political background

British rule in India ended in 1947 after a sustained campaign for independence, led by the Indian National Congress (Congress). British India was partitioned, amid great bloodshed, to create Muslim-majority Pakistan and the secular state of India. India's first prime minister was the Congress leader, Jawaharlal Nehru. Under his government, India established a complex system of socialist economic controls that remained in place until the 1980s. Congress and its successor—Congress (Indira), or Congress (I), named after Nehru's daughter, Indira Gandhi, who became prime minister in 1966—dominated politics in India until the 1990s. Indira Gandhi's administration continued to implement an inward-looking economic policy and adopted increasingly authoritarian measures. In 1975 she declared a state of emergency that lasted for two years. Civil rights were suspended, the press was controlled, many of her critics were imprisoned and her son, Sanjay, began an unpopular mass-sterilisation programme to stem population growth. In the 1977 general election voters rejected Mrs Gandhi. Her party was defeated and she lost her seat.

Having returned as prime minister in 1980, Mrs Gandhi tacitly supported a violent movement against the Akali Dal, the ruling Sikh party in Punjab. However, the violence became uncontrollable and she finally ordered the army to storm the Golden Temple, the prime Sikh shrine in Amritsar. In retaliation, in 1984 she was assassinated by her Sikh bodyguards, and her elder son, Rajiv Gandhi, succeeded her as prime minister. In a sympathy vote he won an unprecedented majority in an election later that year, and his administration began to take cautious steps towards economic liberalisation. However, Congress lost its majority in the 1989 general election amid a series of corruption scandals, and Mr Gandhi stepped down. He was assassinated by a Sri Lankan Tamil extremist during the 1991 election campaign.

Following the 1991 general election Congress formed a minority government under Narasimha Rao, which initiated a series of economic reforms that set India on a path of stronger economic growth. The May 1996 election returned another hung parliament. The Hindu-nationalist Bharatiya Janata Party (BJP) formed a government that lasted just 13 days; this was followed by a left-leaning United Front (UF) coalition, which was supported from the backbenches by Congress. The UF government continued to implement the economic reforms begun under Congress, but when Congress withdrew its support in November 1997, the government fell. A general election held in February-

March 1998 produced yet another hung parliament. The BJP finally formed a governing coalition, the National Democratic Alliance (NDA), with 22 other parties under the leadership of Atal Behari Vajpayee, a moderate.

In April 1999 the NDA government collapsed after narrowly losing a vote of confidence. It remained as a caretaker administration for six months before re-establishing itself in power following a general election held in September-October 1999. The alliance of more than 20 parties included a number of smaller regional and caste-based parties, which exercised disproportionate influence in government, often holding the administration to ransom to gain concessions in their home states. Coalition governance has become a feature of Indian politics at the federal level, and increasingly also at the state level. On both levels it seems that coalition governments have found it hard to push through policies, particularly those requiring legislative action.

Political forces and institutions

Composition of the Lok Sabha^a, Jun 2004

United Progressive Alliance (governing coalition)	222
Indian National Congress	145
Rashtriya Janata Dal	24
Dravida Munnetra Kazhagam	16
Nationalist Congress Party	9
Pattali Makkal Katchi	6
Telangana Rashtra Samithi	5
Jharkhand Mukti Morcha	5
Marumalarchi DMK	4
Lok Jan Shakti Party	4
Others	4
Left Front (supporting the governing coalition)	59
Communist Party (Marxist)	43
Communist Party of India	10
Others	6
National Democratic Alliance (opposition)	186
Bharatiya Janata Party (BJP)	138
Shiv Sena	12
Biju Janata Dal	11
Shiromani Akali Dal	8
Janata Dal (United)	8
Telugu Desam Party	5
All India Trinamool Congress	2
Nagaland People's Front	1
Mizo National Front	1
Other parties	76
Samajwadi Party	36
Bahujan Samaj Party	19
Other parties	13
Independents	8
Total^b	545

^a The lower house of parliament. ^b Including two representatives of Anglo-Indians appointed by the president.

The Congress party Congress led the campaign for independence and has remained a powerful force in Indian politics, transcending religious, ethnic and caste divisions. However, it is also a party tightly focused on its heritage: members of the Nehru-Gandhi family have led the party throughout most of its history. Since 2007 Rahul Gandhi, the son of the current party president, Sonia Gandhi, is being groomed to lead the party. Congress's success in the 2004 general election is evidence that the dynastic claim still exerts considerable force, particularly in rural areas. Equally important, however, are divisions within Congress that could result in government instability.

The BJP The BJP traces its roots back to the Bharatiya Jan Sangh, a party representing traditional Hindu values and the interests of small businesses, traders and the middle class. It is the political wing of a group of interconnected cultural and religious movements—the Sangh Parivar—of which the most politically significant is the Rashtriya Swayamsevak Sangh (RSS), a disciplined cadre organisation that counts the president of the BJP, Rajnath Singh, the party's prime ministerial candidate for the next general election, Lal Krishna Advani, and a former prime minister, Atal Behari Vajpayee, among its former members. A member of the RSS assassinated India's independence leader, Mahatma Gandhi, in 1948, and the group is seen by its critics as sinister and anti-Muslim.

The CPI (M) The Communist Party of India (CPI) emerged from Congress, splitting from the Indian National Congress during the second world war. The CPI itself later split to form a Marxist group, the Communist Party of India (Marxist) or CPI (M). The CPI (M) is strongest in West Bengal, where it has been in power since 1977, and it has frequently held power in Kerala and Tripura. After the May 2004 general election the Left Front group of communist parties, led by the CPI (M), decided not to join the Congress-led UPA government formally, but to support it from "the outside". The CPI (M) opposes deregulation of the labour market and privatisation, but has at times been more pragmatic on other policy issues, such as foreign investment.

Main political figures

Manmohan Singh

Prime minister. Mr Singh has held many important positions in the economic and civil service hierarchy, including governor of the Reserve Bank of India (the central bank) and deputy chairman of the Planning Commission. An Oxford-educated economist, Mr Singh is widely respected across political parties and has a reputation of being a pragmatist. Throughout his political life he has been an appointee—he has never won a seat in India's lower house of parliament, the Lok Sabha.

Sonia Gandhi

Indian National Congress party leader in parliament, and Congress party president. Mrs Gandhi is the Italian-born widow of a former prime minister, Rajiv Gandhi. She led Congress to success in the 2004 general election but declined the offered post of prime minister. This move enhanced her moral stature in a culture with a long history of renunciation. In March 2006 Mrs Gandhi resigned as member of parliament and chair of the National Advisory Council, an "office of profit" she was not supposed to hold under Indian law to avoid a conflict of interests. She was re-elected with an overwhelming majority from her constituency, Rae Bareilly in Uttar Pradesh, in May 2006.

P Chidambaram

Finance minister. Mr Chidambaram is a suave, articulate politician from the southern Indian state of Tamil Nadu. He is well-known for his pro-market reforms, particularly tax reform and budgetary discipline, during his tenure as finance minister in 1996-98. A Harvard-educated lawyer and a strong supporter of the World Trade Organisation, Mr Chidambaram is popular in business circles.

Rahul Gandhi

Mrs Gandhi's son and heir to the Nehru-Gandhi dynasty. In the 2004 election campaign Rahul emerged as the Congress's star campaigners, emphasising the fact that the century-old Gandhi-Nehru dynasty remains India's most powerful and charismatic political family. Rahul was elected to the lower house of parliament for the first time and is being groomed to play a prominent role in Congress—he is widely expected to take up the post of prime minister if Congress wins a second term at the next general election.

Rajnath Singh

President of the opposition Bharatiya Janata Party (BJP). Mr Singh has held various important posts in his political career, including chief minister of Uttar Pradesh and minister of agriculture in the Vajpayee government. He is an effective administrator and grassroots organiser, but has the reputation of being uncharismatic.

Lal Krishna Advani

A senior figure in the BJP, Mr Advani is credited with making the party a major political force since 1984, when it held only two parliamentary seats. He resigned as party president in December 2005, but remains the leader of the opposition in the Lok Sabha. In January 2008 he became the BJP's prime ministerial candidate for the next general election.

Mayawati

Chief minister of Uttar Pradesh and president of the Bahujan Samaj Party. Uttar Pradesh accounts for about one-sixth of all seats in the Lok Sabha, making Mayawati a potential major player at the federal level if her party can repeat the overwhelming electoral success it displayed in May 2007 at the state level in national parliamentary elections that are due to be held by May 2009.

The judiciary The Indian constitution provides for an independent judiciary, with high courts in every state and a Supreme Court in New Delhi. In early 2007 an unprecedented debate about the role of the judiciary in the Indian democratic system took hold, when Mr Singh accused judges of “judicial over-reach”, claiming that the judiciary had encroached on the powers of the executive and the legislature. Frustrated by an ineffectual and corrupt executive, particularly at the state level, the public often regard the courts as a benevolent authority that can protect them against misuse of executive power.

The legislature There are two houses of parliament. The lower house, or Lok Sabha (house of the people), is elected every five years by universal adult suffrage. The prime minister is elected by the Lok Sabha. Members of the upper house, or Rajya Sabha (house of the states), are elected by their respective state legislatures, according to state quotas based on population. The president is elected every five years by both houses of parliament and the state legislatures. He is confined to acting on the advice of the Council of Ministers, which is chosen by the prime minister.

Media services India has a free and diverse press, published in Hindi, English and vernacular languages. It is the second-largest market in the world for newspapers (after China), with 99m copies sold daily, according to the World Association of Newspapers. India has more than 40 domestic news agencies, including the

leading agencies, Press Trust of India (PTI) and United News of India (UNI). In 2005 the government liberalised the print media industry further, allowing foreign newspapers to publish in the country. Foreign newspapers were already allowed to own stakes in Indian publications. India also produces the largest number of films in the world. There is rapid growth in demand for satellite and cable television. Foreign ownership of terrestrial channels is banned, and foreign participation in satellite channels is currently limited to 49% of equity.

Democracy index (for methodology, see Appendix)

The Economist Intelligence Unit's 2008 democracy index ranks India 35th out of 167 countries, putting it among the 50 countries considered "flawed democracies". This designation includes neighbouring states such as Sri Lanka, Thailand, the Philippines, Indonesia and Malaysia, as well as another of the so-called BRIC emerging-market giants: Brazil. However, India is well placed within this categorisation, ranking ahead of all of these nations. With an overall score of 7.8, it is just shy of the score needed to be categorised as a full democracy. Its relatively strong position owes much to its extremely high scores in the *electoral process and pluralism* and *civil liberties* categories; the title of "the world's largest democracy", and the country's vibrant free press and pluralistic society, have long been justly celebrated. In these areas India outscores even some long-established democracies that fall into our designation of "full democracies", including the US and UK.

In the *political participation* and *political culture* categories, however, India fares much worse. The existence of the so-called argumentative Indian may facilitate public debate, but this does not necessarily translate into a high rate of participation. Voter turnout in the most recent general election, in May 2004, was 58%, but this figure masks extremely wide interstate variations, ranging from 35% in Jammu and Kashmir to 92% in the small north-eastern state of Nagaland. Within *political culture*, the fact that India's democratic system—reliant as it is on unwieldy and sometimes uncooperative coalitions—often hinders rather than advances economic reforms works against its overall score. India's *government functioning* score is relatively strong, but it is brought down by lingering issues over corruption, government accountability and a slight lack of confidence among the electorate in political parties.

Democracy index

	Overall score	Overall rank	Electoral process	Government functioning	Political participation	Political culture	Civil liberties	Regime type
India	7.80	35	9.58	8.21	5.56	6.25	9.41	Flawed democracy

Overall and component scores are on a scale of 0 to 10; overall rank is out of 167 countries.

Recent political developments

- **The BJP leads a coalition government in 1998-2004.** The popularity and integrity of the BJP prime minister, Atal Behari Vajpayee, did much to move the party towards the political mainstream. The BJP government toned down its hardline Hindu-nationalist rhetoric in a bid to appeal to more mainstream voters in the 2004 general election. It presented itself both as a party that delivered economic prosperity and as a steward of a strong India with a presence on the global stage. The BJP promoted its "India Shining" campaign, which aimed to

capitalise on a buoyant economy, but this campaign backfired with poor rural voters denied any new-found prosperity.

- **Congress takes power in the 2004 general election.** In a surprise victory, a Congress-led coalition, the UPA, was narrowly elected to power in the May 2004 general election—the Congress party (on its own) won only seven seats more than the BJP. However, the UPA fell short of a majority and is supported in parliament by the Left Front group of parties, although these parties have chosen not to join the government and are supporting it from outside the coalition. The government is led by Manmohan Singh, who was sworn in as prime minister following the refusal of the Congress leader, Sonia Gandhi, to take up the post. Mrs Gandhi remains the Congress party president and is the Congress leader in parliament.

- **The Left has come to resemble the opposition.** Tensions within the UPA coalition and between the UPA and its notional allies are rife. The main tension is between the reformist economic liberalism of several leading Congress figures, notably Mr Singh and the finance minister, P Chidambaram, and the leftist populism of many government supporters. These include members of Congress and of its coalition partners, and in particular the communist parties, which are not in the UPA but which lend parliamentary support to it. Curiously, the largest, the CPI (M), has come to resemble the official opposition. It has stood in the way of economic liberalisation—ranging from opening up India's vast retail sector to fast-tracking industrial development through the creation of special economic zones. The party's opposition to a strategic alliance with the US, epitomised by a proposed bilateral civilian nuclear co-operation deal, has deepened the rift between the Left and the government.

For an analysis of the latest political developments, see the Economist Intelligence Unit's most recent **India Country Report**.

Important recent events

May 2006

The Indian National Congress party performs poorly in four important state elections in Assam, Kerala, Tamil Nadu and West Bengal. The communists, on whose support the United Progressive Alliance (UPA) relies, win convincingly in West Bengal and Kerala.

July 2006

Bombs target Mumbai's commuter train system, killing over 200 people. Pakistan's president condemns the attack, and the Indo-Pakistani peace process continues.

December 2006

The US president, George W Bush, approves a controversial law that would allow India to buy US nuclear reactors and fuel for the first time in 30 years, subject to congressional approval.

February 2007

Bomb blasts on the "Friendship Express", a train travelling from New Delhi to the Pakistani city of Lahore, kill 68 people, most of them Pakistanis.

India and Pakistan sign an agreement aimed at reducing the risk of accidental nuclear war.

May 2007

The big parties--Congress and the Bharatiya Janata Party (BJP)--fare poorly in the important state election in Uttar Pradesh. A regional caste-based party, the Bahujan Samaj Party, wins a majority and displaces the Samajwadi Party, an ally of Congress at the federal level.

July 2007

Pratibha Patil becomes the country's first woman to be elected president.

September 2007

The Left parties threaten to withdraw their support over the UPA's plans to go ahead with the controversial Indo-US civilian nuclear co-operation deal, triggering speculation of an early general election.

December 2007

After a divisive election campaign, the BJP's controversial Narendra Modi wins a third term as chief minister in the Gujarat state election, quashing hopes by the Congress party of reversing a trend of poor showings in state assembly elections.

March 2008

A government panel, the so-called Sixth Pay Commission, recommends a large pay hike for 4m government employees. Official estimates put the cost of the wage hike at US\$2bn a year plus a one-off cost of US\$4.5bn in fiscal year 2008/09 (April-March).

May 2008

A series of bomb explosions in Jaipur, the capital of the state of Rajasthan and one of India's main tourist cities, kill 63 people, triggering a debate about tougher anti-terrorism laws.

The BJP wins the state election in Karnataka, adding to Congress's string of electoral defeats. The win is hugely significant because it allows the BJP to form a state government in the south of the country for the first time.

International relations and defence

- **Relations with Pakistan are relatively stable.** Since independence, India has fought three wars with Pakistan. Disputes with Pakistan have been mainly territorial, over the disputed territory of Kashmir. Neither India nor Pakistan will agree to the other country ruling the whole of Kashmir or to full independence for the territory. Although relations between the two countries have improved in recent years, bolstered by solid progress on peace talks and negotiations, no real resolution to the decades-long dispute is in sight.
- **Relations with China are delicate.** Territorial disputes are still at the heart of bilateral difficulties. China claims India's most north-easterly state, Arunachal Pradesh, as its own. India, meanwhile, claims Aksai Chin, a region located at the intersection of China, Pakistan and India and administered by China. In May 2007 China laid claim to a tiny part of Sikkim, an Indian state China recognised as Indian territory in 2003. But in the view of the Chinese government, the gravest threat posed by India relates to Tibet, which could drift towards India in

the event of internal disarray in China. India harbours the former leader of Tibet, the Dalai Lama, and about 100,000 Tibetans.

- **Relations with Bangladesh are strained.** The 1971 India-Pakistan war ended with the surrender of Pakistan's entire army in the east and the establishment of Bangladesh as an independent state. Relations between India and Bangladesh are nevertheless close, if not particularly friendly. Various issues between the two countries—including Bangladeshi immigration into India, the sale of natural gas to India, water-sharing of the many common rivers and Bangladesh's alleged role in harbouring Indian insurgents—remain unresolved. India has completed the construction of over two-thirds of an iron fence along the 2,500-mile border with Bangladesh.
- **India is a nuclear power.** India conducted its first atomic test in 1974 (after which Pakistan embarked on its own nuclear programme). India has also developed intermediate-range ballistic missile capability. In 1998 India tested nuclear devices (and Pakistan followed suit). The US tried to persuade India to sign the nuclear non-proliferation treaty and the Comprehensive Test Ban Treaty (CTBT). However, India's political establishment, which regards the two treaties as "nuclear apartheid", refused to sign them as a matter of principle. In 2005, in an effort to upgrade ties with India, the US changed its stance on the entire issue by stating that "as a responsible state with advanced nuclear technology, India should acquire the same benefits and advantages as other such states" and offered India sensitive civil nuclear technology. It thereby accepted India *de facto* as a nuclear power. By June 2008, however, the deal had not yet been finalised.
- **India's armed forces are the world's second-largest.** India maintains the second-largest army in the world, with total armed forces of 1.3m active servicemen and a further 1.2m reservists. However, its soldiers are poorly equipped. The army has a strictly non-political role, although it is often called upon to help beleaguered police forces in areas facing secessionist movements, such as the north-east. Defence expenditure is budgeted at US\$27bn in fiscal year 2008/09 (April-March), or about 2% of GDP, and given the historically tense relations with Pakistan, it is likely to remain high.

Demographics and resources

Population

Population	2003	2004	2005	2006	2007
Population (m)	1,049.7	1,065.1	1,080.3	1,095.4	1,110.4
Population (% change)	1.5	1.5	1.4	1.4	1.4

Source: US Census Bureau.

- **Population growth is decreasing.** India's population stood at 1.13bn in 2007. Population growth averaged 1.5% per year in 2000-07, down from an average of 1.9% in the 1990s, 2.1% in the 1980s, and 2.3% in the 1960s. Even under fairly optimistic assumptions about the pace of future fertility decline, the population is likely to reach 1.4bn by 2025. Around one-half of the 300m

increase in population is likely to occur in the northern states of Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh. The future fertility declines in these states will determine the country's demographics. In 2007 India's total fertility rate stood at 2.8 births per woman. However, regional differences are vast. Uttar Pradesh's total fertility rate stands at 4.7, whereas that for Kerala is 1.8—below the replacement level of 2.1 births per woman. The ratio of females per 1,000 males was 933 in 2005; the difference is a result of female infanticide, the neglect of female children and, lately, the abortion of female foetuses, despite the fact that sex determination of the foetus is banned.

- **Life expectancy is increasing.** Life expectancy at birth increased to 66 years for men and 71 years for women in 2007, from 32 years for both men and women in 1951. This compares unfavourably with figures for China (71 years for men and 75 years for women) or Sri Lanka (73 years for men and 77 years for women). Mortality rates for the under-fives have fallen sharply, from 242 per 1,000 in 1960 to 74 in 2005. However, the life expectancy rate is significantly lower for males than for females.
- **The population is still predominantly rural.** India has a relatively low level of urbanisation compared with most other developing countries in Asia: almost 60% of Indians live in villages with a population of less than 5,000. However, the rate of migration from rural to urban areas is increasing. The urban population constituted 28% of the total in 2001, up from just over 25% in the mid-1990s, and is likely to reach 36% around 2025. In 2001 there were 35 cities with a population above 1m. The urban population is growing fastest in states such as Bihar and Uttar Pradesh, which have comparatively low levels of urbanisation. More developed states such as Maharashtra and Tamil Nadu, whose populations are growing less rapidly, experience lower urban growth. The largest urban agglomerations are Mumbai (16.4m according to the 2001 census), Kolkata (13.2m), Delhi (12.8m), Chennai (6.4m), Bangalore (5.7m) and Hyderabad (5.5m).
- **The population is extremely heterogeneous.** India's population is extremely diverse, differentiated by language, religion, caste and class. A significant political divide exists between Hindus (81% of the population) and other religious groups, including Muslims (13%), Sikhs and Christians. However, Hinduism is itself a highly stratified religion, and a large number of Hindus, particularly among the lower castes, do not have a political affinity with Hindu-nationalist movements. Another important distinction exists between the primarily Hindi-speaking north and the south, where a number of vernacular languages are in use, together with English. English is a lingua franca throughout the country, however, and competence in the language is more a function of class than region.

Education

Literacy rates among the population aged seven years and over rose considerably during the 1990s. The 2001 census recorded literacy rates of 65.2%, up from 52.2% in 1991—the highest-ever rise in a single decade. The male literacy rate was 75.6% in 2001 (up from 56% in 1981 and 27% in 1951), compared with 54% for women (30% in 1981 and 9% in 1951). The 2001 census indicated a decline in the

total number of illiterate people for the first time since independence, with 21.5m fewer illiterate males and 10.5m fewer illiterate females in 2001 than in 1991. In spite of recent progress, India still lags behind in educational standards, both absolutely and compared with other developing countries: it has 17% of the world's population, but some 40% of the world's illiterates. India also possesses a large pool of highly educated and vocationally qualified people, although they make up a small fraction of the population. There are considerable regional variations in literacy rates: Kerala has a rate of 91%, whereas Bihar has a rate of only 49%.

Literacy and school attendance have improved markedly since the early 1990s, as poverty has declined and educational aspirations have surged. Attendance in primary schools has risen notably, but the rates for girls are significantly lower than for boys. Overall attendance in secondary schools rose from 20% in 1960 to 54% in 2006 (with the female rate rising from 13% to 49%). In higher education (science, maths and engineering) the rate was 20% for both males and females in 1998-2003, the highest rate by far for a low-income developing country, and up from single digits in 1960.

Natural resources

India is not well endowed with natural resources. The country accounts for 2.4% of the world's surface, but sustains around 17% of the world's population, so the pressure on resources is intense. India's main mineral reserves are coal, iron ore and bauxite. The vast majority of oil and gas are imported. Geographical and climatic differences are large and partly explain the variation in economic performance across regions. Unlike in developed countries such as the US, where about 2% of the labour force feeds the whole population, in India around 60% of the labour force is employed in agriculture. Migration is limited (although increasing), and the vast majority of Indians remain "bound to the land". Around 40% of cultivated land is irrigated, leaving most farmers entirely dependent on the annual monsoon. A large proportion of the population lives in tropical, arid or highland zones. Unlike in China, where 30% of the population lives in temperate zones, in India's case this figure is zero. India's position in terms of coastal access is at a comparative disadvantage, with only 38% of the population living within 100 km of the sea or navigable waterways, compared with 45% in China and 90% in western Europe.

Infrastructure

The poor condition of infrastructure is a major hindrance to growth. India needs at least US\$500bn in investment during the 11th five-year plan (2007/08-2012/13) to mitigate the country's "infrastructure gap", according to government estimates. Although recent government pronouncements have increasingly emphasised the need to secure investment in major infrastructure projects, most of the progress has thus far been limited to the telecommunications sector, and more recently to road construction. The government is mobilising more public resources to tackle the problem, but, at 5% of GDP, spending on infrastructure trails far behind that of China (around 10% of GDP). According to the

Planning Commission, the ratio must be raised to 9% by 2011/12 to maintain average annual GDP growth of 9-10%.

Transport statistics

(fiscal years, Apr-Mar)

Railways	2002/03	2003/04	2004/05	2005/06	2006/07
Total length ('000 km)	n/a	63.2	63.5	63.3	63.3
Length (electrified; '000 km)	n/a	17.5	17.5	17.9	17.8
Goods traffic (m tonnes)	n/a	384.0	411.3	441.6	483.4
Passengers (bn)	n/a	5.1	5.4	5.7	6.2

Roads	2001/02	2002/03	2003/04	2004/05	2005/06
Total length ('000 km)	n/a	2,601	2,713	n/a	n/a
Length (paved; '000 km)	n/a	1,490	1,510	n/a	n/a
Registered vehicles ('000)	n/a	67,007	72,718	79,473	85,896

Air	2003/04	2004/05	2005/06	2006/07	2007/08
Passengers (m)	48.8	59.3	73.4	51.1	62.6
Cargo handled ('000 tonnes)	1,068.7	1,280.3	1,404.0	656.7	743.7

Source: Ministry of Finance, *Economic Survey*.

Railways India has the world's most extensive rail network, at 63,300 km. Indian Railways employs 1.4m staff and is the world's largest non-military employer. The railways suffer from chronic underinvestment and under-pricing, insufficient progress on regulatory reform and unsound cross-subsidisation policies. Passenger traffic is heavily subsidised by higher freight charges. Railway safety has also become an issue of considerable concern after frequent accidents, underlining a lack of investment. The railways have become under intense pressure to upgrade their services since the liberalisation of the airline industry has made flying more affordable and the freight sector was liberalised and improved in 2005 and 2006.

Roads The poor road network has received renewed emphasis in recent years. Roads carry nearly 70% of total freight and 85% of India's passenger traffic. There are 3.3m km of roads, most of which are badly maintained. National highways carry only about 45% of total road transport. However, in 2002 the government introduced a seven-phase National Highways Development Programme aimed at improving the 65,000 km of national highways. The road development programme, under the National Highway Authority of India, has involved the private sector, and has been subject to repeated delays, caused mainly by problems with land acquisition. Some 96% of the so-called Golden Quadrilateral project—a four-lane highway connecting India's four major metropolitan centres (Delhi, Mumbai, Chennai and Kolkata)—had been completed by end-2007. Less than one-quarter of the planned north-south and east-west corridors had been completed at that time, however.

Ports India has 12 major ports, seven on the west coast and five on the east, which are managed by the Port Trust of India. The major ports, which handle 75% of all cargo, handled 464m tonnes of cargo in 2006/07. India's ports are plagued by inefficiency. They handle 90% of India's trade in terms of volume, and with foreign trade having grown in excess of 20% a year since 2002, port capacity is

in dire need of expansion. Although turnaround time at ports improved from 8.5 days in 1996/97 to about 3.6 days in 2006/07, the overall cost efficiency at Indian ports is still low compared with world averages. (In Hong Kong the turnaround time is a mere ten hours.) Poor connections to inland areas, poor port governance and inefficient customs clearing translate into high costs. An identical shipment of textiles to the US from India costs on average 20% more than from Thailand, and 35% more than from China. Government initiatives to increase private-sector participation in ports include granting automatic approval for up to 100% foreign equity in port and harbour construction projects; establishing a Tariff Authority for Major Ports to fix port charges collected by private providers; and setting up a Maritime States Development Council (MSDC) to help frame an integrated port development policy. Gujarat, Maharashtra and Andhra Pradesh have made particularly good progress in attracting private-sector participation in port development.

Air transport

The aviation industry is among the fastest-growing in the world. Air passenger traffic grew by 21% to 116.9m (domestic 87.1m; international 29.8m) in 2007/08, according to the Airports Authority of India. The entry of low-cost carriers has led to a sharp drop in prices, and air travel has become increasingly affordable, especially for India's growing middle class. Private operators have steadily increased their market share at the expense of the once dominant state-owned Indian (formerly Indian Airlines); private airlines now account for more than two-thirds of domestic traffic. However, pressure on airports and landing and parking slots limits the growth of the industry. A major overhaul of major airports—notably Delhi, Mumbai, Kolkata and Chennai—is under way. A new international airport opened in Bangalore, India's information technology (IT) hub, in May 2008.

The merger of the two state-owned national carriers, Indian and Air India, was completed in August 2007, but the actual integration of fleet and staff could take at least two years. The move was crucial for the survival of both airlines, since they were too small in their respective markets (Indian was the domestic carrier; Air India the international one) to compete with their privately owned rivals. Privately owned Jet Airways finalised a merger with a rival carrier, Air Sahara, in April 2007; the merged entity is India's largest domestic carrier. Such deals signal a long-overdue trend of consolidation in the booming civil aviation industry.

Energy

India is the fifth-largest power producer in the world, with total generation of more than 700bn kwh per year. Nevertheless, shortages are substantial and are estimated at around 8% of total demand, rising to over 15% at peak times. Problems in the energy sector are manifold: they include the grossly inefficient State Electricity Boards (SEBs), high levels of power theft, unsound cross-subsidisation policies and chronic underinvestment. The average cost of power in India exceeds Rs4 (10 US cents) per unit. This compares with less than Rs2 in the US and Rs2.5 in South Korea and Taiwan. Official targets for increased generation capacity have been set below required levels for decades, and even these have not been met. The private sector accounts for just 14% of the total power generation capacity, and the government liberalised licensing require-

ments in 2003 to attract more private investment. A total of 34% is generated by the central government and 52% by public power companies owned by state governments.

Energy statistics

(fiscal years, Apr-Mar; m tonnes production unless otherwise indicated)

	2002/03	2003/04	2004/05	2005/06	2006/07
Coal	341.3	361.3	382.6	407	430.9
Lignite	26	28	30.3	30.1	31.1
Electricity					
Installed capacity ('000 mw)	126.2	131.4	137.5	145.6	157
Generation (bn kwh)	596.5	633.3	665.8	697.4	744.3
Crude petroleum	32	33.4	34	32.2	34
Petroleum products	100	107.8	111.6	113.2	119.6
Natural gas	31.4	n/a	n/a	n/a	n/a

Source: Ministry of Finance, *Economic Survey*.

Coal is the dominant power source. In 2007 coal-based power plants accounted for 62.2% of total power generation. India has abundant coal reserves—commercially proven reserves are sufficient to cover current demand for over 100 years at current rates of extraction. Fossil fuels will remain the predominant source of energy, but the government has pledged to increase efficiency and develop renewable energy sources. Nuclear power accounts for 3% of total electricity supply. Hydroelectric power generation contributes 25% to total supply, but hydropower potential is estimated to be three times the current output.

For more information on the energy sector, see the Economist Intelligence Unit's most recent **Energy Industry Briefing** for India.

Telecommunications

The telecoms sector has registered explosive growth in recent years, spurred by reforms to introduce greater competition to the sector. The number of mobile subscribers exceeded the number of users of fixed-line services for the first time in October 2004. In 2007 mobile subscribers outnumbered fixed-line subscribers by about three to one. There were more than 270 mobile-phone subscribers in mid-June 2008. Teledensity rose from a mere 2.3% in 1999 to 26.9% by end-April 2008, but this still remains low by international standards; mobile-phone penetration alone stood at 41.4% in China at the end of 2007. Mobile telecoms services have been liberalised since 1994, but only since 2000 has the number of mobile subscribers registered exceptionally strong growth. The peak price for a call between Delhi and Mumbai has come down from Rs30 (68 US cents) per minute in 2000 to around Rs1 in 2008. International call charges have fallen drastically. For instance, a call from India to the US that cost Rs61 per minute in 2000 cost less than Rs6 in mid-2008. At the end of September 2007, 5.6m out of a total of 6.1m villages had a public telephone, according to the Ministry of Communications and Information Technology.

Telecommunications statistics

	2002	2003	2004	2005	2006	2007
Telephone main lines ('000)	41,408	42,435	45,219	50,063	56,066	62,891
Telephone main lines (per 100 population)	4.0	4.0	4.2	4.6	5.1	5.7
Mobile subscribers ('000)	14,583	28,981	48,010	75,920	136,333	191,565
Mobile subscriptions (per 100 population)	1.4	2.8	4.5	7.0	12.4	17.3

Sources: Pyramid Research; IDC; Economist Intelligence Unit.

In 2005 the government raised the foreign direct investment limit in the sector from 49% to 74%, and foreign firms have since been clamouring to enter the market. The size of the acquisition by a UK firm, Vodafone, of the controlling stake previously held by Hutchison Whampoa (Hong Kong) in Hutchison-Essar in early 2007, at US\$11bn, was unprecedented in India.

For more information on the telecoms sector, see the Economist Intelligence Unit's most recent *Telecoms and Technology Industry Briefing* for India.

The economy

Economic structure

Real gross domestic product by sector

(fiscal years, Apr-Mar; % share of GDP)

	2003/04	2004/05	2005/06	2006/07	2007/08
Agriculture	21.0	19.2	18.8	18.3	17.8
Industry	26.2	28.2	28.8	29.3	29.4
Services	52.8	52.6	52.4	52.4	52.8

Source: Economist Intelligence Unit.

India is a two-tier economy, with a cutting-edge and globally competitive knowledge-driven services sector that employs the brightest of the middle classes on the one hand, and a sprawling, largely rain-fed agricultural sector that employs the majority of the vast and poorly educated labour force on the other. The manufacturing sector has traditionally been poor (with a reputation for low-quality goods), but this has changed rapidly in recent years. Nevertheless, strong growth of the services sector has pushed its share of real GDP up to 63% in 2007/08 (April-March). Meanwhile, the agricultural sector, with fishing and forestry, accounted for 17.5% of real GDP in 2007/08 and industry for 19.5%.

Although the economy's dependence on agriculture has declined in recent years, fluctuations in overall GDP growth are still a function of the outcome of the annual monsoon. The majority of landholdings are farmed at subsistence level, and many farming families live below the poverty line. India has some of the poorest human development indicators in the world, particularly in rural areas. However, it also has a large number of highly qualified professionals, as well as several internationally established industrial groups.

Nominal gross domestic product by expenditure

(fiscal years, Apr-Mar; % share of GDP)

	2003/04	2004/05	2005/06	2006/07	2007/08
Private consumption	61.8	58.7	57.4	55.8	55.3
Government consumption	11.3	10.7	10.4	10.3	10.1
Gross fixed investment	24.9	26.1	31.0	32.5	33.9
Stockbuilding	0.8	2.0	2.4	2.3	2.3
Exports of goods & services	14.8	18.1	19.9	22.1	21.3
Imports of goods & services	16.1	19.9	22.7	25.1	24.4

Source: Central Statistical Office.

Private consumption is the largest expenditure component of GDP, although its share of GDP has fallen from 61.8% in 2003/04 to 55.3% in 2007/08. Despite the consumer boom during that period, the share of private consumption in GDP has fallen because other components of GDP have been growing faster than private consumption. Thus the share of gross fixed investment in GDP rose from 25% in 2003/04 to 34% in 2007/08. The economy is also becoming more exposed to external trade, with the share of exports rising from 14.8% in 2003/04 to 21.3% in 2007/08 and that of imports rising from 16.1% to 24.4%. Government expenditure as a share of GDP has been contracting slightly in recent years and stood at just over 10% in 2007/08.

Economic policy

Government finances

(fiscal years, Apr-Mar; Rs bn unless otherwise indicated)

	2003/04	2004/05	2005/06	2006/07	2007/08
Total revenue	4,714	4,977	5,061	5,834	7,093^c
Current	2,639	3,060	3,475	4,343	5,251 ^c
Tax ^a	1,870	2,248	2,703	3,512	4,318 ^c
Non-tax	769	812	772	832	933 ^c
Capital	2,075	1,917	1,587	1,490	1,843 ^c
Recovered loans	673	620	106	59	45 ^c
Borrowings & other liabilities	1,233	1,252	1,464	1,426	1,437 ^c
Other	170	44	16	5	361 ^c
Total expenditure	4,714	4,977	5,061	5,834	7,094^c
Current	3,621	3,844	4,398	5,146	5,886
Interest payments	1,241	1,269	1,326	1,503	1,720 ^c
Subsidies	443	420	460	n/a	n/a ^c
Capital	1,092	1,133	663	687	1,208 ^c
Fiscal deficit^b	1,233	1,252	1,464	1,428	1,437^c
% of GDP	4.5	4.0	4.1	3.5	3.1
Memorandum items					
Revenue deficit ^d	983	783	923	802	635 ^c
Primary deficit ^e	8	17	138	77	283 ^c

^a Net of states' share of income tax and union excise duties. ^b Total expenditure minus total receipts less borrowings and other liabilities. ^c Based on provisional figures. ^d Current spending minus revenue. ^e Fiscal deficit minus interest payments.

Source: Ministry of Finance, *Budget at a Glance*.

The overall budget deficit peaked at 9.6% of GDP in 2002/03 (5.9% federal government; 3.7% state governments), and strong economic growth had pushed the overall deficit down to 5.5% in 2007/08. Despite steady improvement in the last five years, the fiscal position remains weak. The policies required to reduce the budget deficit are politically difficult to implement. Reducing subsidies, raising the tax take (only about 32m people pay income tax), cutting government employment and closing or privatising loss-making public-sector enterprises are all measures opposed by powerful interest groups. The Fiscal Responsibility and Budget Management Act, designed to place a statutory limit on government borrowing, became effective in July 2004. The bill gives the central government a mandate to eliminate its revenue deficit (the gap between government current spending and revenue) by March 2009 and to reduce the federal deficit incrementally each year to reach 2.5% of GDP by March 2009. Rising interest rates, moderating economic growth and expenditure pressures will make it difficult for the government to meet this target.

The objective of the Reserve Bank of India (RBI, the central bank) is to maintain price stability and ensure an adequate flow of credit to the economy. In recent years, the RBI has given equal weight to controlling inflation—setting specific inflation targets—and encouraging economic growth. However, the commodities-driven inflationary surge that began in 2008 has forced the RBI to prioritise the former, despite the fact that the economy is experiencing a cyclical downturn. Important changes to the institutional set-up of the RBI have resulted in improved monetary control. But the central bank is not independent, and politicians regularly interfere with policymaking.

Money supply

(R bn unless otherwise indicated)

	2003	2004	2005	2006	2007
Stock of domestic credit	15,822	18,670	21,555	26,143	33,317
Domestic credit growth (%)	9.5	18.0	15.5	21.3	27.4
M1 (% change, year on year)	16.2	20.7	18.9	19.2	17.2
M2 (% change, year on year)	13.0	16.7	15.6	21.6	22.8

Source: IMF, *International Financial Statistics*.

The RBI targets broad money, interest rates, the exchange rate and credit availability to the productive sectors when formulating policy. In recent years, large capital inflows have exerted upward pressure on the exchange rate, which the RBI—until inflation took off in 2006—sought to limit by actively selling rupees/buying US dollars in the foreign-exchange market. The by-product of this policy has been the accumulation of foreign reserves, which stood at around US\$315bn in June 2008. The sterilisation of capital inflows has not been perfect and has complicated the RBI's objective of controlling excess liquidity.

Interest rates

(%)

	2003	2004	2005	2006	2007
Lending interest rate	11.5	10.9	10.8	11.2	13.1
Deposit interest rate	5.4	5.4	5.9	7.3	7.4
Money-market interest rate	4.5	4.8	5.3	6.0	6.0

Sources: IMF, *International Financial Statistics*.

For an analysis of the latest economic policy developments, see the Economist Intelligence Unit's most recent **India Country Report**.

Economic performance**Main economic indicators**

	2003	2004	2005	2006	2007
Real GDP growth (%) ^a	8.4	8.3	9.2	9.7	9.0
Consumer price inflation (av; %)	3.8	3.8	4.2	6.2	6.4
Current-account balance (US\$ m)	8,773	781	-10,285	-9,529	-11,794
Exchange rate (av; Rs:US\$)	46.6	45.3	44.1	45.3	41.3
Population (m)	1,049.7	1,065.1	1,080.3	1,095.4	1,110.4
External debt (year-end; US\$ m)	112,855	124,376	123,128	135,098	149,204

^a Fiscal years (April-March).

Source: Economist Intelligence Unit, CountryData.

Since the early 1990s, when the most recent round of economic reforms in India took off, economic growth has been less volatile and has reached a higher average rate than in the preceding decades, when a resolutely inward-looking, Socialist-oriented policy hampered productivity and confined India's economy to the so-called Hindu rate of growth of about 3% a year. Real GDP growth has exceeded 8% every year since 2003/04, reaching a peak of 9.7% in 2006/07. Although the reform process clearly propelled the economy to a stronger growth trajectory, strong domestic demand, firm domestic investment, and increasing levels of foreign trade and investment have ensured that the economy continues to perform well despite inevitable cyclical downturns and the inconsistent pace at which remaining reforms are carried out.

Agriculture

The agricultural sector employs about 60% of the country's workforce but accounts for less than one-fifth of GDP. Unlike in East Asian countries, the shift of the labour force from agriculture to non-agriculture in India is particularly slow, largely as a result of rigid labour laws in both the agricultural and the industrial sector. The agricultural sector strengthened in the post-reform period from 1992/93 to 1996/97, with average growth at 4.7%, up from an average of 3.6% in the 1980s. However, since 2000 growth has averaged around 2%—half the rate the government has said is required to sustain real GDP growth of 9% or higher. The spike in food prices in 2008 has highlighted the need for India to invest more in the sector to assure its food security.

Less than one-third of cropland is irrigated, making agricultural output heavily dependent on the annual monsoon. The main foodgrain crops (the *kharif* or autumn crop—predominantly rice, harvested in September-October) and some

cash crops (oilseeds, cotton, jute and sugar) depend on the south-west monsoon. This brings 80% of India's rain, usually within a three-month period from June to mid-September. A second, north-east monsoon brings lighter rains to the south of the country from mid-October to December. Winter rain in north-western India from October to March waters a crop of wheat and coarse grains (the *rabi* crop, harvested in April-May).

Mining The mining sector accounts for less than 2% of GDP. Nevertheless, a range of non-hydrocarbon minerals is extracted. India has vast reserves of iron ore and bauxite. In addition, it produces significant amounts of mica, manganese, dolomite, limestone, chromite, magnesite, apatite and phosphorite. Private-sector participation in the mining sector is on the increase. In 2006 the government liberalised the Mines and Minerals Act of 1957 to meet rising domestic consumption of various mining products. Strict licensing rules had severely limited production. In 2007 the government allowed 100% foreign direct investment (FDI) in the mining of titanium in a bid to increase exploration of the metal. Titanium reserves are estimated to account for 30% of global reserves of the metal.

Industry At about 20% of GDP, the industrial sector is small (it accounts for 30-40% of GDP in most East Asian economies). Industrial growth averaged 7.1% a year in the 1980s. It accelerated slightly to 7.6% a year in the first five years following the introduction of the economic policy reform process in 1991, which led to an investment boom. In the second half of the 1990s industrial growth trended lower, at around 5% a year. However, since 2002/03 industrial output has been growing sharply on the back of strong consumer demand and exports. In 2006/07 industrial production growth grew at a robust rate of 11.6%, but moderated to 8.1% in 2007/08 as the business cycle turned.

Similarly, manufacturing production, which represents more than 75% of industrial output, accelerated by 12.5% in 2005/06, but averaged 9% a year in 2006/07-2007/08. The rapid expansion of the sector has fuelled inflationary pressures. This highlights one of the major challenges to the economy: expanding a still small manufacturing sector, which by the government's own admission is the only sector capable of providing enough jobs to absorb the estimated 10m people entering the workforce every year. To achieve the government's target for manufacturing of 25% of GDP, the sector must grow by 15-17% a year. But at present such growth appears impossible without stoking inflation.

Industrial production

(fiscal years, Apr-Mar; % change, year on year)

	2003	2004	2005	2006	2007
Industrial production	6.6	8.5	7.9	10.5	9.9

Source: Central Statistical Organisation.

Construction Construction accounts for around 7% of GDP and employs an estimated 40m people. The construction industry has been one of the fastest growing in recent years, with growth of 9.8% in 2007/08. The industry contributes more incremental value added per unit of investment than any other sector. Construction

accounts for around 40% of government capital expenditure through a five-year plan. Large-scale public-sector projects, the need to develop urban infrastructure and national highways, and the rapidly rising demand for residential housing have contributed to a boom in the sector in recent years.

Services The services sector is the main driver of economic growth, being both the largest component of the economy and the best-performing. The contribution of the information technology (IT) industry to GDP rose from 1.2% in 1998/99 to 5.2% in 2007/08. The target of US\$60bn worth of software exports by 2009/10 set by the industry's main body, the National Association of Software and Service Companies (Nasscom), is well within reach. Computer software and services exports stood at US\$40bn in 2007/08.

Out of an estimated 5,000 IT software and service companies in India, about 60% are domestic players and 40% are multinational corporations, with offices abroad as well as in India. The latter account for about 65% of the industry's revenue. The most important market for the industry is the US, which absorbs about 70% of India's software exports, followed by Europe, with 25%. Indian firms are especially strong in software for banks, finance houses and insurance companies. The bursting of the dotcom bubble in the US in the early 2000s had a negative effect on the Indian IT industry, but on the whole it withstood the shock well. It has also been forced to increase diversification in non-US markets, such as Europe and Asia, and into such higher value-added areas as the management for clients of IT-related business processes. IT companies' margins came under pressure in early 2008 amid a sharply higher rupee and a marked slowdown in the US economy, but industry experts believe that the sector is poised to double its exports to US\$80bn by 2011.

The fastest-growing segment of the IT industry is IT-enabled services and business process outsourcing (ITES-BPO, or "offshoring"), which has expanded by an average annual rate of around 50% since 1993. ITES-BPO covers a wide range of technology and back-office services, including call centres, accounting support, administration and content development. The sector uses cheap labour and does not require knowledge of software engineering.

The size and liquidity of the Indian stockmarket has increased notably in recent years, and the Bombay Stock Exchange (BSE) has established itself as one of Asia's largest stock exchanges. Unprecedented foreign portfolio investment worth about US\$29.4bn in 2007/08 helped to propel the BSE Sensex, the benchmark index, to an all-time high in January 2008, although investors' concerns about rising inflation and slowing growth led the market to lose nearly 25% of its value in the first five months of calendar 2008. The central bank and the Securities and Exchange Board of India (SEBI) fear that if foreign institutional investors suddenly pulled a significant sum of money out of India, a financial crisis might follow and potentially destabilise the economy. The SEBI is especially worried about inflows of potentially "hot money", particularly by pro-active hedge funds that borrow cheaply in foreign currency in international markets and invest it in India. In October 2007 the SEBI tightened regulation of participatory notes—offshore derivatives that are the main conduit for portfolio investment into India.

Employment trends An acute shortage of skilled labour to service the booming software industry means that wage inflation is rampant. As a consequence, employee turnover in the fast-growing services industries is extremely high—up to 6% per month in some subsectors. Over time, the growth of labour-intensive manufacturing could suffer, which could stall the transition of surplus labour from agriculture to industry. Nevertheless, the opening up of the economy has led to an influx of foreign capital, technology and management skills, making India increasingly attractive as a base for medium and high value added manufacturing. About 10m people enter the labour force every year, ensuring that investment in the quality and quantity of education will remain one of the government's foremost challenges.

Employment

	2003	2004	2005	2006	2007
Labour force (m)	479.0	486.0	497.0	506.9	516.4
Unemployment rate (%)	8.4	8.1	8.1	7.6	7.2

Source: United Nations, *FAO Yearbook*; World Bank, *World Development Indicators*; Financial & Economic Research International.

India's constitution provides for quotas in education and government jobs for "scheduled castes"—the *dalits*, formerly known as untouchables. In 1990 the government approved a long-neglected report by the Mandal commission, recommending the extension of quotas to "other backward classes" (OBCs). The issue of "reservation", as it is called, is one of the most controversial in Indian politics. In mid-June 2006 the government's plans to "reserve" 27% of the places in India's colleges for the OBCs led to widespread demonstrations. Nevertheless, the OBC reservation bill was passed in December 2006.

Prices and earnings

Prices and earnings

(% change, year on year)

	2003	2004	2005	2006	2007
Consumer prices (av)	3.8	3.8	4.2	6.2	6.4
Average nominal wages	-6.9	60.5	7.5	9.0	9.5
Average real wages	-10.3	54.7	3.1	2.7	2.9
Unit labour costs	-8.3	55.2	4.0	-0.1	13.1

Source: Economist Intelligence Unit.

Consumer price inflation fell to around 4% a year in the early 2000s from the double-digit rates seen in the first half of the 1990s. But since 2006 it has accelerated, approaching 9% in mid-2008. In 2007 the RBI let the rupee appreciate sharply against the US dollar to mitigate imported inflation, but slowing capital inflows and moderating economic growth curtailed the currency's rise in the first half of 2008. Real interest rates are low, and the central bank has had to tighten monetary policy despite slowing real GDP growth.

For an analysis of the latest economic performance data, see the Economist Intelligence Unit's most recent **India Country Report**.

Comparative economic indicators, 2007

	India	China	Pakistan	Bangladesh	Sri Lanka
GDP (US\$ bn)	1,145.5	3,241.8	142.9	67.8	31.8
GDP per head (US\$)	1,032	2,453	871	427	1,650
GDP per head (US\$ at PPP)	2,784	5,478	2,497	1,233	4,245
Consumer price inflation (av; %)	6.4	4.8	7.6	9.1	17.5
Current-account balance (US\$ bn)	-11.8	381.3	-10.3	0.8	-1.2
Current-account balance (% of GDP)	-1.0	11.8	-7.2	1.1	-3.8
Exports of goods fob (US\$ bn)	150.8	1,209.7	16.3	11.7	8.2
Imports of goods fob (US\$ bn)	-230.2	-893.4	-30.3	-16.0	-10.6
External debt (US\$ bn)	149.2	347.3	39.2	21.2	12.2
Debt-service ratio, paid (%)	7.0	3.0	13.6	5.1	6.5

Source: Economist Intelligence Unit, CountryData.

Regional trends

India's strong national performance masks considerable interstate variation in terms of economic growth, economic policy, population and human development. Since the start of economic reforms in 1991, the coastal states such as Gujarat and Maharashtra have been the fastest-growing states, with rates of around 6-11%, comparable with the East Asian economies. High-growth private-sector industries are concentrated around Mumbai in Maharashtra; in parts of Gujarat; around Delhi, including in Haryana and western Uttar Pradesh; and in the corridor from Bangalore in Karnataka to Chennai in Tamil Nadu. These states account for about 80% of FDI. As trade was liberalised and industry freed to locate where it wished, industrial development became concentrated in the south and along the west coast. The software export boom has also been largely concentrated in the southern and western cities of Chennai, Bangalore, Mumbai and Hyderabad. The process of economic policy reform that began in 1991 had important implications for state-level growth: the prosperous states with better-performing administrations appear to have benefited the most from the reforms.

The post-1991 period has seen faster improvements in human development indicators, particularly in literacy rates and life expectancy. Generally, fertility and mortality are lower in southern and western states than in most of the northern states. The fertility decline has been slowest in Bihar and Uttar Pradesh, where the number of births per woman is still between four and five, far above the all-India average of around three.

The external sector

The current account

India's trade/GDP ratio has increased dramatically from 15% in 1990 to over 40% in 2007, although the level of trade integration remains low compared with other large emerging economies. The responsiveness of Indian exports to the GDP growth of its main trading partners has increased. The traditional view that the Indian economy is largely shielded from the international business cycle because of the country's limited trade integration is becoming increasingly untenable—although it still has some validity. Growing trade integration has

important consequences, not only for exports, but also for economic management. Interest rates in the rest of the world will become more important in setting domestic rates. Similarly, swings in economic activity in the region or the world are now likely to have a larger impact, mainly through trade.

Main composition of trade

(US\$ m; fob-cif)

	2003	2004	2005	2006	2007
Exports fob					
Engineering goods	12,405	17,348	21,719	29,079	33,307
Petroleum products	3,568	6,989	11,640	18,552	23,237
Textiles & textile products	12,792	13,555	16,402	17,010	23,237
Gems & jewellery	10,573	13,762	15,529	15,586	18,590
Total exports incl others	63,843	83,536	103,091	126,331	154,914
Imports cif					
Petroleum products	20,570	29,844	43,963	57,075	73,493
Electronic goods	7,506	9,993	13,242	15,946	21,574
Gold & silver	6,856	11,150	11,318	14,645	21,337
Machinery	4,744	6,818	10,010	13,849	17,781
Total imports incl others	78,149	111,517	149,166	190,566	237,075

Source: IMF, *Direction of Trade Statistics*.

A booming economy and rapidly rising oil prices have pushed up the trade deficit. In fiscal year 2006/07 (April-March) the trade deficit rose to US\$63.1bn, from US\$51.9bn in 2005/06, according to the latest full-year data from the Reserve Bank of India (RBI, the central bank). Merchandise trade remained buoyant, with exports reaching US\$128bn and imports US\$191.3bn. Oil imports, which account for one-third of total merchandise imports, rose by 30%.

The government aims to raise the country's exports to US\$200bn in 2008/09, despite the fact that India narrowly missed the US\$160bn target for 2007/08 (the value of exports reached US\$155bn in that year). In recent years, Indian exports have surged not only in the country's traditional major export markets, the US and Europe, but also in Asia and Africa. However, the value of India's exports is still tiny compared with that of China—the latter's merchandise exports are worth nearly ten times those of India.

Main trading partners

(% of total)

	2003	2004	2005	2006	2007
Exports fob to:					
US	17.8	15.4	15.9	16.5	14.7
UAE	7.3	7.9	8.0	8.1	8.6
China	4.2	5.0	6.3	7.5	8.1
UK	4.5	4.1	4.6	4.2	4.2
Imports cif from:					
China	4.8	5.4	6.6	8.4	10.9
US	6.3	5.4	5.1	5.8	8.2
Germany	3.6	3.3	3.6	4.4	4.7
Singapore	2.5	2.2	2.1	4.4	4.6

Source: IMF, *Direction of Trade Statistics*.

India's traditional exports of textiles and jewellery, while important, have lost ground to engineering exports. The country has also developed significant exports of chemicals, principally drugs and dyes, and petroleum products. Its largest import is mineral oils. Domestic crude oil meets only about 30% of India's needs. Recently, with import liberalisation, electronic goods imports have also grown. The legalisation of gold imports has meant that gold, which used to be smuggled in, has begun to be imported legally and now constitutes a major import item.

The capital account

India's position on the capital account has strengthened considerably in recent years. According to the RBI, in 2006/07 the capital account surplus stood at US\$45.8bn. Rising international investor confidence in the Indian economy has been reflected in a surge of portfolio investment and the upward revision of international credit ratings. With the current account in deficit since 2004/05, the rising capital account surplus has become increasingly instrumental in earning foreign exchange.

The level of foreign investment flows—comprised of portfolio investment by foreign institutional investors and foreign direct investment (FDI)—has risen dramatically in recent years. In 2003/04 FDI inflows stood at a mere US\$2.2bn, or 1% of GDP, leaving India trailing behind almost all large emerging-market economies in this regard. (These typically have FDI equivalent to 2-3% of GDP, and economists tend to view countries with an FDI share equal to or lower than 1% as lacking a comparative advantage.) In 2007/08 FDI jumped by 56% year on year to US\$24.5bn (or 2.1% of GDP), more than four times higher than the US\$5.5bn registered in 2005/06, according to the RBI. The services sector continues to be the biggest recipient of FDI. In 2006 FDI inflows exceeded portfolio inflows for the first time, indicating that foreign companies—rather than merely foreign capital—are finally beginning to play the role one would expect in an economy with a comparative advantage in a wide range of sectors.

A significant development on the capital account in recent years has been the rapid increase in commercial borrowing by Indian companies on international capital markets—net medium-term and long-term borrowing increased to US\$16.3bn in the first nine months of 2007/08.

India's foreign-exchange reserves have grown significantly since 1991. The reserves, which stood at US\$5.8bn in the immediate aftermath of the balance-of-payment crisis in 1991, rose to US\$38bn in 2000. In mid-June 2008 India's foreign-exchange reserves had surged to US\$315bn, making its stock of reserves the third-largest among emerging-market economies and the fourth-largest in the world. The sterilisation of capital inflows by the RBI was the main cause of the rapid accretion of reserves. In fact, the capital account has been the main source of the reserve build-up in the period 1991-2007. It contributed US\$264.1bn to the accretion, far outweighing the drag on reserves exerted by the current account of around US\$45.7bn. Foreign investment dominated as a source of reserve build-up through the capital account at a net US\$129.8bn, or 49% of the total, followed by non-resident Indian (NRI) deposits (11%), external commercial borrowing (18%) and external assistance (6%).

For an analysis of the latest external sector data, see the Economist Intelligence Unit's most recent **India Country Report**.

Balance of payments, national series
(US\$ m)

	2002/03	2003/04	2004/05	2005/06	2006/07
Merchandise exports fob	53,774	66,285	85,206	105,152	128,083
Merchandise imports cif	-64,464	-80,003	-118,908	-157,056	191,254
Trade balance	-10,690	-13,718	-31,232	-51,904	-63,171
Invisible inflows	41,925	53,462	69,533	89,687	115,074
Invisible outflows	-24,890	-25,661	-38,301	-47,685	61,669
Invisibles balance	17,035	27,801	31,232	42,002	53,405
Current-account balance	6,345	14,083	-2,470	-9,902	-9,766
Foreign investment	8,151	13,744	130,000	15,528	15,541
Net foreign aid	-3,128	-2,858	1,923	1,702	1,767
Commercial borrowing	-1,692	-2,925	5,194	2,508	16,155
Short-term borrowing	970	1,419	3,792	3,699	6,612
Banking	10,425	6,033	3,874	1,373	1,913
Rupee debt service	-474	-376	-417	-572	-162
Other capital	578	1,699	656	1,232	3,953
Capital account balance	10,840	16,736	28,022	25,470	45,779
Net errors & omissions	-200	602	607	-516	593
Overall balance	16,985	31,421	26,159	15,052	36,606
Change in reserves (- indicates increase)	-16,985	-31,421	-26,159	-15,052	-36,606

Source: Reserve Bank of India.

References

National statistical sources

A great number of detailed statistics are available, of variable but often high quality. Three sources stand out: the annual Economic Survey of the Ministry of Finance is an excellent summary of most key economic data; the Reserve Bank of India produces a steady stream of data in its weekly, monthly and annual publications; and the Mumbai-based Centre for Monitoring the Indian Economy (CMIE) produces monthly and annual data in great detail and variety.

For economic data, the daily *Business Line* is the most comprehensive newspaper, although *Business Standard* and *The Economic Times* can be quicker off the mark.

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Appendix

Index methodology

Measuring democracy

There is no consensus on how to measure democracy. A key difference in measures is between "thin" or minimalist, and "thick" or wider concepts of democracy. The Economist Intelligence Unit's democracy index is a thick measure. In addition to measuring political freedoms and civil liberties (the essential components of any definition), other features also need to be assessed in order to determine how substantive democracy is. Our index is based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. The index provides a snapshot of the current state of democracy worldwide for 167 independent states and two territories (this covers almost the entire population of the world and the vast majority of the world's independent states).

The overall index of democracy, on a 0 to 10 scale, is based on the ratings for 60 indicators grouped in the five categories. The overall index is the simple average of the five category indexes.

We use a three-point scoring system for the 60 indicators. A dichotomous 1-0 scoring system (1 for a yes and 0 for a no answer) is used for most indicators. For some indicators, a 0.5 score is possible, where a simple yes (1) or no (0) is problematic. The category indexes are based on the sum of the indicator scores in the category, converted to a 0 to 10 scale. Adjustments to the category scores are made if countries do not score a 1 in the following critical areas for democracy:

- whether national elections are free and fair;
- the security of voters;
- the influence of foreign powers on government; and
- the capability of the civil service to implement policies.

The index values are used to place countries within one of four types of regimes:

1. Full democracies—scores of 8 to 10.
2. Flawed democracies—scores of 6 to 7.9.
3. Hybrid regimes—scores of 4 to 5.9.
4. Authoritarian regimes—scores below 4.

A differentiating aspect of the index is that in addition to experts' assessments we use, where available, public opinion surveys. Indicators based on the surveys predominate heavily in the political participation and political culture categories, and a few are used in the civil liberties and functioning of government categories.

To view the full methodology and the complete questionnaire, visit eiu.com.

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