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India continues to achieve one of the highest rates of GDP per capita growth in the world. Nevertheless, the income gap with OECD countries remains large, primarily reflecting low levels of labour productivity, calling for further reforms to support rapid and inclusive growth. Incremental reforms of administrative regulation introduced by governments at all levels have led to some improvement in the operating environment for business. However, more fundamental reforms are needed in the following areas.

Priorities supported by indicators

Reduce trade and FDI barriers as well as administrative burdens

Trade and FDI restrictions, along with administrative red tape, still hinder investment and productivity.

Actions taken: Thresholds for FDI applications requiring the consent of the central government cabinet have been raised and existing FDI regulations consolidated to improve transparency.

Recommendations: High FDI barriers in retail and other service sectors should be reduced. Trade protection should be reduced across the board, with a first priority on the most heavily protected sectors. The use of ICT should be expanded to improve government service delivery and transparency.

Improve education outcomes

Low graduation rates and relatively poor education quality hamper human capital formation.

Actions taken: The 2009 Right to Free Education Act stipulates that every child aged between 6 and 14 years has the right to free and compulsory education.

Recommendations: Consider opportunities to decentralise elements of school management and teacher recruitment to either the local government or school level. Strengthen school principal and teacher accountability and improve the quality of, and access to pre and in-service teacher training. Allow greater university autonomy and reduce barriers to entry in the university sector, including by relaxing entry of foreign education providers.

Ease job protection

Rigid employment protection legislation undermines employment and productivity growth in the formal sector.

Actions taken: No action taken.

Recommendations: Reform employment protection measures that discriminate against large firms and remove the most restrictive provisions concerning the need for prior government authorisation to terminate employment. Streamline central and state government legislation to reduce uncertainty and complexity.

Other key priorities

Enhance infrastructure provision

Low provision and weak quality of infrastructure damages the business operating environment and hurts productivity.

Actions taken: Spending on key infrastructure has risen sharply. The central government initiated the National Land Records Modernisation Programme to consolidate and modernise land record systems, which will provide greater certainty to investors in infrastructure projects and help expedite project applications.

Recommendations: Reduce regulatory uncertainty in infrastructure sectors across states to enhance opportunities for private sector participation. Eliminate cross-subsidies in electricity and rail sectors. Streamline land acquisition procedures to reduce development costs and delays.

Undertake wide-ranging financial sector reforms

The level of development of the financial sector is insufficient to meet the needs of a rapidly developing economy.

Actions taken: The government has announced the formation of a Financial Stability and Development Council to monitor macro prudential supervision of the economy and address inter-regulatory coordination issues.

Recommendations: Allow greater participation by foreign investors in the financial services sector and issue more bank licenses to expand the coverage of banking services. Proceed with plans to establish a new independent debt management office.

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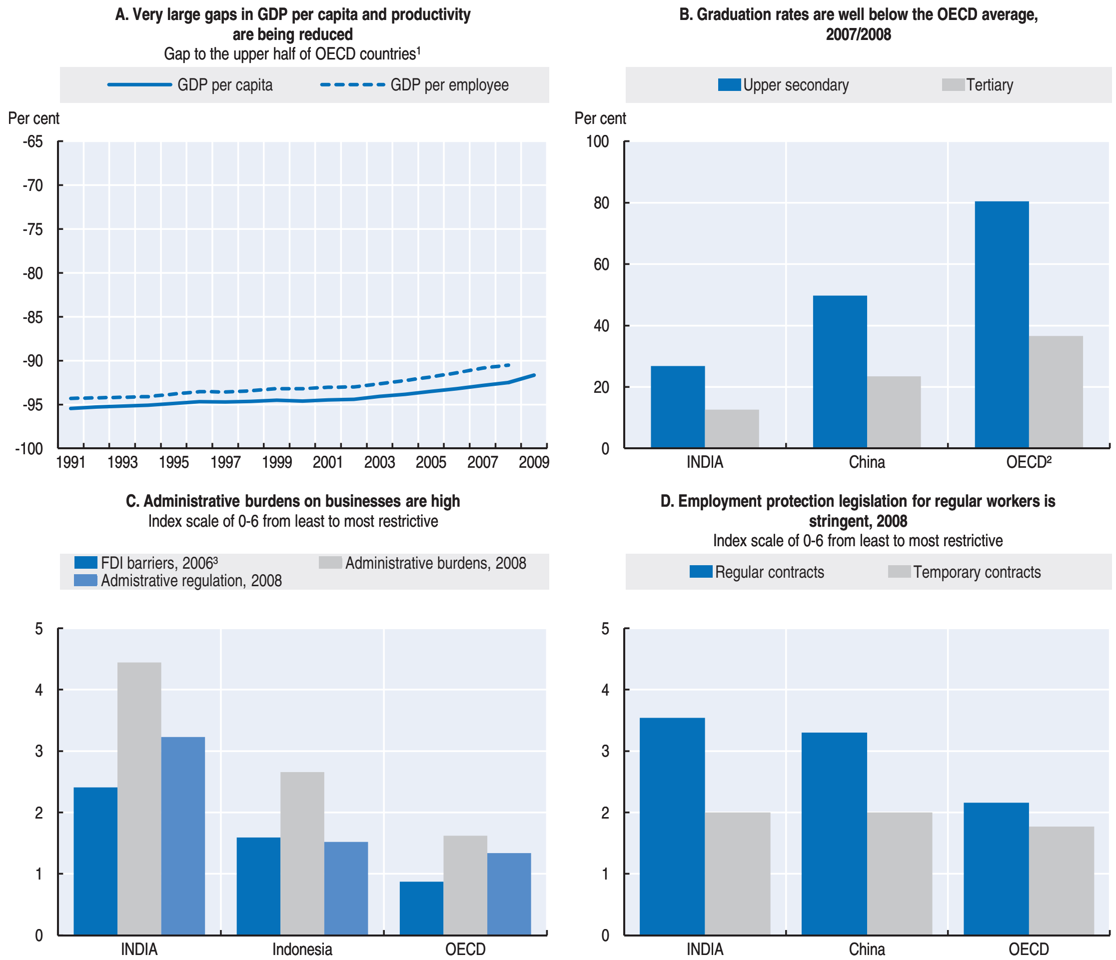
Structural indicators

Average annual trend growth rates, per cent

		1998-2008	1998-2003	2003-08
GDP per capita		5.4	4.1	6.9
Labour utilisation		. .	. .	. .
of which:	Employment rate	0.4	0.4	0.5
	Average hours	. .	. .	. .
Labour productivity[1]		5.0	3.7	6.4
of which:	Capital intensity	. .	. .	. .
	Multifactor productivity	. .	. .	. .

1. Labour productivity is measured as GDP per employee.

Source: Estimates based on World Bank (2010), *World Development Indicators (WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM) Databases*.



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).
2. For upper secondary education, average of OECD countries excluding Australia, Austria, Belgium, Estonia, France and the Netherlands; for tertiary education, excluding Belgium, Chile, Estonia, France and Korea.
3. The FDI regulation index looks only at statutory restrictions and does not assess the manner in which they are implemented.

Source: Chart A: World Bank (2010), *World Development Indicators (WDI) and ILO (2010), Key Indicators of the Labour Market (KILM) Databases*; Chart B: OECD (2010), *Education at a Glance*; *India National Sample Survey* (2007/8) and *China Statistical Yearbook*; Chart C: Koyama, T. and S. S. Golub (2006), "OECD's FDI Regulatory Restrictiveness Index: Revision and Extension to More Economies", *OECD Economics Department Working Papers*, No. 525, OECD, *Product Market Regulation Database* and Woelf, A. *et al.* (2010), "Product Market Regulation Extending the analysis beyond OECD countries", *OECD Economics Department Working Papers*, No. 799; Chart D: OECD, *Employment Database*.

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