

the process in recent months given its comfortable foreign exchange reserves, the need to deal with social issues and the impact of double-digit inflation. Reform in India must be a measured process. Otherwise, social discord can easily erupt and regional differences become exacerbated.

5. Human Rights Record

India has received criticism for abuses of human rights, most recently in Kashmir. While these abuses are real, India is now addressing them in a more transparent manner. The international community has chosen not to pursue a punitive approach to India, but to use suasion to improve the situation. Broader bilateral and commercial relations with India should encourage further improvements with respect to the protection of human rights.

6. Regional Security

India's unstable relations with its neighbours, especially Pakistan, is a concern given the nuclear-weapons capability of the two countries. Although the India-Pakistan relationship is characterized by harsh rhetoric and much posturing, the two countries appear to be engaged in 'conflict avoidance'. Moreover, the regional security situation in South Asia receives close international monitoring and most Western countries have avoided strategic military exports to India and Pakistan.

7. Risk Evaluation

The program of economic reforms has brought India from the brink of bankruptcy to economic resurgence. To become an economic 'Tiger' in Asia, India needs to maintain its reform program and ensure its full and transparent implementation, including at the state level. It must address crucial - and politically sensitive - reforms of the banking sector, the taxation structure, and the industrial and labour adjustment programs. India has the capacity to deal with these issues, with the appeal of global status driving it onwards. The increasing international business interest in Indian attests to the appeal of this market. Its economic risk is considered more than acceptable.