

FDI-friendly environment. China's experience suggests that creating an environment friendly to foreign direct investment and to exports is essential for India's ability to compete in world markets. India needs to improve access to infrastructure facilities such as electricity, water, transportation, housing and communications. One way India could post the "Open for Business" sign would be to invite tenders for all infrastructure projects by foreign and domestic companies in a transparent fashion.

4. India's Comparative Strengths for Further Reforms

Economy-wide reforms. India turned the reform corner much later than China and other emerging markets. The opening up of India involves reforms that apply to sectors all across India whereas China opened up incrementally, first by creating special economic zones in Southern China then open coastal cities and gradually more inland regions. In India the scope of reforms extends to all parts of the country, though it varies from state to state.

Finance and stock-market. India's central bank and the Bombay stock exchange were established at the turn of the century. India already has 23 stock exchanges. India still needs to reform its financial sector to make it a fully efficient instrument for financial intermediation. Nonetheless, the Indian stock exchange is much more capitalized than, say its Chinese counterparts. India's financial sector is well advanced along the lines of a market economy.

Private property rights. The land market in India has been virtually free of distortions. Similarly, China historically had strong property rights and flexible system of mortgaging and leasing. However, under Chinese communism private property, including private land and individual labour, was socialized. Even today, because the land belongs to the Chinese state it cannot be sold; it can be leased and leases can be transferred or sold. This restriction on property ownership in China puts a limit on the efficient working of the capital market, and consequently of reforms, in China. In India you would not encounter such limitations on private property ownership, which potentially deepens the distance the reforms can go.

The rule of law based on common law. India has a well developed legal system that works, though slowly at times. India's legal doctrines are