The market potential is increasingly being reflected in strong economic indicators: India no longer needs a second IMF loan, and it is paying off the 1991 loan ahead of schedule. GDP growth reached 4.2 percent in 1992, was 3.8 percent in 1993, and attained 5 percent in 1994. Inflation has been reduced from close to 17 percent to under 10 percent (9.96 percent in January 1995). Since July 1991, over 2,300 new foreign collaboration proposals, valued at US$2.5 billion, have been approved.

In addition to the enormous market potential and positive economic signals, a number of historical factors facilitate doing business in India and make India an attractive market. India has a proven commitment to freedom and democratic principles with a functioning free press. There is a sophisticated, independent judicial system based on British common law that can and does overrule government decisions. English is widely spoken and is the common language of business and commerce. A well-developed banking system exists with private sector origins that date back 125 years. The century old financial and capital-market institutions include 22 stock exchanges. A complex distribution system can take a product from the factory gate to the remotest village. There is a well-qualified service sector, including lawyers, accountants, computer specialists and engineers. India also has a massive pool of inexpensive but highly skilled labour.

IV. Economic Reforms

The Indian Government has introduced a radical and dramatic re-orientation of its fiscal, trade and industrial policies that seek to speed economic growth and increase international competitiveness. The major reforms can be summarized as:

Foreign Exchange Reform - The rupee was devalued by 24 percent in 1991 and, since then, the restrictive clauses of the Foreign Exchange Regulation Act have been abolished. The rupee is now fully convertible on the trade and current accounts.

Import Reform - The maximum tariff rate has been reduced from a peak of 350 percent to 50 percent, with the weighted average being in fact considerably less. Import duties should be down to 25 percent by 1998. Furthermore, except for three categories of prohibited goods and 12 categories of restricted goods, import licenses - a notorious source of red tape - have largely been abolished.

Investment Reform - Foreign companies are granted automatic approval for up to 51 percent equity investment in 36 priority sectors and many 100 percent foreign equity investments have been approved.

Privatization - The government has embarked on a program of partial disinvestment of its public sector units. It has opened power generation, telecommunications, and toll roads and bridges to the private sector.