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Andhra Pradesh

Fastest Improver in Economic Freedom

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Andhra Pradesh is India's 4th largest state by area and 5th largest by population (currently estimated at 84 million). It has traditionally been a major agricultural state, producing surpluses that feed neighbouring food-deficit states in South India. Indeed, it is among the few states in which the share of agriculture (30.2 per cent) in gross state domestic product (GSDP) is higher than that of industry (22.6 per cent).¹ However, it is also a specialist in defence services and pharmaceuticals, and is a major producer of steel, cement and sugar. Services have come up rapidly in recent decades, and its capital, Hyderabad, has become one of the biggest centres of information technology in India, including major campuses of Microsoft and Genpact.

Between 2005 and 2009, Andhra Pradesh and Gujarat were the two states that registered the biggest improvements in economic freedom,² with their overall scores going up by 0.11 points each (see Table 2.5). Andhra Pradesh's score went up from 0.40 to 0.51, which is proportionately faster than Gujarat's move from 0.46 to 0.57. In overall state rankings, Andhra Pradesh moved up from 7th position in 2005 to 3rd position in 2009.

Looking at sub-categories in the index of economic freedom, we find that the state has fared exceptionally well in regulation of labour and business, creating a climate that provides more economic freedom for entrepreneurs. The state is not uniformly freedom-friendly in all respects. In the first sub-category, relative size of the state, Andhra Pradesh has

1. GoAP (2010).

2. Debroy and Bhandari (2005).

TABLE 3.1

Ranking of States on Economic Freedom Index

	Size of State		Legal System		Business/Labour Regulation		Overall	
	2005	2009	2005	2009	2005	2009	2005	2009
Andhra Pradesh	12	9	7	3	10	2	7	3
Assam	11	7	19	18	9	17	19	18
Bihar	16	12	20	20	16	19	20	20
Chhattisgarh	17	19	6	6	20	20	16	16
Gujarat	2	1	12	5	1	1	5	2
Haryana	7	3	3	7	11	7	4	4
Himachal Pradesh	1	10	4	8	7	5	3	5
Jammu and Kashmir	20	14	14	13	8	4	15	9
Jharkhand	3	2	18	15	4	14	8	8
Karnataka	15	16	8	10	17	8	13	13
Kerala	6	8	13	12	15	13	10	10
Madhya Pradesh	14	17	2	2	3	11	2	6
Maharashtra	5	6	16	17	6	6	9	11
Orissa	19	15	11	16	5	9	11	17
Punjab	8	5	9	11	13	18	6	12
Rajasthan	18	13	5	4	14	16	12	7
Tamil Nadu	9	11	1	1	2	3	1	1
Uttar Pradesh	10	18	10	9	19	10	14	14
Uttarakhand	13	20	15	14	12	15	17	19
West Bengal	4	4	17	19	18	12	18	15

improved from 12th position (2005) to 9th (2009). This is still way down the list, and in this respect the state has much room for improvement. In the second sub-category, legal institutions and functioning, the state has moved up from 7th position (2005) to 3rd position (2009) in India. This indicates improved economic freedom and the space for individual actors, especially in what used to be Maoist-affected northern districts. In the third sub-category, labour and business regulation, the state has fared very well indeed, moving up from 10th position in 2005 to 2nd position in 2009.

This improvement in economic freedom and business climate has helped almost double the state's growth rate. In the Ninth Five-Year Plan period (1997 to 2002) the state had an average annual gross state domestic product (GSDP) growth of 5.59 per cent. But in the last five years for which data are available (2004-05 to 2008-09), GSDP growth accelerated to an average of 9.07 per cent per year.³ This latest five-year

3. GoAP (2010).

average was pulled down by a major drought in 2008-09. In the previous three years, GSDP growth was in double digits (see Table 3.2 below). The state was an outperformer, consistently growing faster than India as a whole except for the drought in 2008-09.

TABLE 3.2*GDP Growth in Andhra Pradesh and All-India*

	<i>India GDP Growth (%)</i>	<i>Andhra Pradesh GSDP Growth (%)</i>
2004-05	7.47	8.15
2005-06	9.52	10.24
2006-07	9.75	11.16
2007-08	9.01	10.75
2008-09	6.70	5.04

Note: GSDP means gross state domestic product.

Source: GoAP (2010).

It is instructive to take a more detailed look at the components of each sub-category. Table 3.3 gives the relative scores on the state on key indicators between 2005 and 2009. The indicators have been defined such that a rising score indicates more freedom, and a declining score indicates reduced freedom.

The indicators relating to the size of the state show encouraging progress. The ratio of GSDP to the revenue expenditure of the government (excluding capital spending) shot up from 3.4 in 2005 to 7.93 in 2009. In other words, GSDP rose more than twice as fast as government spending on administrative matters, including subsidies and employment schemes. The relative size of the state shrank.

But this did not mean that government spending was muted. On the contrary, the state government's capital spending went up from Rs. 42.5 billion (\$ 0.85 billion) in 2003-04 to Rs. 103.7 billion (\$ 2.07 billion) in 2008-09. This increase focussed on irrigation and infrastructure, which were earlier weak spots. Improving irrigation and infrastructure aimed to improve business conditions for farmers and businessmen, thus expanding the range of economic opportunities and freedom of choice. Agricultural growth averaged 6.82 per cent per year in 2004-2009, more than double the all-India average of 3.26 per cent. And industrial growth in the state averaged 10.75 per cent against the national average of 8.70 per cent.⁴ While government spending increased, the state economy increased still faster, so the relative size of government declined.

4. Office of the Economic Advisor to the Chief Minister, Andhra Pradesh.

TABLE 3.3

Andhra Pradesh: Indicators of Economic Freedom—2005 and 2009

	2005	2009	More(+)/Less(-) Economic Freedom
Size of State			
GSDP/revenue expenditure	3.4	7.93	+
GSDP/administrative GSDP	0.21	0.24	+
Total organised employment/government employment	1.40	1.46	+
GSDP/state taxes on income	69	85.7	+
GSDP/taxes on property, capital transactions	89	84	-
GSDP/taxes on commodities and services	8	2	+
Property price/stamp duty	NA	0.2	
Rule of Law			
Property recovered/property stolen	0.41	0.49	+
Total judicial posts/vacant posts	12.32	20.69	+
Total cases/economic offence cases	17.44	19.04	+
% cases completed by police in same year	0.77	0.76	-
% cases completed by courts in same year	0.24	0.23	-
Total crimes/violent crimes	13.52	14.09	+
Regulation of Labour and Business			
Casual wage rate/minimum wage for males	0.87	1.03	+
Casual wage rate/minimum wage for females	0.67	0.81	+
Industrial workers/man-days lost in strikes, lockouts	0.73	0.34	-
Minimum licence fee/year for traders	0.4	0.4	
Implementation rate IEMs	0.09	0.04	-
Power demand/power shortage	0.99	0.91	-
Inverse of pending corruption cases from previous year	1.93	3.10	+

Note: IEMs—Industrial Entrepreneurs Memorandum.

This was a welcome but utterly unexpected outcome, given the state's reputation of focussing on freebies and subsidies to buy votes. Andhra Pradesh's Chief Minister in 2004-2009, Y.S. Rajasekhara Reddy, gained popularity by expanding welfare schemes such as subsidised rice, subsidised housing for the poor, rural employment schemes, and free power and virtually free canal water for farmers. Many critics feared that such 'populism' would drain the state treasury without producing real growth, and for good reason. Welfare schemes in the state suffered from the same problems afflicting such schemes all over India. Many subsidies were irrational and untargeted, so much of the benefit flowed to the undeserving. For instance, shopkeepers were given cheap rice for distribution to the poor by the Government, but they resold much of this in the open market, providing only a fraction to those with ration cards. And the ration cards themselves were distributed to all and sundry as part of a political patronage system—the supposed targeting of people below the poverty line was a farce. Free electricity encouraged farmers to pump excessive amounts of groundwater, leading to a fall in the water table. This in turn meant that drinking water wells went dry, shallow tube wells

went dry, and only the deep tube wells of wealthy farmers had enough water. The state is well-known for having a high farmer suicide rate, and many farmers who died had taken loans for tube wells that produced no water or ran dry after a short time. The National Rural Employment Guarantee Act (NREGA) was supposed to provide 100-days work per year to families below the poverty line. In fact corruption and bogus muster rolls diverted money from the intended beneficiaries in every state, including Andhra Pradesh.

Given these pitfalls, why was the actual outcome so favourable? Why did actual revenue spending grow at only half the rate of state GDP? Why was the actual outcome a smaller government relative to state GDP, and not larger?

The explanation is that Chief Minister Reddy's strategy was actually altogether more farsighted and nuanced than the bleeding-heart stance he adopted in election rallies. He portrayed himself as a friend of the poor and the farmer, determined to provide them more welfare and a better deal. But, unlike some other Indian socialists, he did not seek to soak the rich to help the poor. On the contrary, he understood that the creation of economic freedom and opportunity was crucial to spur economic activity to the point that it created a labour shortage, and thus helped raise real wages. So he set out to improve the business climate, and business flourished as never before in his five years in office. Further, he realised that to finance expanded rural investment and welfare on a sustainable basis, he needed a rapid growth of revenues, which in turn required a rapid growth of GDP. He did not see economic freedom as a concession to big business. Rather, he saw the creation of wealth as linked organically to creating the revenue base for expanded welfare. As a politician seeking votes, he saw the means to get more votes had to be public investment and business rules that promoted economic freedom and opportunity. The strategy worked: despite higher spending on subsidies and anti-poverty schemes, the ratio of revenue spending to GDP actually halved. And the Chief Minister himself won a rousing election victory in 2009.

Waste and corruption have long been endemic in government programmes, but Reddy set out to reduce these, and succeeded in significant measure. Andhra Pradesh was the first state to implement the social audit of the government's rural development schemes, such as the NREGA and mid-day meals scheme in schools. NGOs identified and trained villagers to check muster rolls, receipts and expenditure claims by contractors, and provide reports on malpractices and waste. This harnessed stakeholder participation in supervision. The social audit reports were pasted up in local government offices everywhere, and officials were obliged to respond to allegations of corruption and waste. Both these were

reduced because of greater transparency and accountability.⁵ This improvement in governance improved rural empowerment and helped boost rural development: the increase in irrigated area in the last five years owes something to reduced waste and corruption, which aided faster agricultural growth. Nevertheless corruption remained high in sectors like real estate and mining.

Rapid growth also reduced the relative share of wasteful subsidies. Free power for farmers is wasteful, but the share of agriculture in total power consumption keeps falling with faster growth in industry and services. The share of subsidies for canal water and fertilisers in GSDP also falls with rapid overall growth.

Reddy did not reform high absenteeism by teachers in government schools: he judged teachers' unions to be too powerful. But he encouraged the appointment of contract teachers to supplement unsackable, unaccountable permanent teachers. Research by Kartick Muralidharan of the University of San Diego showed that this led to a significant improvement in teaching outcomes: 'We present experimental evidence from a program that provided an extra contract teacher to 100 randomly-chosen government-run rural primary schools in the Indian state of Andhra Pradesh. At the end of two years, students in schools with an extra contract teacher performed significantly better than those in comparison schools by 0.15 and 0.13 standard deviations in math and language tests respectively. While all students gain from the program, the extra contract teacher was particularly beneficial for students in their first year of school and students in remote schools. Contract teachers were significantly less likely to be absent from school than civil service teachers (16 per cent *versus* 27 per cent). We also find using four different non-experimental estimation procedures that contract teachers are no less effective in improving student learning than regular teachers who are more qualified, better trained, and paid five times higher salaries.'⁶

Gross fixed capital formation in the public sector went up from Rs. 107.7 billion (\$2.16 billion) in 2000-01 to Rs. 289.1 billion (\$5.78 billion) in 2007-08. Net borrowings went up more slowly, from Rs. 75 billion (\$1.5 billion) in 2003-04 to Rs. 110.9 billion (\$2.22 billion) in 2008-09. Since spending on infrastructure and irrigation boosted agriculture and industry respectively, the increase in revenue helped reduce its fiscal deficit. All Indian states were in fiscal disarray after a huge rise in government mandated by India's statutory Pay Commission in 1998. This led to the

5. CGG (2009).

6. Abstract of a lecture by Kartick Muralidharan, University of San Diego, at the Center for Global Development, Washington DC, May 6, 2010.

enactment of a Fiscal Responsibility and Budget Management (FRBM) Act by New Delhi in 2003, which prescribed a steady fall in the fiscal deficits of both the Central and state governments to 3 per cent of GDP and GSDP by 2009. Andhra Pradesh was able to reduce its fiscal deficit to 2.68 per cent of GSDP in 2007-08, well below the prescribed ceiling of 3 per cent. But then followed the Great Recession of 2008-09, which led the Central government to relax the fiscal deficit ceiling of states to 3.5 per cent of GSDP. Andhra Pradesh registered an actual deficit of 3.34 per cent in 2008-09, within the ceiling.⁷

Higher public investment in infrastructure and irrigation attracted more than matching private investment. The share of the private sector in gross capital formation has gone up from 65.66 per cent in 2000-01 to 70.34 per cent in 2007-08. Public investment in many countries has crowded out private investment. In Andhra Pradesh, public investment stimulated private investment.

Indeed, the improved business climate has helped Andhra Pradesh to achieve high levels of productivity. Table 3.4 below gives the ratio of gross fixed capital formation to GDP, in the state and in India as a whole. The ratio has risen substantially in the state, from 20.50 per cent in 2000-01 to 27.69 per cent in 2007-08. Yet the ratio has risen much faster in India as a whole, from 22.73 per cent to 33.99 per cent. So, the gap in capital formation between the state and India has grown, from 2.23 per cent in 2000-01 to 6.30 per cent in 2007-08. Yet GDP growth has been faster in the state than in India. So, compared with the rest of India, Andhra Pradesh has succeeded in getting more out of less, an indicator of rising total factor productivity. This has been a welcome consequence of expanded economic freedom and opportunity.

TABLE 3.4

Gross Fixed Capital Formation as Per cent of GDP/GSDP

	Andhra Pradesh	All-India	Gap
2000-01	20.50	22.73	2.23
2001-02	20.54	23.62	3.08
2002-03	19.18	23.82	4.65
2003-04	19.92	24.97	5.03
2004-05	21.15	28.45	7.30
2005-06	25.12	31.02	5.90
2006-07	26.28	32.55	5.77
2007-08	27.69	33.99	6.30

Source: GoAP (2010).

7. GoAP (2010).

State-level taxes on income, capital transactions and commodities are low in most Indian states. This holds for Andhra Pradesh too. When taxes are low, even small changes can produce big changes in ratios. The ratio of state GDP to taxes on income has risen sharply from 69 to 85.7, meaning that the effective state income tax rate has fallen sharply (see Table 3.3). There is little change in the ratio of State GDP to other state taxes—on property, capital transactions and commodities.

The functioning of the legal system is important for a good business climate. India is notorious for legal sloth and slow enforcement of contracts. Police functioning is weak and corruption-ridden. However, in this area Andhra Pradesh has moved up from 7th to 3rd position among all states between 2005 and 2009, so it has improved substantially in relative terms (Table 3.1). The ratio of stolen property recovered to property stolen has improved from 0.41 to 0.49 (Table 3.3). This represents a significant improvement. Yet it pales in comparison with a recovery rate of over 99 per cent in Japan. The state has simply improved from extraordinarily weak to very weak.

Unfilled judicial positions have slowed the pace of justice in many states. In Andhra Pradesh, the ratio of total judicial posts to vacant posts has improved a lot, from 12.32 to 20.69 (Table 3.3). The share of economic offences in total offences has gone down a bit, and that suggests better protection of property and businesses. The ratio of cases where the police completed investigations in the same year is abysmally low, and so is the ratio of cases completed by courts in the same year. In these respects, there has been a marginal deterioration. There are now slightly fewer violent crimes as a proportion of total crimes, and to this extent there is an improved business climate.

However, these indicators fail completely to capture the huge problem posed in Andhra Pradesh by Maoist violence, or the way this has now been overcome. Back in the 1990s, even Members of Parliament and the State Assembly dared not visit their constituencies in the northern districts for fear of being killed by Maoists. Normal economic activity was not possible: the chaos and fear spread by insurrection hit employment and growth in the affected areas. When Rajasekhara Reddy became Chief Minister in 2004, he initially tried negotiating with the Maoists, but then decided that they were simply playing for time to regroup and strengthen their defenses. So he decided to crack down with greatly increased police force. Police recruitment was stepped up, police vehicles were greatly increased in number, and police training academies helped create anti-guerilla skills. New technology was introduced, providing police with high-tech telecommunications.

Girish Kumar, Director-General of Police, says categorically that the use of police force alone could never have succeeded. In effect, the state had vacated the Maoist-affected areas, and the Maoists ruled in this vacuum. So, the state needed to reoccupy that vacuum. This meant building a dense network of roads in the forests in the northern districts which gave Maoists sanctuary, and of making operational government services including police, courts, schools, health clinics, bus services, irrigation, and welfare schemes available in other parts of the state. This re-establishment of the state meant that local people gained confidence that the State had arrived and was here to stay. Only after that did the police find it possible to recruit locals who would penetrate the Maoists and yield highly local, highly actionable counter-intelligence. In earlier years, before this approach was adopted, the police simply could not obtain the highly local knowledge required to identify and strike at Maoist camps. Maoists have been driven out of the northern districts of the state, and have taken refuge across the border in Chhattisgarh state (from where they still hope to stage a comeback some day). The number of Maoist incidents fell steadily from 576 in 2005 to 62 in 2009, and the numbers killed by Maoists fell from 211 (including 25 policemen) in 2005 to just 17 deaths (and zero police deaths) in 2009.⁸

One of the lessons flowing from this is that all states hit by Maoist insurgency need to reoccupy areas vacated to the Maoists, and provide government services available in the rest of the state. In Andhra Pradesh, this approach is reflected in the acceleration of the state's growth, and more so in fast growth in the northern districts. Table 3.5 gives district-wise growth data, which have been calculated by the state government till 2006-07. Growth jumped to extremely high levels in some of these districts in 2005-06, partly because of recovery from the previous year's drought and partly because economic activity boomed with the reduction of Maoism. Growth continued to be strong in 2006-07 too.

TABLE 3.5

GDP Growth in Four Northern Maoist-Affected Districts

(Per cent/Year)

	<i>Adilabad</i>	<i>Karimnagar</i>	<i>Warangal</i>	<i>Khammam</i>	<i>State Average</i>
2005-06	19.27	32.65	18.93	9.26	10.24
2006-07	15.80	10.15	8.05	10.27	11.16

Source: Office of Economic Advisor to the Chief Minister, Andhra Pradesh.

8. Figures given in a private conversation by Girish Kumar, Director-General of Police, Andhra Pradesh.

Our indicators for labour regulation reveal considerable improvement. The state did not ease its heavy-handed regulations for unionised labour, which continue to be as onerous as in the rest of India. But between 2004 and 2009, the state doubled its minimum wage from Rs. 60 (\$1.20) to Rs. 120 (2.40) per day. The minimum wage was paid to workers under NREGA, the flagship rural employment scheme. Andhra Pradesh spent almost Rs. 60 billion (\$1.2 billion) on NREGA last year, second only to Rajasthan. Now, employment schemes of this sort carry a moral hazard: by paying high wages, they may divert workers from productive private sector work to less productive public sector schemes, thus reducing GDP. This happens especially in states where the legal minimum wage is much higher than the market wage (minimum wage laws are not enforced).

However, the outcome in agriculture and GDP growth in Andhra Pradesh, as shown in Table 3.3, was favourable. In 2005, the market wage for males was 87 per cent of the minimum wage. But in 2009 the male market wage was 103 per cent of the minimum wage, notwithstanding the fact that the minimum had been doubled. So, the minimum wage ceased to be distortionary for male workers. The legal minimum wage is equal for males and females, but the market has always discriminated against the weaker sex. For females, the ratio of the casual market wage to minimum wage improved from 67 per cent to 81 per cent. Clearly discrimination against females continue, but the market rate for females is now much closer to the minimum wage, and this implies less distortion in the labour market. The rise in wages was driven mainly by buoyant economic growth, especially in agriculture. Government employment programmes account for only a tiny fraction of total work in the state, and could not on their own have driven up real wages, though Chief Minister Reddy and other politicians claimed this was the case. The employment programmes performed the more modest task of supplementing the incomes of poor people in the agricultural off-season.

The state now has a significant labour shortage at harvest time, when labour demand spikes sharply. This is one reason why the male market wage has risen above the minimum wage rate. The state's northern districts used to have low wage rates since Maoism discouraged economic activity. But after being cleared of Maoist, economic activity has raised wage rates to levels that make ideology of Maoism unattractive: earlier, it thrived on high youth unemployment. Mahbubnagar district, a poor area well known for out-migration, is now getting in-migration. People from distant Bihar are migrating to Andhra Pradesh in search of higher wages, and are welcomed since they ease the labour shortage at harvest time.⁹

9. Private conversation with D.A. Somayajulu, Economic Advisor to the Chief Minister, Andhra Pradesh.

The state has excelled in getting a much higher share of resources from New Delhi. Cynics put this down to the close relationship between Chief Minister Reddy and Sonia Gandhi, head of the Congress Party. But there is much more to it. New Delhi has a series of what are called centrally sponsored schemes (CSSs), providing large funds for specific schemes provided the states enact sectoral reforms and produce matching funds. The aim of these CSSs is to induce the states to improve efficiency and economic freedom, reduce unwarranted taxation and improve business conditions in the states. D.A. Somayajulu, Economic Advisor to the Chief Minister, says, 'Andhra Pradesh has been first or second in utilisation of all the CSSs—for rural roads, irrigation, rural electrification, urban renewal, rural health, education, low-cost housing and rural employment. By grabbing a much bigger slice of Central Government funds, the state has managed to spend much more on infrastructure, irrigation and social sectors without additional taxation. However, this has not simply been political opportunism: it has also meant improved climate of economic freedom. To qualify for the funds, it has also adopted sectoral reforms (such as abolishing the urban land ceiling, reducing stamp duty on property sales, computerising property records and export-import procedures, using public-private partnerships in place of government monopolies, unbundling the State Electricity Board into separate entities for generation, transmission and distribution). These reforms have improved business conditions and economic freedom. Transmission and distribution losses (including electricity theft) are outrageously high in all Indian states, and at one time all-India losses averaged 40 per cent of electricity generated. Andhra Pradesh has cut its T&D losses to 18 per cent, not a low figure by international standards but nevertheless low among Indian states.¹⁰ This improvement in power availability has helped stoke industrial growth, although generation has been hit by shortages of natural gas.

The state provides free electricity to farmers, a retrograde practice which means other consumers have to subsidise electricity. Free power removes the incentive for farmers to use more energy-efficiency pump-sets, encourages inappropriate water-guzzling crops, and encourages over-pumping that can destroy aquifers. One saving grace is that industry and services are growing much faster than agriculture, and so free agricultural power as a proportion of total power supply is shrinking.

The infrastructure boom has changed the nature of government functioning and opened huge new areas to private participation. In earlier

10. Private conversation with D. Somayajulu. Economic Advisor to the Chief Minister, Andhra Pradesh.

times, various government departments monopolised the execution of public works. But Andhra Pradesh was among the early proponents of using private corporations to execute government contracts. So, when the Central government and all Indian states began expanding infrastructure at a furious rate in the 2000s, once-small infrastructure companies from the state seized the new opportunities to become some of the biggest companies in India—GVK Power and Infrastructure Ltd., GMR Group, Lanco Infratech Ltd., Nagarjuna Construction Company Ltd. and IVRCL Infrastructures & Projects Ltd. These companies quickly bagged a big share of mammoth projects put up for private-public participation (PPP), ranging from roads and power to water supply and airports. However, they are also tainted by allegations of crony capitalism.

The construction boom was by no means limited to Government projects. Private investment in construction and other areas of capital formation rose even faster. Housing in particular experienced a runaway boom. This had a knock-on effect on cement and steel production, which rose stridently in the state. So did the mining of iron ore, limestone and coal, the raw materials for cement and steel production.

Although the state has become an important centre for information technology—it ranks fourth among all Indian states in software exports—its growth has not been driven primarily by services. Companies like Microsoft, IBM, Intel, Genpact and Satyam all have operations in the state. However, while Andhra Pradesh has greatly outperformed all-India in agriculture and modestly outperformed it in industry, it has underperformed all-India in services. This is shown in Table 3.6. Agricultural growth in the state is very volatile because it has large semi-

TABLE 3.6*Sectoral Growth Rates at Constant (1999-2000) Prices: India vs. Andhra Pradesh**(Per cent/Year)*

	2004-05	2005-06	2006-07	2007-08	2008-09
All-India					
Agriculture	0.05	5.84	3.95	4.86	1.60
Industry	10.34	10.17	11.00	8.10	3.88
Services	9.13	10.59	11.23	10.85	9.67
Andhra Pradesh					
Agriculture	4.44	8.84	2.73	16.86	1.20
Industry	12.20	13.22	17.66	10.45	0.22
Services	8.27	9.53	12.29	8.01	9.58

Source: Office of the Economic Advisor to the Chief Minister, Andhra Pradesh.

arid areas dependent on the monsoon. But expanded irrigation helped give the state an average agricultural growth rate of 6.82 per cent per year in the period 2004-05 to 2008-09, more than double the all-India average of 3.26 per cent per year. The boom in farm incomes is very much a private sector success—farmers are entrepreneurs no less than corporations.

In some states the rural masses have not done too well after economic reforms began in 1991. However, the big jump in agricultural production in Andhra Pradesh means that GDP gains have been widely shared. Somayajulu says that the rural credit-deposit ratio of banks in the state is 120 per cent. In the vast majority of states, the ratio is well below 100 per cent. Bank policy is controlled by the Central bank, not the state government. Andhra Pradesh has expanded the economic opportunities available to farmers (through additional irrigation and rural infrastructure), who in turn have applied for and got far more credit than farmers in other states.

Our *Economic Freedom of the States of India 2011* index has attempted to follow the methodology used by the Fraser Institute in its annual *Economic Freedom of the World* reports. However, many key indicators used in *Freedom of the World* cannot be used by us since key policies (exchange rates, monetary policy fiscal policy, and foreign investment rules) are determined by national governments, not state governments. For this reason, it is useful to also collect other indicators of economic freedom. Data limitations are a hurdle, but the World Bank and International Finance Corporation (IFC) have been producing a *Doing Business* series of studies, which look at the relative ease of doing business in various countries and sub-national entities (like cities or state governments). These sub-national indicators are not available in a time series: we have only snapshots. Still, by looking at the relative rankings of different states and cities in the snapshots, we can get some idea of relative economic freedom in different Indian states.

At the national level, let it be said immediately, India is not a good place to do business. *Doing Business 2010* places India at a lowly 133rd out of 183 countries. India is in fact the worst place for business in South Asia, ranking well below Pakistan (85th), Sri Lanka (105th), Bangladesh (119th) and Nepal (123rd). China's rank is 89th.

An earlier study, *Doing Business 2007*, notes that the pace of reform has been slower in South Asia than in almost any other region (see Table 3.7).

TABLE 3.7

The Top 10 Global Reformers and South Asia

Economy	Starting a Business	Dealing with Licences	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Georgia	✓	✓	✓		✓			✓	✓	
Romania		✓	✓		✓	✓		✓		✓
Mexico	✓					✓				
China	✓				✓	✓	✓	✓		
Peru	✓				✓	✓			✓	x
France		✓			✓			✓	✓	✓
Croatia	✓			✓					✓	
Guatemala	✓	✓		✓						
Ghana				✓			✓	✓		
Tanzania	✓			✓		✓		✓		
South Asia Region										
Afghanistan										
Bangladesh										
Bhutan										
India	✓				✓	✓	✓	✓		
Maldives			x							
Nepal										
Pakistan							✓	✓		
Sri Lanka							x			

Note: Economies are ranked on the number and impact of reforms. First, *Doing Business* selects the economies that reformed in three or more of the *Doing Business* topics. Second, it ranks their economies on the improvement in rank in the ease of doing business from the previous year. The larger the improvement, the higher the ranking as a reformer. "X" indicates negative reform.

Source: *Doing Business* database.

The above table compares the top 10 reformers globally with those in India. Between January 2005 and April 2006, 213 business regulation reforms were introduced in 113 countries. These reforms simplified regulations, strengthened property rights, eased tax burdens, improved access to credit, and reduced the cost of exporting and importing. South Asia had less reform than any other region in the world. However, for what it was worth, India was the leading South Asian reformer in this period. It cut the time to start a business from 71 to 35 days. It reduced the corporate income tax rate from 36.59 per cent to 33.66 per cent. A Supreme Court decision made it easier for banks to seize the collateral of defaulting borrowers. New risk management procedures in customs lowered import clearance time by 2 days and exports by 9 days. Reforms in stock exchange rules toughened protection for investors.

While India may have reformed faster in this period, it remained a much worse place for doing business than its neighbours. It ranked well

below neighbouring South Asian countries on many counts. The details are given in Table 3.8 below.

Country Ranking (1-175)	Starting a Business	Dealing with Licences	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
53 Maldives	31	9	5	172	143	60	1	91	83	114
74 Pakistan	54	89	126	68	65	19	140	98	163	46
88 Bangladesh	68	67	75	167	48	15	72	134	174	93
89 Sri Lanka	44	71	98	125	101	60	157	99	90	59
100 Nepal	49	127	150	25	101	60	88	136	105	95
134 India	88	155	112	110	65	33	158	139	173	133
138 Bhutan	79	145	116	41	159	118	68	150	56	151
162 Afghanistan	17	-	74	169	174	173	30	152	165	151

Source: *Doing Business* database.

Doing Business in India 2009 was the first country-specific report in the series focussing on the sub-national level. It ranked 17 cities—all of which were state capitals—on seven indicators relating to ease of business and economic freedom. These are: (a) starting a business, (b) dealing with construction permits, (c) registering property, (d) exports and imports, (e) paying taxes, (f) enforcing contracts, and (g) closing a business.

The overall ranking placed Hyderabad 2nd out of 17 cities (see Table 3.9). Mumbai (formerly called Bombay), India's commercial capital, comes

1. Ludhiana, Punjab (easiest)	10. Mumbai, Maharashtra
2. Hyderabad, Andhra Pradesh	11. Indore, Madhya Pradesh
3. Bhubaneswar, Orissa	12. Noida, Uttar Pradesh
4. Gurgaon, Haryana	13. Bengaluru, Karnataka
5. Ahmedabad, Gujarat	14. Patna, Bihar
6. New Delhi, Delhi	15. Chennai, Tamil Nadu
7. Jaipur, Rajasthan	16. Kochi, Kerala
8. Guwahati, Assam	17. Kolkata, West Bengal
9. Ranchi, Jharkhand	

Note: The ease of doing business is calculated as the ranking on the simple average of city percentile rankings on each of the 7 topics covered. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

Source: *Doing Business* database.

only 10th in the list. India's information technology capital, Bengaluru (formerly called Bangalore) ranks even lower at 13th. The top city is Ludhiana, which is not among the major industrial or service hubs.

The first two indicators used by *Doing Business in India 2009* are issues in starting a business, and dealing with construction permits (see Table 3.10). Between 2007 and 2009 Hyderabad had local reforms in cutting the time to start a business and construction permits. It introduced a single window system for construction permits, speeding up approvals. It introduced single point access for paying value added tax (VAT) and registering professional tax.

Hyderabad ranked 4th in ease of starting a business as well as of giving construction permits. On an average it took 33 days to start a new business, and the associated cost was 41.6 per cent of per capita national income. This was very far behind the world leader, New Zealand, where starting a business takes just one day and costs just 0.4 per cent of per capita national income. In China, it takes 40 days, longer than the average of 34 days in the 17 Indian cities.

For construction permits, Hyderabad had 16 procedures and took on an average 80 days. This might not seem too fast. But the OECD average is as high as 162 days, so Hyderabad looks pretty good in comparison. Hyderabad and Bengaluru process applications within 30 days. The speed of clearance is offset by high costs, amounting to 1,314.2 per cent of per capita income in Hyderabad compared with just 204.4 per cent in Patna, Bihar. However, cities with low official payments often require high 'under-the-table' payment (or speed money, as it is called), so official data can be misleading. The computerisation of building permit process is most advanced in four cities—Hyderabad, Ahmedabad, Bengaluru and Chennai (formerly called Madras).

The third and fourth indicators relate to property registration and export-import speed. Hyderabad ranks a lowly 9th in property registration (see Table 3.11). It takes 37 days for property registration, less than in Kochi (27 days) but far faster than in Kolkata (107 days). The world leader is Saudi Arabia, where registration is free and takes just 2 days. The cost of registration in Hyderabad is 10.5 per cent, well below the 15.5 per cent in Kochi but very high by international standards.

In speed of clearing exports and imports, Hyderabad ranks only 132nd out of 17 cities. It takes 26 days to clear exports and 23 days to clear imports. This is grossly inefficient compared with Bhubaneswar which takes 17 days and 16 days respectively. The absolute cost to import one container is as high as \$1,084 in Hyderabad, against just \$480 in Kochi.

TABLE 3.10
Ease of Starting Businesses and Construction Permits

	Starting Business					Dealing with Construction Permits			
	Procedures (Number)	Time (Days)	Cost (% of GNI per Capita)	Paid-in Minimum Capital (% of GNI per Capita)	Ease of Starting a Business (Rank)	Procedures (Number)	Time (Days)	Cost (% of GNI per Capita)	Ease of Dealing with Construction Permits (Rank)
Ahmedabad (Gujarat)	13	35	46.3	0	14	15	144	746.1	4
Bengaluru (Karnataka)	13	40	64.7	0	17	15	97	1,158.7	1
Bhubaneswar (Orissa)	12	37	40.0	0	5	18	149	294.7	8
Chennai (Tamil Nadu)	13	34	40.3	0	10	15	143	831.7	3
Gurgaon (Haryana)	12	33	50.7	0	9	19	110	298.0	2
Guwahati (Assam)	13	38	40.5	0	13	16	179	353.1	12
Hyderabad (Andhra Pradesh)	12	33	41.6	0	4	16	80	1,314.2	4
Indore (Madhya Pradesh)	13	32	43.8	0	8	21	163	205.2	13
Jaipur (Rajasthan)	12	31	45.5	0	3	19	151	414.6	13
Kochi (Kerala)	13	41	47.2	0	16	22	224	233.8	15
Kolkata (West Bengal)	13	36	39.6	0	10	27	258	2,549.6	16
Ludhiana (Punjab)	12	33	48.0	0	7	17	143	622.9	7
Mumbai (Maharashtra)	13	30	70.9	0	12	37	200	2,717.7	17
New Delhi (Delhi)	11	32	41.1	0	1	19	144	256.0	4
Noida (Uttar Pradesh)	12	30	52.5	0	6	19	139	696.1	9
Patna (Bihar)	11	37	38.6	0	2	19	185	204.4	9
Ranchi (Jharkhand)	12	38	51.5	0	15	19	170	226.4	9

Note: GNI - Gross National Income.

Source: *Doing Business in India 2009*.

The fifth and sixth indicators used by *Doing Business in India 2009* are tax payments and contract enforcement. Hyderabad ranks low in tax payments (13th rank) but has number 1 rank in enforcing contracts (see Table 3.12).

A multiplicity of tax payments for various purposes, often required monthly, means that businesses in Indian cities pay taxes from 59 times a year in Ludhiana to 78 times in Hyderabad, which is the worst in this

TABLE 3.11

Property Registration and Ease of Export/Import

	Registering Property						Trading across Borders				
	Procedures (Number)	Time (Days)	Cost (% of Property Value)	Ease of Registering Property (Rank)	Documents for Export (Number)	Time for Export (Days)	Cost to Export (US\$ per Container)	Documents for Import (Number)	Time for Import (Days)	Cost to Import (US\$ per Container)	Ease of Trading (Rank)
Ahmedabad (Gujarat)	5	42	7.0	2	8	17	946	9	18	978	3
Bengaluru (Karnataka)	5	28	9.3	4	8	25	783	9	25	1,024	9
Bhubaneswar (Orissa)	6	126	7.5	17	8	17	834	9	16	833	1
Chennai (Tamil Nadu)	7	48	10.1	16	8	25	541	9	19	593	2
Gurgaon (Haryana)	4	26	7.7	1	8	25	1,077	9	28	1,184	17
Guwahati (Assam)	4	84	15.4	14	8	22	713	9	28	794	7
Hyderabad (Andhra Pradesh)	5	37	10.5	9	8	26	1,012	9	23	1,084	13
Indore (Madhya Pradesh)	5	39	10.7	10	8	21	912	9	35	981	11
Jaipur (Rajasthan)	5	24	9.9	3	8	22	1,289	9	22	1,384	14
Kochi (Kerala)	4	27	15.5	7	8	28	432	9	21	480	5
Kolkata (West Bengal)	5	107	7.9	13	8	20	644	9	31	710	6
Ludhiana (Punjab)	4	67	10.6	11	8	21	1,105	9	25	1,154	12
Mumbai (Maharashtra)	5	44	7.4	5	8	17	945	9	21	960	3
New Delhi (Delhi)	5	55	7.5	7	8	25	1,077	9	28	1,158	14
Noida (Uttar Pradesh)	5	37	25.4	12	8	25	1,077	9	27	1,187	16
Patna (Bihar)	5	87	12.4	15	8	29	941	9	32	985	10
Ranchi (Jharkhand)	5	56	5.4	6	8	21	678	9	36	717	8

Source: Doing Business in India 2009.

regard. The ratio of taxes to profit is similar in most of the 17 cities, ranging from 66.5 per cent to 70.3 per cent of profit. In time taken for payments, Hyderabad is second fastest at 236 hours, and it has the shortest ratio of hours per payment. So, while it demands the largest number of payments, it compensates to a fair extent with higher speed.

Enforcing contracts is an agonising and lengthy process. Hyderabad comes 4th in time taken to enforce a contract, with 770 days. This is slower than in Guwahati (600 days) but much faster than in Mumbai

TABLE 3.12

Contract Enforcement and Tax Payments

	Paying Taxes				Enforcing Contracts			
	Payments (Number)	Time (Hours)	Total Tax Rate (% Profit)	Ease of Closing a Business (Rank)	Procedures (Number)	Time (Days)	Cost (% of Debt)	Ease of Enforcing Contracts (Rank)
Ahmedabad (Gujarat)	75	261	69.0	11	46	1,295	30.9	16
Bengaluru (Karnataka)	59	291	70.3	12	46	1,058	32.5	15
Bhubaneswar (Orissa)	63	287	68.2	9	46	735	25.2	5
Chennai (Tamil Nadu)	68	292	70.0	17	46	877	25.3	7
Gurgaon (Haryana)	62	288	67.0	7	46	1,163	31.3	14
Guwahati (Assam)	62	278	67.4	6	46	600	22.5	2
Hyderabad (Andhra Pradesh)	78	236	69.4	13	46	770	17.8	1
Indore (Madhya Pradesh)	64	240	69.6	10	46	990	26.3	10
Jaipur (Rajasthan)	60	233	67.7	2	46	1,033	18.6	7
Kochi (Kerala)	76	263	69.1	14	46	705	30.2	6
Kolkata (West Bengal)	68	303	69.1	16	46	1,183	26.9	13
Ludhiana (Punjab)	59	255	67.6	1	46	862	20.0	4
Mumbai (Maharashtra)	59	271	68.5	4	46	1,420	39.6	17
New Delhi (Delhi)	60	277	68.5	7	46	900	33.8	12
Noida (Uttar Pradesh)	59	278	66.5	2	46	970	24.0	7
Patna (Bihar)	64	405	68.4	15	46	792	17.0	2
Ranchi (Jharkhand)	63	271	67.0	4	46	985	30.6	11

Source: *Doing Business in India 2009*.

(1,420 days). As regards the cost of enforcing a debt, Hyderabad comes 2nd among 17 cities, with its cost being 17.8 per cent of the debt. India has only 14 judges per million people compared with 51 in the UK, 75 in Canada and 107 in the USA. Unsurprisingly, India's best city in contract enforcement would rank 105 out of 181 countries on the *Doing Business* list.

The seventh indicator relates to closing a business (see Table 3.13 below). India's performance is truly ghastly on this score. Across its 17 cities, the average time for an insolvency case is 7.9 years, and the recovery

TABLE 3.13

Ease of Closing Businesses

	<i>Closing a Business</i>			<i>Ease of Closing a Business (Rank)</i>
	<i>Time (Years)</i>	<i>Cost (% of Estate)</i>	<i>Recovery Rate (Cents on the Dollar)</i>	
Ahmedabad (Gujarat)	6.8	10	15.0	4
Bengaluru (Karnataka)	7.3	10	14.1	8
Bhubaneswar (Orissa)	7.5	7	15.0	5
Chennai (Tamil Nadu)	7.5	10	13.8	10
Gurgaon (Haryana)	7	10	14.7	6
Guwahati (Assam)	8.3	7	13.5	12
Hyderabad (Andhra Pradesh)	7	7	15.9	1
Indore (Madhya Pradesh)	8	7	14.0	9
Jaipur (Rajasthan)	9.1	7	12.3	14
Kochi (Kerala)	7.5	10	13.8	10
Kolkata (West Bengal)	10.8	10	9.1	17
Ludhiana (Punjab)	7.3	7	15.3	2
Mumbai (Maharashtra)	7	9	15.1	3
New Delhi (Delhi)	7	10	14.7	6
Noida (Uttar Pradesh)	8.7	10	11.9	16
Patna (Bihar)	9.3	7	12.0	15
Ranchi (Jharkhand)	8.5	7	13.2	13

Source: *Doing Business in India 2009*.

rate of creditors is just 13.7 per cent. In the OECD the average time taken is 1.7 years, and creditors recover 68.6 per cent of their dues. Japan is the world's best performer with a 92.5 per cent recovery rate. The cost of an insolvency process is typically 8.6 per cent of the estate value in the 17 Indian cities, which is comparable with the OECD average of 8.4 per cent.

Of the 17 Indian cities, Hyderabad has the highest recovery rate of 15.9 per cent, while Kolkata comes last with 9.1 per cent. The process takes 7 years in Hyderabad and costs 7 per cent of the estate value, and on these two parameters too, Hyderabad is the best in India. Yet it has a very long way to go.

The seven parameters of *Doing Business in India 2009* provide evidence supporting some of the conclusions of our own study. Another piece of supporting evidence comes from a separate study on the *Competitiveness of Indian States*, devised by the Institute for Competitiveness. This broadly follows the approach of the *Global Competitiveness Report* of the World Economic Forum (WEF), which identifies hurdles in the way of freedom of business and economic growth,

and so has a significant overlap with the *Economic Freedom of the World* report. Andhra Pradesh has improved its competitiveness considerably between 2009 and 2010 (see Table 3.14). It ranked 6th out of 27 major states in 2009. In 2010 it stood 5th. This does not capture the full extent of improvement. In 2010, two small states, Delhi and Goa, had been added to the list, and were close to the top. Excluding these new entrants, the ranking of Andhra Pradesh shot up from 6th in 2009 to 3rd in 2010 in terms of factor conditions. It overtook Gujarat, Punjab and Karnataka, which had ranked above it the previous year.

TABLE 3.14

Economic Competitiveness

Rank 2010	Rank 2009	States	Compe. Score	GDP Per Capita (Rs.)#	Population (In '000s)	Factor Conditions		Demand Conditions		Strategic Context		Supporting Conditions	
						Score	Rank	Score	Rank	Score	Rank	Score	Rank
1	NR	Delhi	84.98	65,156*	16,760*	58.35	1	82.90	1	62.71	1	56.37	13
2	1	Maharashtra	59.53	38,785*	107,321*	54.99	2	66.18	2	53.10	4	65.56	3
3	NR	Goa	56.87	70,329*	1,568*	45.54	6	62.26	3	58.88	2	67.96	1
4	2	Tamil Nadu	56.35	34,417	66,386	48.60	4	59.32	9	56.40	3	66.17	2
5	6	Andhra Pradesh	53.92	30,452	82,858	50.64	3	57.01	13	49.41	7	60.30	8
6	3	Gujarat	53.45	37,954*	56,298*	43.39	9	61.79	5	51.50	5	62.57	5
7	4	Punjab	53.08	36,947	27,990	46.01	5	61.35	6	51.19	6	57.03	12
8	5	Karnataka	52.25	31,305	57,927	44.30	8	60.00	8	48.35	8	60.39	7
9	7	Haryana	51.28	46,077	24,425	42.24	13	61.01	7	47.10	9	59.12	9
10	8	Himachal Pradesh	49.70	36,166*	6,862*	42.65	12	56.46	15	42.25	12	61.06	6
11	10	Kerala	49.24	39,815	33,958	43.16	10	55.67	16	46.07	10	55.00	16
12	14	Uttarakhand	48.91	38,671	9,305**	42.83	11	58.20	11	43.15	11	53.67	19
13	9	Uttar Pradesh	48.47	14,083	1,92,325	41.76	14	62.13	4	39.80	17	51.81	24
14	11	Rajasthan	47.50	21,553	65,200	40.47	17	59.11	10	40.58	14	52.21	22
15	13	West Bengal	47.14	25,410*	85,768**	39.98	18	57.26	12	41.33	13	52.82	21
16	12	Madhya Pradesh	46.99	15,162*	68,266*	41.11	15	56.63	14	39.28	19	52.94	20
17	15	Orissa	44.98	19,591	40,024	40.58	16	50.48	20	38.94	20	51.83	23
18	17	Meghalaya	44.11	25,349	2,548	37.49	21	49.76	21	37.33	25	55.39	15
19	16	Assam	44.01	17,977	29,660	38.15	19	51.74	18	37.99	23	50.65	26
20	21	Sikkim	43.10	29,506	593*	45.07	7	31.86	28	31.62	29	65.19	4
21	18	Bihar	42.85	10,415	94,474	37.53	20	50.82	19	37.11	26	47.94	29
22	19	Jharkhand	42.47	17,956	30,438	33.03	29	52.43	17	40.25	15	48.77	28
23	20	Chhattisgarh	41.99	22,359	24,100	34.21	27	49.58	22	38.70	21	49.40	27
24	22	Arunachal Pradesh	40.49	25,110	1,206	36.79	22	32.09	25	39.83	16	58.13	10
25	24	Tripura	39.49	24,034*	3,474*	36.33	25	31.86	27	39.74	18	54.31	18
26	27	Jammu & Kashmir	39.03	20,604*	11,192*	36.36	23	33.33	23	38.57	22	51.29	25
27	23	Manipur	38.94	18,347	2,619*	34.51	26	32.00	26	37.01	27	57.27	11
28	25	Mizoram	38.28	23,174	1,077	36.35	24	30.92	29	33.37	28	55.79	14
29	26	Nagaland	38.23	18,490**	2,623**	33.51	28	32.16	24	37.39	24	54.90	17

Note: NR: Not ranked Population and GDP as on 31 March 2009; * As on 31 March 2008; ** As on 31 March 2007; and # At constant price (base 1999-2000).

Source: Centre for Monitoring Indian Economy (CMIE), Institute for Competitiveness.

Finally, a recent independent study on labour conditions—the *India Labour Report* (2009)—ranks Andhra Pradesh as best in India in 2009 in its total labour system (see Table 3.15). This constitutes a big improvement from the state’s 8th position in 1995 and 6th position in 2005, and the improvement since 2005 is especially notable. This study considers three parameters. The first is the demand for labour, measured in an employment index. The second is the supply of labour, measured by an index of employability. The third is the labour law environment, which includes the flexibility of regulations and their actual application. Labour regulations are restrictive everywhere but are not quite as oppressive in some states as others. Andhra Pradesh ranks 2nd in India in employment demand, a sign that a booming economy is creating a demand for jobs. The state comes 3rd in employability (labour supply), showing that its educational and skill-creating system is producing the sort of populace whom the market wants. And the state comes 2nd again in its labour law environment.¹¹ Conceptual objections to these measures have been mentioned by some analysts, but the overall conclusions of the study are plausible.¹²

Much has been written about India reaping a demographic dividend, because of the rapid expansion of the share of its workforce in total population. But in many states like Bihar and Uttar Pradesh, low literacy and poor skills mean there is a terrible mismatch between what the market wants and what it gets. Andhra Pradesh appears to have engineered the best balance of labour supply and demand among Indian states, along with some improvements in labour regulations and enforcement. Thus buttresses its claims to have improved economic freedom.

In sum, our study finds that Andhra Pradesh has been the Indian state that improved economic freedom most between 2005 and 2009. Its improvement was most marked in relation to business and labour regulation. Apart from looking at the standard indicators used in our annual studies, we have examined the state’s success in curbing the Maoist menace with very positive outcomes. We have also shown how the state’s reputation for focussing on freebies and subsidies to win elections is a misconception: revenue spending as a share of GSDP actually halved. The real secret of the state’s success was that it used public investment and the business climate to improve economic opportunities and freedom of choice, and this in turn yielded a revenue bonanza that helped expand welfare measures. Finally, we have found much supplementary evidence from other sources—the *Doing Business* series of the World Bank/IFC, the

11. Teamlease Indicus *India Labour Report* (2009). www.teamlease.com

12. Acharya (2010).

TABLE 3.15

Ranking of States by Labour Ecosystem

States	Labour Ecosystem Index Rank			Rank by Component Indices (2009)		
	2009	2005	1995	Employment (Demand)	Employability (Supply)	Labour Law
Andhra Pradesh	1	6	8	2	3	2
Karnataka	2	3	2	10	1	3
Maharashtra	3	5	4	13	7	1
Delhi	4	1	1	1	2	8
Gujarat	5	2	3	6	4	4
Kerala	6	11	9	5	6	10
Tamil Nadu	7	4	7	7	8	6
Haryana	8	12	11	12	12	7
Rajasthan	9	9	13	3	13	11
Goa	10	7	5	14	5	9
Punjab	11	8	12	9	11	12
Himachal Pradesh	12	10	14	4	16	13
Madhya Pradesh	13	13	6	16	17	5
Orissa	14	14	10	15	15	14
West Bengal	15	15	15	8	10	19
Uttar Pradesh	16	17	17	18	14	15
Bihar	17	18	19	17	9	17
Assam	18	16	16	11	18	16
Jammu & Kashmir	19	19	18	19	19	18

Source: India Labour Report (2009). www.teamlease.com

Competitiveness of Indian States series, and the *India Labour Report* (2009)—to buttress our own positive conclusions about the performance of the state. However, several caveats are in order too. India ranks a lowly 133rd out of 183 countries in *Doing Business 2010*, and Hyderabad does badly even within this low-grade Indian subset on some indicators. Clearly all Indian states—including Andhra Pradesh—are, by global standards, not good places to do business. The welfare schemes of the state lead to many perverse effects (like free power; encouraging over-pumping of scarce groundwater), and are also dogged by corruption and waste. Its legal processes remain very weak despite some recent improvement. So, while Andhra Pradesh has moved up the Indian rankings in the last four years, it still has some way to go.