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India: Globalisation and Growth

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Abstract

Post-reforms, in the 1990s, India chose greater integration with the global economy as a part of its development strategy. Even though integration deepened, rates of growth of per-capita-income and investment levels did not change very much. But in the first decade of the 21st century both the pace and character of this integration changed. The quickening pace of integration also saw sharp increases in investment and savings levels and in per-capita-income growth alongside low current account deficits and high capital flows. Low current account deficits were predicated upon rapidly growing export of goods and services and inflows of remittances from migrant labour. Goods exports saw an improvement in technology content and a switch of geographies towards Asia. In the last three decades world trade relative to GDP has seen substantial increases and as the centre of gravity of the world's economic and trading activity has begun shifting back to Asia, India's integration with Asia has deepened. This integration however also saw a structural increase in the import intensity of the economy as a result of dependence on hi-tech imports. The global economic slowdown as result of the financial crisis of 2008 uncovered these chinks as the deceleration of growth of the Indian economy was accompanied by a sharp widening in its current account deficit.

If, growth performance of the economy has improved, there have been other less beneficial outcomes as well. First, it has had little impact on the Indian economy's anaemic employment performance. Second, the most integrated sector in the economy – manufacturing – has only seen a marginal increase in its share of output and actually a small decline in its share of employment. Global integration therefore has been the driver of growth but distorted structural change. Third, globalization has worsened the mismatch between employment structure and output structure by having catalyzed a multi-dimensional agrarian crisis, as a result of which agricultural and non-agricultural productivities have diverged instead of converging. Fourth, the slow growth of employment opportunity both inside and outside agriculture is not only a driver of inequality but also the cause of land-hunger, leading to widespread resistance from below to the acquisition of land and other natural resources, an unintended consequence of globalization. This unintended consequence however carries with it the potential of shaping India's future growth trajectory

Keywords: India; Asia; capitalism; growth; structural change; globalisation; liberalization; financial liberalization; exports; imports; investment; saving; current-account; capital-account; agriculture; industry; services; employment; agrarian-crisis; accumulation-by-dispossession; accumulation without dispossession; inequality; peasantry; proletarianisation; land-hunger; contestation; political economy;

JEL Classification: O11, O43, O53, P16, P45, P48

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This paper explores how globalisation has shaped India's growth path and economic trajectory over the last three decades. The paper is divided into seven sections. The first section situates India's growth within the overall context of the rise of Asia in the global economy and is further sub-divided in two: Section Ia looks at the rise of Asia in the global economy; Section Ib looks at changes in production technology and global supply chains that have overlapped with the rise of Asia. Section II looks at India's integration into the world economy from the standpoint of exports of goods and services and is sub-divided in three: Section IIa discusses goods exports from India; Section IIb the export of commercial services; and Section IIc analyses the changing technology structure of goods exports as well new geographies. Section III analyses how this pattern of integration, in terms of both international trade and capital flows, has shaped India's growth trajectory and is broken up into two sub-sections: Section IIIa discusses the evolution of the current account of the Balance of Payments (BOP) and its relationship with the growth trajectory; and Section IIIb analyses India's integration into international capital markets and related capital account dynamics of the BOP. Section IV looks at growth outcomes in terms of per capita incomes and structural change. Section V discusses outcomes in terms employment and quality of life. Section VI analyses this pattern of growth and suggests that it has been predicated upon an agrarian crisis and accumulation by dispossession. Finally Section VII closes with a brief discussion of the possibility of alternate growth paths.

I. Situating India's recent¹ integration into the world economy

Ia: The Rise of Asia

According to Angus Maddison (2007), one of the world's leading economic historians, even as late as 1820, Asia accounted for more than 50% of global GDP. By 1952 however, after two centuries of decline, Asia share of global GDP had shrunk to a mere 15%. From that low, Asia - powered first Japan, then by South Korea, Taiwan, Hong Kong (before she was returned to China in 1997) and Singapore, more recently China and latterly, India – has slowly but steadily grown in importance for the global economy. In 2010, according to IMF's World Economic Outlook database, Asia accounted for 27% of global GDP at current prices and market exchange rates². According to an estimate of a leading multilateral development bank, if current trends continue, this measure will rise to 51% in 2050 (ADB 2011).

Of course all forecasts, particularly those of economists, should be taken with more than a pinch of salt and current trends most probably will not continue³. But in the last half-a-century, Asia has survived repeated economic buffeting – the twin oil-shocks of the 1970s, the east and south-east Asian financial crisis of 1997, the global financial crisis of 2008 and the ensuing Great Recession and euro crisis – and returned to growth. Therefore if history is any guide then both the resilience and the momentum suggest that the rise of Asia may yet be the narrative of the global economy in the

¹ There is a prior history of integration into the global economy during British colonial rule one outcome of which was de-industrialisation and the drain of wealth. See Bagchi (1976) and (2005) and Sen (1992). For a different view of colonial rule and global integration of that period see essays in Kumar and Desai (1983). See however Bhattacharya (2005).

² This has been accompanied by an increase in developing Asia's share in global manufacturing value added (see Felipe (2010)).

³ The same report that has forecast a 51% share of global GDP for Asia in 2050 has suggested that another outcome is also possible: that Asia falls into what is called a middle-income trap and slows down considerably. As a result her 2050 share of global GDP may be no more than 32%.

21st century. And what happens to China and India will have a determining influence on how that narrative unfolds. This is not to argue that BRIC⁴ (Brazil, Russia, India, and China) is not a worthwhile category to understand the future evolution of the global economy. After all each of these economies has seen their share of the global GDP rise in the last two decades. It is however to argue that in being geographically synthetic it misses out on the importance of the spillover-related⁵ regional dimension – both in terms of opportunities and constraints - in the growth of the global economy (see e.g., World Bank (2009)).

Asia's continued rise from the middle of the 20th century has many claimants but perhaps two generalisations can safely be made: first, that on the basis of the Asian experience, a neoliberal growth strategy that privileges markets as allocators of resources and capital is not a necessary condition for successful economic growth and development⁶; and second, integrating into global markets for goods and services⁷ has been an important ingredient in regional Asian growth strategies. If it is important to recognise the importance of global trade integration, then equally it has to be kept in mind as well that access to export markets is neither automatic nor costless. It is negotiated between countries and country groupings and shaped among other things by geopolitics and national interests. Therefore, for example, with the aim of containing the former Soviet Union, USA, the hegemonic power after the World War II, provided preferential market access to Asian allies⁸, first to East Asian economies and then later to China (see e.g., Morishima (1982), Ozawa (2003), Arrighi (2007) and Chandra (2012)).

The increase in Asia's share in the global economy has not been an even affair. Over the nearly 30-year period, from 1952-1980, Asia's share of global GDP measured in current dollars increased a mere 3% - from 15 to 18⁹. Over the next 30-year period, from 1980-2010, it increased by 9% - from 18 to 27. Indeed as the World Development Report 2009 notes, since 1980 Asia is the only region

⁴ BRIC is a category coined in 2003 by the investment bank Goldman Sachs to denote a set of economies that were going to be the future drivers of the global economy. As a result, equity markets in these economies were expected to out-perform those of developed countries and seen therefore as attractive investment opportunities. See Wilson and Purushothaman (2003). Since then some analysts have added on South Africa to coin the term BRICS.

⁵ Simply put, when growth prospects of one region/country materially influence that of surrounding/nearby regions/countries. In referencing the WDR 2009 for the spillover-related regional dimension of growth I am not endorsing its main underlying theme in development transitions - that development is a linear process of growth as a result of rural to urban migration. Indeed the quite the opposite. I believe that "geographical interconnectedness" – in the words of Hart (2010b) - and historical specificities of the growth processes militate against any linear narrative but not against generalization. See Hart (2010b) for a critique of WDR 2009.

⁶ See Stiglitz (2002), Rodrik and Subramaniam (2004) and Chandra (2012) for discussions on the how China and India have not followed the Washington Consensus policies, the standard neoliberal package for growth. For discussions on Japan, South Korea and Taiwan see Dore (1986), Amsden (1989) and Wade (2003) respectively. Also see Chang (2002).

⁷ China and India have been more skeptical than others of the benefits of financial market integration. Both still continue to be only partially integrated into global financial markets. For a detailed discussion on India see section IIIb below. Also see Galbraith (2004), Ghosh and Chandrasekhar (2009: 726).

⁸ The fact that some countries gained preferential market access meant that others were restricted. In 1960, India was the world's second largest exporter of textiles with a market share of almost 9% (Nayyar (1976: Table 4.3)). As Reinert (2000) notes, in 1962, the USA, to protect its domestic textile industry and ensure access of East Asian allies to the USA's textile market, imposed country-level quotas through the Long Term Agreement (LTA). The LTA effectively froze India's share of the global textile market (Chandra (2012)). With the inclusion of man-made fibres into the agreement, in 1974 the LTA morphed into the Multi Fibre Agreement (MFA) and governed global textile and garment trade until it was dismantled in 2005.

⁹ Data source: IMF World Economic Outlook Database

that has seen a “noticeable” increase in its share of global GDP (p. 107). Increase in Asia’s share of global GDP has been accompanied by the rising importance of trade in the world economy.

Over the last 60 years, the share of world trade in global GDP has increased three-fold – rising from less than 10% in the early 1950s to more than 25% currently. The annual average value of total world export of goods over the period 1948-50 was \$60 billion¹⁰. It had increased almost 28 fold by 1978-80 - the average for the three-year period was \$1.7 trillion. By 2009-11 it had increased another 9 fold - the average for the period stood at \$15.3 trillion. The growth in services exports has been no less remarkable. Average annual international export of services for the period 1980-82 was \$370 billion¹¹. By 2009-11, the average annual export had grown to \$3.8 trillion, i.e., more than 10 times. All this to say that both in relative and absolute terms, world trade in goods and services has grown very rapidly over the last 60 years.

As Tables 1 and 2 detail, in this fast expanding world trade, Asia’s share has risen in both goods and services. Asia’s average share in world exports of goods for the period 1948-54 was a little less than 15%. By the period 2005-11 it doubled to just under 31% (see Table 1). The increase in Asia’s share however has not been uniform. In the 1950s and 1960s, Asia’s exports grew slower than world exports, as a result of which, the export share saw a small decline for the period 1955-74. From the late 1960s however Asia’s exports have grown consistently faster than world exports, underpinning its increase in share. It is worth noting that Europe’s export share in goods increased from 38 to 47% by 1974-79 after which it declined, reaching 40% by 2005-11. Though in the 1980s and the 1990s N. America’s export share saw a small improvement, over the longer period it declined significantly - from 25% (1948-54) to 13% (2005-11) – and is currently much lower than Asia’s. Even though at 40% (2005-11) Europe remains the world largest exporter, its share is clearly on a declining trend¹². To put it differently, over the period 2005-11 Asian exports clearly outperformed both those of Europe and North America¹³. Asia’s performance from 2005-11 has also come alongside improved performances from Africa and S. America both of which, for the first time since 1950, saw an increase in their share of world exports of goods.

	Asia ^a	Japan	Africa	Europe	S. America	N. America ^b
1948-54 ¹⁴	14.7	1.2	6.9	38.0	10.0	24.9
1955-74	13.4	4.4	5.5	47.2	6.2	20.1
1975-79	15.4	6.8	5.0	47.1	4.7	15.7
1980-95	22.7	8.6	3.5	45.3	3.6	16.6
1996-2004	27.6	6.9	2.3	43.8	3.0	17.4
2005-11	30.7	5.0	3.2	39.7	3.8	13.1

¹⁰ This calculation and those in rest of the paragraph are based on data from WTO statistical database on international trade.

¹¹ For trade in commercial services the WTO provides data only from 1980.

¹² Even before the current euro-crisis, Europe’s share in world exports was declining. Between 2003 and 2008 it fell from 44.5 to 40%. Over that period Asia’s share increased from 28 to 29%.

¹³ The relative decline of North America is not to take away from the continuing importance of USA. In 2010 the USA was the world’s largest trader with total trade worth \$3.25 trillion (\$1.28 trillion of exports and \$1.98 trillion of imports). USA was followed by China and Germany in rankings (see WTO (2011: Chapter 1)). Therefore we are not arguing that Asia has decoupled – i.e., has become an independent driver of the global economy – from developed country growth. See Ghosh and Chandrasekhar (2009).

¹⁴ The periodization is uneven because we have used peak-to-peak growth rates as the metric for dividing the long period rather than uniform periods, e.g., decadal, that impose arbitrary cut-off points in terms of time, obscuring underlying trends.

Source: Calculations on the basis of data from WTO statistical database on international trade
 Note: a – Asia includes Australia and N. Zealand and does not include the Middle East; b – N. America comprises Bermuda, Canada, Mexico and USA; c – Share of Commonwealth of Independent States (CIS) not included.

	Asia ^a	Japan	Africa	Europe	S. America	N. America ^c
1980-90 ¹⁵	16.5	5.5	2.8		3.3	18.5
1991-95	19.5	5.4	2.3	50.5 ^b	2.9	20.5
1996-2004	20.6	4.5	2.2	50.3	2.9	20.4
2005-11	23.7	3.8	2.2	50.2	2.9	16.3

Source: Same as Table 1

Note: a – Asia includes Australia and N. Zealand and does not include the Middle East; b- data for Europe begins 1993; c – N. America comprises Bermuda, Canada, Mexico and USA; d – Share of Commonwealth of Independent States (CIS) not included.

Asia's performance in commercial services exports has been noteworthy as well. Between 1980-90 and 2005-11 Asia saw its average share in world commercial services exports increase by 7% - from 16.5 to 23.7. Even though the increase in share has been consistent, Asia is nowhere near as important a player in the export of commercial services as she is in goods. Europe is the world's largest exporter of commercial services and shows few signs of losing its competitiveness – from 1993-95 to 2005-11 its average market share of more than 50% has remained practically unchanged¹⁶. N. America on the other hand which saw its market share increase until 1996-2004 – reaching 20.4% - subsequently has seen a sharp decline. Consequently, N. America's market share for the period 2005-11 fell to 16.3%, significantly lower than Asia's 23.7%. However Europe and North America still account for almost 2/3 of world exports of commercial services.

Ib: Changing production technology, global supply chains and international trade

The growth of world trade as well as Asia's increasing share in that has been framed by an important change in production technology. As Chandler (1977) pointed out, the rise of the modern corporation and economies of scale driven mass-production was tied to vertically integrated production structures. Production itself tended to be spatially concentrated with finished products being transported/exported to other regional/global markets. Corporations integrated the whole gamut of operations right from defining a product to selling it to the customer¹⁷. Vertical integration alongside economies of scale meant that these corporations had high productivity and low costs and were therefore highly profitable. Large vertically integrated corporations however also meant that barriers to entry were high and firms remained dominant for very long periods of time – GM, Ford, Dupont are all corporations in that mould (Berger (2005)).

But as Berger (2005) also details, the last 2-3 decades has seen a reversal of the process of vertical integration as a result of the IT revolution and the related rise of digital technologies, leading to

¹⁵ In WTO's statistical database commercial services data is available from 1980. Please see fn 14 about periodization.

¹⁶ It is worth pointing out that between 2004 and 2008 commercial service exports from Europe grew somewhat slower than world commercial service exports, as a result her share declined slightly from 52.8 to 51.2%. After that it has declined far more sharply and in 2011 it fell to 47.3% but this in all likelihood is due to ongoing euro-crisis rather than a lack of competitiveness.

¹⁷ In production technology jargon this is called "integral and closed architecture" where different parts of a production process fit together in unique ways to produce a unique product.

modularisation and fragmentation of production technology. This process of “ fragmentation of production has facilitated a division of labour between lead brands, contract manufacturers, design firms, and component and product companies – each of which carry out only a limited part of operations on a product” (Berger (2005: p52)) giving rise to what she calls the “Lego-model” of production. The “Lego-model” gives managers and entrepreneurs much greater flexibility in combining best-available resources, skills and production capabilities from different regions and countries to produce a good or deliver a service. As a result production is geographically dispersed in global supply chains and productivity is driven by specialisation and low cost by a combination of scale and competition. One direct consequence of this is the rise to dominance of outsourcing and/off-shoring¹⁸ as a means of organising production. Second, fragmentation of production means that barriers to entry come down allowing new firms, sometimes doing new things, to enter global production and trade¹⁹.

An iconic example of this is Apple, whose products are manufactured on contract by other firms, mostly outside the USA, while product-design and marketing is retained in-house. For Apple’s Ipod, the hard-drive is outsourced (and off-shored) to Toshiba, a Japanese firm and one of the processor chips to Broadcom, a US firm. Toshiba in turn offshores it to Philippines and China whereas Broadcom both outsources and offshores it to Taiwan. Finally, Apple outsources and off-shores the assembly of the Ipod to Foxconn in China. Varian (2007) has therefore argued that “there is no simple answer to who makes the Ipod or where it is made.”²⁰ Whether or not we are able to correctly answer that question, one thing is clear – global supply chains of the sort used by Apple increase world trade as a proportion of world GDP. To continue the Apple example, the hard-disk is exported from Philippines and the processor-chip from Taiwan for assembly in China. Once assembled in China the Ipod is exported to the USA for sale in the US market. If Apple had made everything itself in the USA as the older vertically integrated firms used to do, exports and imports of each of these countries, other things remaining the same, would have been lower. Berger (2005) suggests that the rise of modularisation of production happens around the 1980s roughly the time when Asia’s share in world goods exports begins to rise (see Table 1).

In sum then, the importance of international trade in the world economy has steadily risen since the end of WWII. Over the last three decades its rising importance is explained, in part, by a change in production technology and the establishment of global supply chains. As the global economy re-balances and evolves, Asia has been at the heart of the process with an increase in her share of global economy as well as in that of world export of goods and services. India’s integration into the global economy, to which we now turn, is a part of this unfolding dynamic.

II. India in the world economy

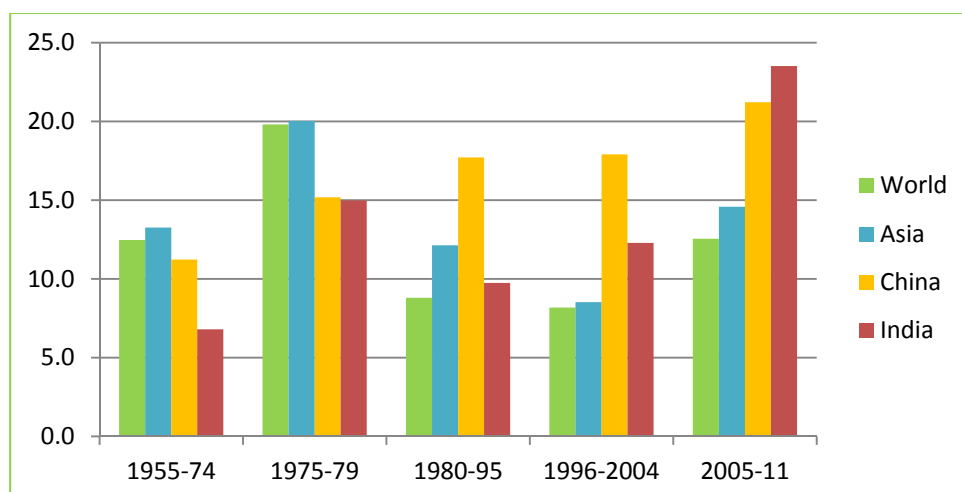
Ila: Goods Exports

¹⁸ Outsourcing happens when one company sub-contracts part of production process to another company. Off-shoring happens when part of a production process is moved beyond national boundaries – e.g., when a Ford-affiliate company assembles cars in Mexico. Of course outsourcing and off-shoring can be combined – e.g., when Apple sub-contracts the assembly of the Ipod to Foxconn, a firm in China.

¹⁹ For example, SMIC (IC-chips), Foxconn (assembly) and Lenovo (computers) from China; Infosys, TCS and Wipro (software services) from India; Acer (computers) and TSMC (IC-chips) from Taiwan; Apple (electronics) from USA; Nokia (mobile devices) from Iceland; RIM (mobile devices) from Canada; and Samsung (multi-product) from S.Korea.

²⁰ However as Varian (2007) also notes it is clear which firm contributes the most value and therefore makes the most profit from an Ipod – Apple.

Fig 1: Average rates of growth of goods exports



Source: Same as Table 1

	Brazil	Canada	China	Japan	Korea	India
1948-54	1.9	5.1	0.9	1.2	0.0	1.7
1955-74	1.0	4.8	1.4	4.4	0.2	0.9
1975-79	1.0	3.8	0.8	6.8	0.8	0.5
1980-95	1.1	3.9	1.7	8.6	1.7	0.5
1996-2004	0.9	3.9	4.2	6.9	2.5	0.7
2005-11	1.2	2.9	9.0	5.0	2.8	1.2

Source: Same as Table 1

As we noted earlier, from the mid-1970s, Asia's share in world goods exports has consistently increased, underpinned by the fact that growth rates of goods exports from Asia is consistently higher than that of world goods exports. We also know that over the period 2005-11, Asia outperformed both Europe and N. America. How has India fared in terms of goods exports over this period? First, up to the 1980s, India's exports grew slower than world trade and growth was uneven - the average rate of growth for the period 1955-74 was 6.8% when world exports grew at 12.5%²¹; for 1975-79 India's average export growth increased 15% and then fell back to 9.7% for the period 1980-95. From the mid-nineties however, average rates of export growth have successively risen - 12.3% for the 1996-2004 and 23.5% for the period 2005-11. China's average growth in goods exports over the same periods has been far more consistent and impressive - 11.2%, 15.2%, 17.7%, 17.9% and 21.2%. As Fig.1 indicates there are three other trends worth noting: from the period 1980-95 onwards, China has grown faster than Asia; from the period 1996-2004 onwards, India has grown faster than Asia; finally for the period 2005-11, India grew faster than China.

The annual average value of India's goods exports over the period 1948-50 was \$1.2 billion. It increased more than 6 fold by 1978-80 - the average for the three-year period was \$7.7 billion.

²¹ See Nayyar (1976) for an analysis of slow growth of India's exports and her declining share of world exports over this period. Briefly, this had to do with poor commodity composition (in the language of this paper high proportion of resource-based exports) and domestic factors that affected export competitiveness. But as Chandra (2012) points out some part of export performance is also influenced by the geopolitics of market access.

It will be recalled that world export of goods increased almost 28 fold over the same period. By 2009-11 India's goods exports had increased another 30 fold - the average for the period was \$227 billion. Over the same period, world export of goods increased only 9 fold. As a result, India's share in world goods exports first declines – from an average of 1.7% for the period 1948-54 to 0.5 for the period 1975-79(see Table 3). The average stays the same for the period 1980-95 and then consistently rises to reach 1.2% for the period 2005-11. Indeed, for the period 2009-11 it stood at 1.46%.

For China on the other hand the increase in share has been much sharper – from 0.8% of world goods exports for the period 1975-79 to 9% for the period 2005-11. It is worth noting that over the periods in which China, India and S. Korea's shares in world goods increase, Canada and Japan's share decline and Brazil's is stagnant (see Table 3), indicating the emergence of new drivers of world goods trade²². Finally we had noted earlier that Asia's share in world trade in goods had risen consistently since the 1980s. India's share in Asia's goods exports follows the pattern in global goods trade but with the recovery a little later – the average share falls from 12.0% (1948-54) to 2.2% (1980-95) and then recovers to 4% (2005-11). The 2009-11 average stood at 7.3%.

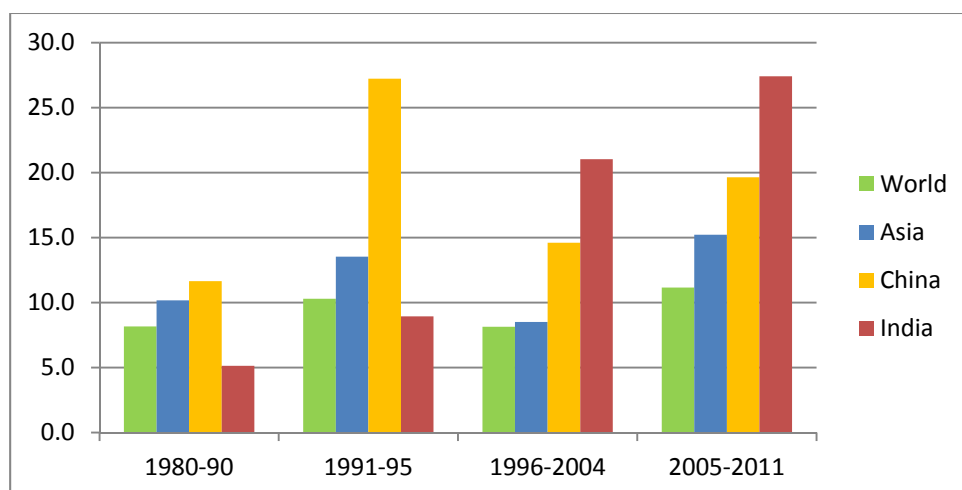
IIb: Commercial Services

Even though goods exports from India outpaced world exports by the 1980s (see Fig1), for commercial services it was a later phenomenon. Whereas world exports of commercial services grew at an average rate of 8.3% over the period 1980-95, India's grew substantially slower at 6.2%. And as Fig2 indicates, India also grew slower than Asian and Chinese services exports. Finally, it will be recalled that over the same period, India's goods exports grew at an average rate of 9.7%, i.e. faster than services. Therefore in the 1980s, India's integration into the global economy was driven by goods rather than services.

From the mid-1990s onwards this changes quite dramatically. From an average of 6.2% in 1980-95, it accelerates to an average of 21% for the period 1996-2004 and further to 27% for the period 2005-11. There are two noteworthy points about this acceleration in services exports: first, that it grows faster than goods exports over both these periods; second, as Fig2 indicates, it grew substantially faster than World, Asian and Chinese exports of commercial services. It grew more than 2.5 faster than world services exports between 1996-2004 and almost 2.5 times between 2005-11. Similarly in comparison with Asian exports, between 1996-2004 it grew 2.5 faster and for 2005-11 almost twice as fast. Even though the gap with Chinese service exports growth was not quite as much, it was substantial. Therefore in the period 1996-2011, growth in services exports outperformed other comparators and India's integration into the world economy was driven by services rather than goods, despite the fact that as we noted earlier goods exports expanded very rapidly.

²² It is also worth pointing out that over the period 2005-11 India overtook Malaysia and Thailand in terms of share of world exports. Their average 2009-11 shares were 1.27 and 1.25% respectively as against 1.46% for India. Singapore continued to have a share that was rising and higher than India but lower than S. Korea's. That India's share was higher than some of her S.E. Asian comparators in 2005-11 and its rising weight in Asia over this period contrasts with the 1980s when, as Lall (1999: p1770) observed, even though growth of India's goods exports outpaced that of the world, she grew slower than the emerging economies of S.E. and East Asia.

Fig 2: Average rates of growth of services exports



Source: same as Table 1

	Brazil	Canada	China	Japan	Korea	India
1980-90	0.5	2.4	0.7	5.5	1.5	0.7
1991-95	0.4	2.2	1.2	5.4	1.5	0.6
1996-2004	0.5	2.4	2.1	4.5	1.9	1.1
2005-2011	0.7	1.9	3.8	3.8	2.1	2.8

Source: Same as Table 1

The annual average value of India’s services exports over the period 1980-82 was \$2.8 billion. It increased a little more than 2 fold by 1993-95 - the average for the three–year period was \$5.9 billion. The world export of services increased almost 3-fold over the same period. By 2009-11 India’s services exports had increased another 20 fold - the average for the period was \$121 billion. Over the same period, world export of services increased less than 4-fold. As a result, India’s share in world services exports first declines – from an average of 0.7% for the period 1980-90 to 0.6 for the period 1991-95 (see Table 4) and then consistently rises to reach 2.8% for the period 2005-11. Indeed, for the period 2009-11 it stood at 3.2%.

China too sees an increase in her share of the world services exports – 0.7 to 3.8 – but it is nowhere as sharp as the increase in her share of goods export market. Interestingly enough both Canada and Japan see a consistent decline in their share of world services exports and for the period 2005-11, India’s share is significantly higher than Canada’s. Finally, India’s share of Asia’s services exports rises from 4.3% (1982-90) to 11.6% (2005-11).

Putting goods and services trade together, India’s world trade averaged \$11.5 billion over 1980-82. By 1993-95, this had risen to \$31.7 billion an increase of 2.75 times. Over that period overall world trade expanded a little more than 2.3 times. By 2009-11 the average value of India’s exports was \$348.5 billion – an almost 11-fold increase when over that same period overall world trade increased less than 4-fold. As a result India’s share in world exports has increased from an average of 0.53 (1980-95) to 0.76 (1996-2004) and 1.53% (2005-11). The average for the period 2009-11 was 1.8%.

IIc: Changing technology structure and geography of goods exports

It is not just the fact of export growth that is of importance but its quality as well. As Lall (1999: p1773) notes, “export structure matters, and some (technologically advanced) structures are more conducive to export growth”. In other words for countries seeking to profitably integrate into the global economy it is essential to move up the technology ladder from resource-based (RB) and/or low-technology to medium- (MT) and high-technology (HT)²³. As Table 5 indicates, in terms of technology structure, India’s export performance can be broken up into 3 phases – the late 1980s, the 1990s and the first decade of the 21st century - and changes in technology structures have been different in each. As we noted earlier, in the 1980s, India’s goods export grew faster than that of the world. Even though in this phase export growth was broad based with LT, MT and HT all gaining in share and the expense of RB, change in shares was small. In addition it is also worth noting that the share of high-technology goods in the export basket was really small and the little change that did happen was shared between low- and medium-technology exports. In the 1990s, when Indian exports grew faster than both world and Asian exports, technology structure changed very little. Therefore even though export growth accelerated, the technology structure of remained static between 1985 and 2000 – the share of RB and LT exports taken together changed very little, accounting for between 83-86% of the total (also see Lall (1999)).

The first decade of the 21st century however, when goods export growth accelerated even further, saw the beginnings of the diversification of the technology structure of exports – in 2008 MT and HT goods accounted for 25% of total exports an increase of more than 7% from 2000. The decline of more than 7% in RB+LT goods has come however with very divergent trends – a decline of almost 20% in LT goods alongside an increase of more than 12% in RB goods. Therefore in the first decade of the 21st century even as goods exports from India improved its technology structure by diversifying out of low-technology (LT) goods towards medium-technology²⁴ (MT) goods, worryingly the share of resource-based (RB) goods has also increased.

	RB	LT	MT	HT	Total
1985	40.3	46.1	10.3	3.4	100
1990	34.9	47	13.1	5	100
1995	31.1	52.3	13.1	4.4	100
2000	35	47.6	13.6	3.9	100
2008	47.2	28	20.4	4.4	100

Source: Lall (1999) and Chandra (2012)

Table 6 fleshes out the narrative emerging from Table 5 and also gives us a better understanding of the old and new drivers of goods exports. To match products in Table 6 to the categories of Table 5, Leather and Textiles are low-technology goods (LT), Gems and Jewellery is resource-based (RB); engineering is medium-technology (MT) and Chemicals and Pharmaceuticals spans the spectrum of RB, MT and HT. Before we proceed it is important to note that on average the five product-groups of Table 6 account for between 97-98% of manufactured exports over the period 1987/88-2010/11. The following trends emerge from the data in Table 6 – first, for the period 1987/88-1991/92

²³ See Lall (1999: p1774) for classification and definitions.

²⁴ The increase in MT share is particularly important from the standpoint of technology spillovers because as Lall (1999: p1775-6) notes “MT products tend to be technologically demanding scale, skill and linkage-intensive products (e.g. automobiles, machinery or chemicals”. On the other hand, HT products, sometimes also include simple activities, e.g., assembly, where low-wage is important. The assembly of the I-pod in China is a good example.

chemicals and pharmaceuticals and engineering goods accounted on average for less than 21% of manufactured exports; second, this rises to 27% in the following period, 1992/3-2002/3 – an increase of 7%; third, over the final period, 2003/4-2010/11, however this rises to almost 42% - an increase of more than 14%; fourth, the two LT product groups- leather and textiles – have seen their combined share drop from 32.4 to 18.3% between 1987/88-1991/92 and 2003/4-2010/11; fifth, the share of gems and jewellery, the main resource based export, remains practically unchanged over the period 1987/88-2010/11; sixth, the increase in the share of chemicals and pharmaceuticals²⁵ is part of a longer term trend as is the decline of leather; seventh, the switch away from textiles and towards engineering is much more recent and happened over the period 2003/4-2010/11; finally, for the period 2008/9-2010/11, the combined average share of chemicals& pharmaceuticals and engineering rose to almost 44% whereas that of leather and textiles declined to 14.5%.

	Manufactures	Leather	Chemicals & Pharma ^b	Engineering	Textiles	Gems ^c
1987/88-1991/92	73.6	7.8	9.0	11.9	24.6	18.3
1992/93-2002/03	78.1	5.1	12.4	14.9	26.0	17.3
2003/04-2010/11	78.7	2.7	15.4	26.3	15.6	17.3

Source: Calculations on the basis of data from RBI's Handbook of Statistics on Indian Economy
Note: Leather, Chemicals and Pharma, Engineering, Textiles and Gems are sub-sets of manufactured exports. For definitions of each sub-group see notes to tables 129 and 130 in the RBI's Handbook of Statistics on Indian Economy; b – Chemicals and Pharma refers to chemicals and pharmaceuticals; c – Gems refers to gems and jewellery.

	EU	N. America ^a	Japan	OPEC ^b	Developing ^d	Asia ^c	D. Asia ^e
1987/88-91/92	25.8	17.8	9.9	6.6	16.8	25.7	14.1
1992/93-2002/03	25.5	21.0	5.7	10.6	28.5	30.7	22.5
2003/04-2010/11	20.8	14.8	2.2	17.8	39.1	34.7	29.9

Source: same as Table 6
Notes: a – N. America refers to Canada and USA; b – OPEC is the Organization of Petroleum Exporting Countries; c – Asia is as defined by the WTO (see Table 1); d - Developing refers to developing countries as a group; e – D.Asia refers to developing countries within Asia

It was not just the technology-structure and product composition of the export basket that changed significantly in the first decade of the 21st century. There have been important changes in terms of India's export markets as well. The biggest change in terms of the export geographies has been the decline in the share of the Organization of Economic Cooperation and Development (OECD) – the internationally accepted definition of the grouping of developed countries - as a destination of

²⁵ India's prowess as a competitive producer of generic drugs has been long recognized. There was the famous alliance between Cipla, an Indian drug-manufacturer, and Médecins Sans Frontières (MSF) to provide affordable anti-retroviral AIDS drugs to developing countries in Africa (see McNiel (2000) and (2001)). But over time India has also emerged as a significant global player in the pharmaceutical industry as Indian firms – Biocon, Cipla, Dr. Reddy's, Glenmark, Piramal, Sun Pharma to name a few – move away from generics and up the value-chain and also go multinational (see Timmons (2010)). For a detailed analysis of the growth and internationalization of India's pharmaceutical industry see Chaudhuri (2005). Also see Chandrasekhar and Ghosh (2008).

India's exports. For the two periods 1987/88-1991/92 and 1992/3-2002/3 more than half of India's exports went to OECD countries – on an average 57.5 and 55.5% respectively. The average for the subsequent period – 2003/4-2010/11 – was 40.3%, a decrease of more than 15%.

The gainers from the decline of the OECD have been Developing Countries. As Table 7 indicates, between 1987/88-1991/92 and 2003/4-2010/11, 'Developing Countries' as a group saw an increase of more than 23% – from 16.8 to 39.1 – i.e., their share more than doubled. Indeed the average for the three-year period 2008/9-2010/11 for the OECD and Developing Countries was 35.6 and 39.5% respectively. In other words in terms of goods exports, today India trades much more with Developing Countries than with Developed Countries. However, unlike the switching of trade away from the OECD which is a much more recent phenomenon, the increasing weight of developing countries is an older phenomenon dating back to the 1990s.

Within the grouping of 'Developing Countries' it is 'Developing Asia' that has emerged as an important new market for India's exports – increasing its share from 14.1 to 29.9% between 1987/88-1991/92 and 2003/4-2010/11, i.e., its share more than doubled as well²⁶. As a result, Asia's share as a destination for India's exports increased from 25.7 to 35.7%. Asia's share does not increase as much as that of Developing Asia largely due to the decline in the share of Japan as a destination for India's exports.

To sum up this section on technology-structure of exports and geography, the first decade of the 21st century which saw India's exports grow at their fastest pace also saw a diversification of the technological structure of exports towards medium and high-technology (MT and HT) goods driven by pharmaceuticals and engineering products. It must however be kept in mind that the weightage of resource-based (RB) exports has increased as well. This phase also saw a growing dis-engagement with developed country markets and an engagement with Developing Countries in general and Developing Asia in particular. Therefore even as Asia's share in world exports grew, so did India's share in Asia's exports. Equally importantly however was the parallel rise of Asia as a market for India's exports. In other words, even as Asia's importance in the world economy and international trade increased, India's integration into the Asian economy deepened.

III. India – growth, international trade and capital flows

Clearly, from the mid-1990s onwards, India's exports – both in goods and services – have performed well whether we use an absolute or a relative measure to compare. Not only has the growth performance improved, but the technology structure has shifted towards higher value-added goods and the export structure integrated with fastest growing regions of the world economy. The relationship between growth of an economy and international flows of goods, services and capital is captured in the balance-of-payments (BOP). The BOP comprises two accounts – the current and the capital. The current account summarises the net effect on the economy of international flows of goods, services and incomes in which exports play but one part. The current account balance is shaped therefore in large measure, though not wholly, by international trade – i.e. both exports and imports - in goods and services. We now turn to examine the evolution of India's current account balance and its relationship with the growth trajectory. The capital account will be considered in the next sub-section.

IIIa: Growth and the Current Account

²⁶ The bulk of India's exports to Developing Asia is accounted for China, S. Korea, Hong Kong (China), Malaysia, Thailand and Singapore. Relatively, India exports very little to its immediate neighbours, Bangladesh, Nepal, Pakistan and Sri Lanka.

As Table 8 indicates, after a period of stagnation from the mid-1960s to the late 1970s, the Indian economy grew at a respectable rate of between 5-6% per annum over the 1980s and 1990s. The return to growth in the 1980s however was accompanied however by the reappearance of an old bugbear, relatively slow growing of savings – remaining consistently below investment – and therefore rising current account deficits²⁷ (see Table 9). The increase in current account deficits resulted in a balance-of-payments (BOP) crisis of 1991 leading to the devaluation of the rupee²⁸ and an IMF-sponsored structural adjustment programme. The structural adjustment programme resulted in India’s development strategy taking a neoliberal turn and a much closer integration with the global economy with the gradual removal of restrictions on the international trade in goods and services as well as international flows of capital (see Ahluwalia (2002))²⁹.

1951/2 ³⁰ -1964/5	4.1
1965/6-1979/80	2.9
1980/1-1991/2	5.2
1992/3-2002/3	5.8
2003/4-2007/8	8.9
2008/9-2011/12	7.6
2003/4-2011/12	8.3

Source: Calculations on the basis of data from RBI’s Handbook of Statistics on Indian Economy and CSO’s National Account Statistics
Note – a: GDP is Gross Domestic Product at factor cost measured in 2004-05 prices

	GDP Growth ^a	Investment ratio ^b	Savings ratio ^b	Current Account ratio ^b
1980/1-1991/2	5.2	22.7	19.9	-1.8
1992/3-2002/3	5.8	24.6	24.1	-0.7
2003/4-2007/8	8.9	33.6	33.6	-0.3
2008/9-2011/12	7.6	35.6	33.0 ^c	-2.6 ^d

Source: same as Table 8
Note: a – Growth of Gross Domestic Product at factor cost measured in 2004-05 prices; b -Gross Investment, gross savings and current account balance all calculated as a proportion of GDP at market prices in current rupees; c – refers to the period 2008/9-2009/10; d – refers to the period 2008/9 – 2010/11

²⁷ The average current account deficit ratio for the period 1970/71-1979/80 was -0.08%, i.e., a period of small deficits or surpluses though it has also to be borne in mind that this was a period of growth stagnation. In the 1980s the average deficits were considerably higher at -1.8% (see Table 9).

²⁸ It is important to note that devaluation in July 1991 was India’s second BOP crisis. The first BOP crisis happened in 1966 which also led to the devaluation of the rupee in June (see Nayyar (1976) for a discussion and evaluation). The second crisis is much more important precisely because it altered India’s development strategy. The new strategy was predicated upon financial liberalisation and much closer integration with the global economy in terms of goods, services and capital flows.

²⁹ On the India’s early growth strategy see Chakravarty (1987). For a critique see Bhagwati and Desai (1970) and Robinson and Kidron (1970). On the BOP crisis of 1991 and subsequent reforms see Joshi and Little (1996) and Chandrasekhar and Ghosh (2004). On the drivers of demand growth in the Indian economy pre- and post-reforms see Mohanty and Reddy (2010). For a carefully argued long view see Balakrishnan (2010). Also see Bardhan (2010) and Chandra (2012).

³⁰ India’s fiscal year begins on 1st April of a given year and ends on 31st March of the next.

As Table 8 indicates, the reforms of 1992/3 did not lead to a significant increase in the average rate of growth of the Indian economy and that the break in trend happens in the early 1980s.³¹ The 1990s did see however, as Table 9 suggests, an improvement in the savings performance of the economy and a decline in the average current account deficit ratio – from -1.8% in the 1980s to -0.7 in the 1990s.

It is in the first decade of the 21st century that the growth of the Indian economy accelerated and entered what Mohanty and Reddy (2010) have called a new phase, driven by high investment and savings levels. Over the period 2003/4-2007/8 the economy grew at an average of almost 9% and investment and savings ratios averaged 33.6%, an increase of almost 40% over the 1990s. Equally importantly, for the first time in the history of independent India, high growth was achieved alongside low current account deficits, averaging -0.3% of GDP over the period 2003/4-2007/8 as compared with -0.7% for the period 1992/3-2002/3³².

As a result of much closer integration with the world economy engineered by the reforms of 1992/3, the global financial and economic crisis of 2008 left its mark and growth slowed down to 6.8% in 2008/9. The recovery from the slowdown has been reasonably robust and average growth for the period 2008/8-2011/12 was 7.6%. The recovery however has been associated with a worsening of savings behaviour and a deterioration of the current account deficit. The average deficit for the period 2008/9-2011/12 was a historically unprecedented -2.6%, casting some doubt on the sustainability of the current growth path³³.

Table 10: Period Averages of International Trade Ratios ^a (% p.a.)							
	Goods Export	Goods Import	Goods Trade ^b	Services Export	Services Import	Services Trade ^c	Total Trade ^d
1970/1-1979/80	4.2	4.8	9.0	0.7	0.5	1.2	10.2
1980/1-1991/2	4.7	7.0	11.7	1.4	1.0	2.5	14.1
1992/3-2002/3	8.4	9.8	18.2	2.6	2.2	4.9	23.1
2003/4-2007/8	12.2	17.2	29.3	6.5	3.9	10.4	39.7
2008/9-2010/11	14.2	21.9	36.2	7.8	4.5	12.3	48.4

Source: Calculations on the basis of data from RBI's Handbook of Statistics on Indian Economy
Note: a - All variables calculated as a proportion of GDP at market prices in current rupees; b – Goods trade is a summation of Goods Export and Import ratios; c - Services trade is a summation of Services Export and Import ratios; d – Total trade is a summation of Goods Trade and Service Trade ratios.

We now turn to an analysis of how international trade and other flows have shaped the behaviour of the current account balance detailed above. As Table 10 indicates, in the 1970s and 1980s, international trade accounted for a small part of the Indian economy, in part due to growth strategy design (see e.g. Chakravarty (1987)). The resumption of growth in the 1980s was largely domestically driven, with an average trade ratio of 14% - an increase by a mere 4% as compared with the 1970s.

³¹ Panagariya (2008) notwithstanding, this is the current stylisation. See e.g., Wallack (2003); Rodrik and Subramaniam (2004); and Nayyar (2006). See also Bardhan (2010).

³² The average for the period (-0.32%) in Table 12 overstates the decline because the year 2003/4 saw a substantial surplus on the current account of 2.3%. But what is certainly true that current account deficit ratio reduced even in comparison with the 1990s let alone the 1980s.

³³ In 2011/12, alongside a current account deficit of 2.8%, growth has slowed down to 6.9%. The Government of India has attributed this to the global economic slowdown of 2011/12 and persistent domestic inflation. It nonetheless feels that given current levels of investment, foreign exchange reserves and sustained capital flows, the economy is resilient enough to absorb these shocks and sustain the growth performance (see GOI (2012: p 20-21)). There are some (see e.g., Chandrasekhar (2012) and Mohanty (2012b)) who are skeptical of this view.

The bulk of international trade was in goods with services accounting for, on average, less than 20%³⁴. Trade in services was more a less balanced whereas trade in goods ran a relatively large deficit. The 1990s, the first post-reform decade, as desired by policy, saw greater integration into the global economy and the average trade ratio rose to 23% - an increase of 9% over that of the 1980s. Albeit from a small base, trade in services exports grew faster than that of goods, increasing its share to more than 20%. As we have already noted, India's goods exports grew faster than both than both World and Asian exports (see discussion around Fig1 above). Equally importantly however, exports of goods grew significantly faster than imports, resulting in the decline of the average share of imports in total trade from 50% in the 1980s to 42% and a narrowing of the trade deficit in goods

The speed and depth of integration accelerated sharply in the first decade of the 21st century. The average trade ratio for the period 2003/4-2007/8 increased to almost 40%. The global economic crisis of 2008 did not halt this process of integration. Indeed it accelerated it further – average international trade ratio reached 48% for the three year period 2008/9-2011/12. The average trade ratio for the first decade of the 21st century – 2003/4-2011/12 – was therefore 43% - an increase of 20% over the 1990s. There was some change also in the pattern of integration. Continuing the trend of the 1990s, there was an acceleration of growth in services exports, resulting in the rise of the average share of services trade in the total to 26% and a large surplus. Unlike the 1990s however, growth of goods imports over this period was significantly faster than rapidly growing exports. It will be recalled that over this period India's goods exports grew not only faster than World's and Asia's but China's as well. Despite this, goods import growth was substantially faster, resulting in an unprecedented deficit in goods trade³⁵ and an increase in the share of goods imports in total trade.

In sum, at an international trade ratio of 48% (the average for 2008/9-2011/12), India today is deeply integrated into the global economy, a sea change from what it was in the 1980s, let alone earlier. Equally importantly, both the pace and depth of integration accelerated in the high-growth period 2003/4-2011/12 when the economy was growing at an average rate of more than 8%. Despite the high-growth, the nature of this process of integration has meant that in its most recent phase – the first decade of the 21st century – the economy has run unprecedented deficits on goods trade that might be structural in nature. This is a matter of concern because the deficit is not covered by the surplus on services trade, notwithstanding rapid growth in the latter. We will return to this discussion shortly.

	Goods Balance ^b	Services Balance ^c	Transfers	Pvt. Transfers ^d	Factor-Income	Current Account Balance ^e
1970/1-1979/80	-1.1	0.2	1.1	0.6	-0.3	-0.1
1980/1-1991/2	-2.9	0.4	1.2	1.0	-0.5	-1.8
1992/3-2002/3	-2.8	0.4	2.6	2.5	-0.9	-0.7
2003/4-2007/8	-5.4	2.6	3.2	3.2	-0.7	-0.3
2008/9-2010/11	-8.6	3.3	3.5	3.5	-0.7	-2.5

³⁴ These services are what the WTO refers to as commercial services. The Reserve Bank of India's (RBI – India's central bank) estimates are somewhat different from the WTO's for definitional reasons. The WTO's service export estimates for India are a little lower and service import higher than the RBI's. As a result, service trade estimates for India are somewhat higher than the RBI's. For example, for the period 2008-2010 the average service trade ratio according to the WTO was 13.9% as against 12.3% (2008/9-2010/11) for the RBI.

³⁵ Chandra (2012) has argued that the bulk of the trade deficit is in high-technology (HT) goods and that neoliberal economic policy of indiscriminate opening up has stifled the growth of domestic capability, particularly in telecom equipment, even as domestic demand for these goods has been very high.

Source: Same as Table 10

Note: a - All variables calculated as a proportion of GDP at market prices in current rupees; b – Goods Balance ratio is net goods exports as a proportion of GDP; c – Services Balance ratio is net service exports as a proportion of GDP; d – Private Transfers is a sub-set of Transfers; e – the Current Account Balance ratio is a summation of the other ratios.

Migration and remittances: As we noted earlier, the period 1992/3-2007/8 combined high growth with low current account deficits. In particular the period 2003/4-2007/8 is significant because the low current account deficit was associated with high investment and savings ratios and an acceleration the economy's growth rate to 9%. As Table 11 demonstrates, the low current account deficit is not explained by surpluses on the service trade balance alone. One part of the current account – the goods and services balances – is determined by international trade flows that we have just discussed. One other part, private transfers, is determined by international migration of labour from India and as Table 11 indicates, remittances made by them have played an important role in the evolution of the current account.

India has a large diasporic population though there is no accurate estimate of the number of Indians and those of Indian-origin residing outside India – estimates vary from the World Bank's 10 million for 2005 and the Government of India's 25 million for 2009 (Afram (2012)). Accurate estimates of flows are not easy to come by either. The Government of India has a partial assessment of flows according to which the average migration out of India for the period 2004-06 was 567,000; by 2008-10 this had risen to 700,000³⁶. There are no reliable estimates of a relatively recent but important category – engineers with IT-skills who are resident abroad on temporary work-permits executing outsourcing/off-shoring contracts³⁷. There are however reliable estimates from the Reserve Bank of India of remittances made by migrants, permanent or temporary, to their home country. In India's balance-of-payments accounts, these remittances are referred to as 'Private Transfers'.

The importance of these transfers has increased manifold both in absolute and relative terms. According to the RBI estimates in 1990/91 private transfers amounted to \$1.2 billion and by 2001/2 these had increased to \$15.8 billion (see Afram (2012)). By the period 2009/10-2010/11, average 'private transfers' had risen to \$54.6 billion³⁸. Not only are the absolute amounts impressive, but as Table 11 suggests, in relative terms, the importance of these flows had increased as well. First, it is important to note that private transfers (as a % of GDP) have risen consistently from 1970s, suggesting a continued outflow of migrant labour from India is an important part of India's integration into the global economy. Second, equally importantly, as Table 11 indicates, 'private transfers' have been consistently greater than the surplus earned from the international trade in services.

Current account dynamics: We are now in a position to conclude our discussion of the dynamics of the current account in the post-reform period, of which there are two phases. In the 1990s, the first phase, the narrowing of the current account deficit came about on two counts: goods export growth that was substantially higher than import growth and therefore containing the deficit on goods trade; and second, a sharp increase in private transfers. On the other hand, the continued narrowing

³⁶ On the basis of data from GOI-MOIA (various). A number of host countries require that the Government of India provide clearances prior to migration. This data records migration of unskilled and semi-skilled labour with relatively low levels of education.

³⁷ This category has become an important source of remittances. Indeed as a result, recently the USA has become the largest source of remittances for the Indian economy, displacing the Middle East economies (see RBI (2009)).

³⁸ On the basis of data from GOI (2012: Chapter 6). Average foreign investment (portfolio+FDI) for that period was \$45.1billion. As we will see, Foreign Investment declined sharply in 2010-11. But 'Private Transfers' even for 2009/10 (\$53.6 billion) was greater than foreign investment (\$50.4 billion).

of the current account deficit in the period 2003/4-2007/8, the second phase, was quite different: first, despite high goods export rates of growth, import rates of growth were even higher, leading to a sharp increase in the trade deficit; this was however balanced by a substantial increase in the surplus on services trade as a result of a significant increase in the growth of service exports; and third, the continued growth of private transfers (also see Ghosh and Chandrasekhar (2009)).

The unprecedented worsening of the current account over 2008/9-2010/11 is then explained only partly by the global economic crisis: it explains the sharp slowdown in growth of goods and services exports but does not explain the continued robust growth in the import of goods. As Chandra (2012) has argued, robust growth of goods imports is an outcome of a pattern of integration that is shaped by neoliberal policy (see fn35). Therefore the nature and pattern of India's integration into the global economy is the cause of both the lowering of current account deficits as well as its unprecedented increase – in the former instance it was rapidly growing exports of services and in the latter increasing import dependence of the economy (also see Ghosh and Chandrasekhar (2009)). And the backdrop to this integration is the rising contribution and continuing centrality of remittances from migrant labour – without remittances the surplus from service trade would not have been able to cover for the deficit in goods trade between 2003/4-2007/8; and unprecedented though it is, the deficit on the current account after 2008/9 crisis would have been significantly higher.

IIIb: Financial liberalisation, capital flows and growth

Outside of trade liberalisation another important element of the neoliberal reform programme of 1992/93 was a policy of financial liberalisation which radically altered the architecture of domestic financial markets and over time has integrated some parts with international capital flows³⁹. As a result international capital flows by agent – both outward and inward – and by tenor – foreign direct investment (FDI) and portfolio - have been substantially liberalised⁴⁰. There are now very few sectors where inward foreign domestic investment is prohibited and very few domestic agents who are restricted from acquiring international financial assets and liabilities⁴¹.

In the context of our discussion however there are two restrictions that are of importance. First, there are still significant restrictions on foreign participation in the domestic government bond market, which is the largest part of India's financial markets, lowering somewhat the risk of a sovereign-debt crisis and the economy less exposed to the whims of international bond markets⁴². Second, domestic banks are disallowed from participating in international financial markets⁴³. But

³⁹ On changed financial market architecture see Chakrabarti and Mohanty (2009). On financial market reforms and macroeconomic outcomes see Khanna (1999).

⁴⁰ See Chandrasekhar (2008), GOI-MOC (2011a) and IBEF (2011).

⁴¹ See GOI-MOC (2011b) and Khan (2012). There are only 13 areas of activity including retail trade, atomic energy, gambling, and railways where FDI is still prohibited. There are however sectors where majority foreign ownership is still disallowed, e.g., insurance. See GOI-MOC (2011b) for details. Nayyar (2008) and Khan (2012) details how, outside of banks, restrictions on domestic agents, both corporate and individual, on acquiring international assets have been progressively relaxed.

⁴² For the period March 2011 to March 2012 the average daily outright trading volume in the secondary market for government bonds was 147 billion rupees. The average daily turnover in the country's two largest stock exchanges (BSE and NSE) was 143 billion rupees. Calculations on the basis of data from RBI (2012: Table 5.1). Also see Chakrabarti and Mohanty (2009). It is however worthwhile noting that in November 2011, faced with serious depreciation pressures on the rupee the RBI eased permissible limits of FII (foreign institutional investors) investment in the government bond market (see e.g., Mishra and Roy (2011)).

⁴³ In other words, the rupee is still not fully convertible on the capital account, to use the jargon of economics. A fully convertible currency is one where there are no restrictions on the buying and selling of international financial assets and liabilities. There is one caveat to domestic banks not being allowed to acquire international

outside of the government bond market and the banking sector, India's financial markets are deeply influenced by international capital flows and this is particularly true of the stock market (see Chandra (2008), Chakrabarti and Mohanty (2009) and Ghosh and Chandrasekhar (2009)). The fact that India's banking sector, like China's, is only partially integrated into the global financial markets and that it is largely in the public-sector affords it some degree of insulation against global financial crises, accounting in part for the resilience in the face of the latest (2008) episode (see Reddy (2009)).

But given how closely integrated the stock markets are into global capital flows and, as we have already seen, the high level of integration in terms of trade flows, there are important feedback loops from the global to the Indian economy. And therefore, despite the insulation provided by a banking sector and a government bond market that are marginally linked to international capital flows, the depth of the integration of stock markets and of trade flows have made the economy more fragile (see also Chandra (2008), Ghosh and Chandrasekhar (2009), Chandra (2012)).

	CAB ^b	FI ^c	Loans ^d	CB ^f	Banking ^g	Capital AB ^h	FX-Reserves ⁱ
1970/1-1979/80	-0.08	0.04	0.76	0.11	0.13	0.57	-0.52
1980/1-1991/2	-1.76	0.05	1.11	0.45	0.39	1.58	0.05
1992/3-1999/2000	-1.14	1.10	0.76	0.44	0.43	2.25	-1.08
2000/1-2002/3	0.46	1.13 ^k	0.05	0.10	0.72	1.90	-2.31
2003/4-2007/8	-0.32	2.18	1.52	0.81	0.56	4.59	-4.33
2008/9-2010/11	-2.54	2.10	1.06	0.52	0.03	2.59	0.001

Source: Source: Same as Table 10

Note: a - All ratios calculated as a proportion of GDP at market prices in current rupees; b - CAB is current account balance; c - FI is net foreign investment flows; d - loans include external assistance; f - CB is medium and long-term commercial borrowing and is a sub-set of loans; g - Banking is net assets and liabilities of banks held abroad; h - Capital AB is the capital account balance which records the net impact of all international financial asset transactions; i - FX-Reserves is the change (Δ) in foreign exchange reserve ratio where, by accounting convention, a negative sign denotes an increment in reserves; k - due to a change in definition FI flows from 2000/01 onwards cannot be compared with the earlier periods

Table 12 details the changes in international capital flows before and after the reforms of 1992/93⁴⁴. Before proceeding it is important to point out that foreign investment ratios prior to 2000/01 are

assets and liabilities - they are allowed to lend, within limits, to majority-owned affiliates or wholly owned subsidiaries of Indian firms abroad (see Nayyar (2008: 125)).

⁴⁴ In the Balance of Payments (BOP) the sum of the Current Account Balance, the Capital Account Balance and change (Δ) in foreign exchange reserve must equal zero (0). If the current and capital account are both in surplus then balance is attained by a matching increase in reserves. If the current account is in deficit and the capital account has a surplus which is greater, then again balance is attained by a matching increase in reserves. If the capital account surplus is inadequate to match the current account deficit, then balance is attained by drawing down reserves. If foreign exchange reserves are insufficient then the currency depreciates and the economy might have a BOP crisis such as the Indian economy saw in 1991. In a world of mobile capital however the BOP might come under stress because contagion effects might lead to sudden outflows of capital, as happened with the Indian economy from July-December 2008 as a result of the global financial crisis (see e.g., Ghosh and Chandrasekhar (2009)). To cope with sudden outflows of capital from the economy, economies maintain large stocks of foreign exchange. The opportunity cost of maintaining large reserves is very high because these earn very low rates of return being cash or near-cash. India's stock of foreign exchange reserves in end of March 2008 was \$309 billion. On May 11 2012 it was \$292 billion dollars (Hindu 2012a).

not comparable to those after. This is due to that fact that the definition of foreign direct investment (FDI), which is a component of foreign investment, was changed in 2001/2 to bring it in line with international usage⁴⁵. Having said that, a good way to see the difference between pre- and post-reform international capital flow regimes is to look at the changing composition of the Capital Account Balance.

Composition of the capital account: The Capital Account of the BOP comprises inflows from three major sources – foreign investment, loans including commercial borrowing and banking capital. As Table 12 makes clear, in the period 1970/71-1991/92 foreign investment accounted for very small proportion of total capital account inflows. In the 1970s they accounted for 7% and in the 1980s for 3% of total inflows. The bulk of inflows were in terms of loans. Between 1970/1-1979/80 Loans accounted for more than 100% of net capital account surplus. In the next period, 1980/81-1991/92 loans accounted for 70% of the capital account surplus. The difference between the two periods however is that in the 1980s the current account deficit is significantly higher than in the preceding period and this is financed by borrowing on the international market, leading to an increase in the external debt-to-GDP ratio. As a result, the share of commercial borrowing in the total goes up to more than 40% and a large part of the rest was accounted for by short-term loans. It will be noticed however that the average capital account surplus is less than the average current account deficit leading to a decumulation of reserves and finally the BOP crisis of 1991.

Post-reforms, the importance of net foreign investment clearly rises – from 3% in the 1980s to 49% for the period 1992/93-1999/2000 and to 48% for the period 2003/4-2007/8 – and proportionally that of loans decreases. Whereas the composition of flows clearly changes in the period 1992/93-1999/2000, relatively the increase in inflows is not very substantial with the capital account balance rising from 1.58 to 2.25%. But as Table 12 makes clear the current account deficit is lower in this period than in the 1980s and as a result there is some accumulation of foreign exchange reserves.

One can see however that capital inflows increase dramatically in the period 2003/04-2007/8 even though the composition of flows is remains roughly unchanged – the average capital account balance rose to 4.6% with average net foreign investment flows at 2.1 and average loans at 1.5%. As Ghosh and Chandrasekhar (2009: p730) put it “India was ‘discovered’ by foreign investors and effectively became the target of a capital investment surge”. Alongside this investment surge the current account deficit came down substantially⁴⁶ as a result of which most of this capital inflow ended up as forex reserves, as Table 12 indicates⁴⁷. But over the period 2008/9-2010/11, as we have already discussed, the current account deficit widened significantly - the average current account deficit over the period 2008/9-2010/11 was 2.54 - partly the result of a slowdown in export growth due to the global economic crisis on the one hand and the increased import intensity of production on the other.

The increase in the average current account deficit for the period 2008/9-2010/11 was accompanied by a sharp slowdown in capital inflows with not only a reversal of speculative capital flows seen earlier but also in foreign direct investment –the average capital account surplus was 2.59% of GDP as against 4.59% for the period 2003/4-2007/8. Therefore just when current account deficits rose to unprecedented levels and stayed there, capital flows ebbed, despite the government’s efforts to

⁴⁵ From 2000/01 onwards the definition foreign direct investment includes retained earnings.

⁴⁶ See fn32 about overstating the decline in the current account deficit.

⁴⁷ At the end of March 2008 forex reserves stood at \$309.8 billion or 15 months import equivalent (Ghosh and Chandrasekhar (2009)). On May 11 2012 it stood at \$292 billion (see fn44). Goods imports for 2011 \$451 billion (WTO statistical database). Forex reserves therefore had come down to less than 8 months of goods import equivalent, let alone total imports. Clearly, close to \$300 billion dollars of reserves might not be adequate insurance in the face of a crisis (see also Chandra 2008)).

revive them by further liberalising foreign investment regulation⁴⁸, balancing the economy on a knife-edge. Given the influence of foreign investment inflows on the stock market, reversal of capital flows led to a stock market crash⁴⁹ and also a sharp depreciation in the value of the rupee⁵⁰. The continued weakness of capital flows in the face of high and sustained current account deficits have resulted in two outcomes and the likelihood of another: first, relatively low foreign exchange reserves (see fn 47); second, both the stock market and the rupee remain under pressure⁵¹; and finally, therefore, making the Indian economy susceptible to a currency crisis (also see Ghosh and Chandrasekhar (2009)).

Therefore even though since the 1980s in some ways the economy has changed quite drastically, particularly with respect to global economic integration, in others it has not. Just as in the late 1980s once again the sustainability of the current account is in question both in terms of its size and its financing⁵². Global economic integration was supposed to have delivered among other things sustainable current account balances and for a while it appeared to make good on that promise. But the global economic crises uncovered chinks in the armour – the growing import dependence of the economy and finicky capital flows (see below) - both of which are the result of the nature and pattern of that very integration.

Inward and outward foreign investment: The foreign investment ratio in Table 12 comprises the net value of three different elements – inward foreign direct investment (FDI), outward FDI and portfolio investment⁵³. Unpackaging the foreign investment ratio will throw some additional light on the nature and pattern of India’s integration into the global economy.

Table 13: India - Period averages of Capital Flow ratios ^a (% p.a.)				
	FI ^a	Gross Inward FDI ^b	Gross Outward FDI ^b	Portfolio
1992/3-1999/2000	1.10	0.49	0.02	0.64
2000/1-2002/3	1.13	1.02	0.28	0.37
2003/4-2007/8	2.18	1.56	0.95	1.51
2008/9-2010/11	2.10	2.53	1.25	0.99

Source: Calculations on the basis of data from RBI’s Handbook of Statistics on Indian Economy and RBI (2011)
 Note: a - All variables calculated as a proportion of GDP at current market prices; FI is net foreign investment;

⁴⁸ See for example Mishra and Roy (2011).

⁴⁹ The BSE Sensex fell from an all-time peak of 21113.13 on 9th January 2008 to a low of 8442.31 on 21st November 2008. (Data from Bloomberg). Available at <http://www.bloomberg.com/quote/SENSEX:IND/chart/>

⁵⁰ The average US dollar-rupee exchange rate from 24th March to 31st March 2008 was 1US\$=Rs.40.14. For the period 24th December to 31st December 2008 this depreciated to Rs.48.496 – a fall of 21%. All exchange rate calculations on the basis of RBI data.

⁵¹ See Hindu (2012b). The average US dollar-rupee exchange rate from 17th May to 24th May 2012 was 1US\$=Rs.54.9517 – a decline of another 13% from the average value for 24th December to 31st December 2008 (see fn 50 for December 2008 values). All exchange rate calculations on the basis of RBI data. The BSE Sensex almost went back to its all-time peak, touching a high of 21108.64 on 5th November 2010. From there it has declined to 15847.03 on 23rd May 2011 (BSE data from Bloomberg).

⁵² India’s current account vulnerability goes back even further. As we noted the first BOP crisis was in 1966. See Robinson and Kidron (1970) for a discussion.

⁵³ Portfolio investment is typically interested in profiting from capital gains and has a much shorter time horizon than FDI. Unlike FDI it seeks neither to manage nor control the company in which investment is made. According to OECD classifications which India follows, foreign investment up to 10% in the equity of a domestic company is treated as portfolio capital. Portfolio investment therefore does not have the advantages of inward FDI – stability and technology spillovers. It might add to liquidity and depth of an integrating stock market but makes it volatile as well. The experience of the Indian stock market is a prime example of that (see fn49 and 51).

Gross Inward FDI, outward FDI and Portfolio are all sub-sets of FI; b – FDI is foreign direct investment.

As we know, from 2000/01, in keeping with international norms, RBI changed its definition of FDI to include retained earnings. Therefore, 2000/01 onwards, FDI data is not comparable with earlier periods. As a consequence the discussion on absolute flows will be limited to the post 2000/01 period⁵⁴. In keeping with foreign capital's "discovery" of India, acceleration of inflows happens in 2005/6, much after the economy gets on to a high growth path, i.e., 2003/04. Annual total (FDI and portfolio) capital inflows averaged \$10.4 billion over 2000/1-2004/5 and \$44.9 billion over 2005/6-2010/11 - a more than four-fold increase. In terms of GDP, the average gross capital inflows ratio doubles between two periods: from 1.78 to 3.55%. Gross inflows peak in 2009/10 at 5.08 and then decline the following year to 3.52%.

Average annual Gross inward FDI for the period 2000/1-2004/5 was \$5.1 billion. For the period 2005/6-2010/11, this rose almost six-fold increase to \$28.8 billion. The average Gross inward FDI/GDP ratio for the period 2000/1-2004/5 was 0.92% and rose to 2.31% for the period 2005/6-2010/11. The ratio peaked in 2008/9 at 3.31 and declined thereafter and in 2010/11 was 1.73%. Portfolio inflows averaged \$5.3 billion over the period 2000/1-2004/5 and then almost trebled to an average of \$16.1 billion for 2005/6-2010/11. The average Portfolio/GDP ratio for 2000/1-2004/5 was 0.86% and 1.24% for 2005/6-2010/11⁵⁵. Portfolio inflows peaked in 2009/10 at 2.34% and declined the following year to 1.79%.

The year of the global financial crisis - 2008/9 - saw a portfolio outflow of \$13.9 billion whereas gross inward FDI inflows remain positive at \$37.8 billion. However portfolio capital recovered and then remained relatively stable in terms of absolute flows whereas Gross inward FDI flows declined in absolute terms by \$7.4 billion in 2010-11 to \$30.4 billion. As a result in 2010/11 Gross GDI/GDP ratio was 1.73% and lower than the Portfolio/GDP ratio which was at 1.79%. Therefore what is undeniable is that there was a sharp increase in inflows of foreign capital and the bulk of it has been FDI⁵⁶. Equally importantly however post the crisis of 2008/9 not only has there been a deceleration in capital flows but the mix between inward FDI and Portfolio has moved in favour of the latter, the more volatile element, adding to the precariousness of a knife-edge balance discussed earlier.

Outward FDI: The last aspect of India's integration into the global economy on the capital account we would like to discuss is the somewhat underappreciated fact of Indian companies going abroad – or outward FDI⁵⁷. Average annual Gross outward FDI for the period 2000/1-2004/5 was \$1.6 billion. For the period 2005/6-2010/11, this rose almost nine-fold to \$14.7 billion. Between 2000/1-2004/5 the average outward FDI to GDP ratio was 0.28%. The inward FDI ratio was, it will be recalled, 0.92%. In the next period, 2005/6-2010/11 the outward FDI ratio rose more than four-fold to 1.21%. The inward FDI ratio for that period was 2.31%. Outward FDI ratio increased from 0.16 in 2000/1 to peak at 1.59% in 2006/7. Even though the ratio declines a bit, relatively high levels of outward FDI are

⁵⁴ Average flows for Gross Inward FDI, Gross Outward FDI and Portfolio Investment calculated on the basis of data from RBI (2011: statement 44). Net Foreign Investment (FI) calculated on the basis of data from the RBI Handbook of Statistics on Indian Economy.

⁵⁵ Gross inward FDI grew a little faster than Portfolio flows but the difference is overstated by the averages because in 2008/9 portfolio investment saw a massive reversal. If we drop 2008/9 from the averages, the Gross FDI ratio is 2.15 and the Portfolio ratio is 1.71%, which is perhaps more indicative of the difference. As Table 13 indicates for the period 2003/4-2007/8 the Gross FDI and Portfolio ratios were 1.56 and 1.51% respectively.

⁵⁶ In terms of global FDI inflows India was ranked 32nd in 2001. By 2009 it had moved to 9th. Little wonder that UNCTAD's World Investment Report 2010 ranked India as the second most attractive location for FDI for the period 2010-12.

⁵⁷ For a more detailed analysis of outward FDI from India see Nayyar (2008) and Hattari and Rajan (2010).

maintained until 2008/9. Thereafter it decelerates quite sharply and by 2010/11 declines to 0.92%. Therefore an important part the integration of India into the global economy has been the internationalisation of large Indian firms. This internationalisation is not limited to the private sector. As Nayyar (2008) and Khan (2012) detail India's public sector firms (state-owned enterprises)⁵⁸ are among the largest investors abroad.

To sum up, despite some important restrictions, the Indian economy today is firmly ensconced in international capital flows. Over the period 2003/4-2010/11 there has been a significant increase in inflows of international capital, both FDI and Portfolio, into the Indian economy. Portfolio capital inflows have become important drivers of India's stock markets. Equally importantly, this has not been a one-way street, because as a part of this process of integration, corporate India has internationalised as well in terms of its own growth strategies. Whereas the longer term impact of this internationalisation in terms of technology spill overs and market access is as yet an unfolding story, in the near-term, the importance of portfolio flows has made the economy more fragile, particularly given the increase in the current account deficit.

IV. Growth, per capita incomes, structural change and asymmetric integration

Therefore by any yardstick that we choose, the first decade of the 21st century saw a substantial increase in both the pace and the depth of India's integration into the global economy and in important ways has fundamentally altered the economy. However as we have also seen some of the old fragilities have been reinforced as well. This phase was also coterminous with a significant increase in the GDP growth rate fuelled by rapidly growing investment (see Table 9 above). Rapid economic growth reflected in per capita incomes as well.

In current US\$, the average per capita income⁵⁹ for the period 1980-82 was \$277.5. For the period 1990-92 this average had risen to \$349.3, an increase of 1.26 times over the 11 year period. The average for the period 2000-02 was \$471.2, an increase of 1.35 times over the subsequent 11 year period. For the period 2009-11, this average rose to \$1,266.4, an increase of 2.7 times over the following 9 year period. We get a similar story whether we use purchasing power parity (PPP) or constant Indian rupees.

In PPP terms the average per capita income for the period 1980-82 was \$470.7. This rose to \$919.4 for the period 1990-92, an increase of 1.95 times. For the period 2000-02 the average had risen to \$1602.2, an increase of 1.74 times. The average per capita income for the period 2009-11 was \$3403.4, an increase of 2.12 times over the 9 year period. Similarly, in constant 2004-5 rupees, the average per capita income for 1980/81-1982/83 was Rs. 12,045.5. By 1990/91-1992/93 this had risen to Rs. 15,951.2, an increase of 1.32 times. Average per capita income rose to Rs. 23,251.6 for the period 2000/01-2002/03, an increase of 1.46 times. By 2008/09-2010/11 this had risen to Rs. 38,259 an increase of 1.7 times over the 9 year period⁶⁰. Therefore which ever metric we use, the first decade of the 21st century has seen a substantial increase in per capita income growth.

⁵⁸ As we have earlier the high-growth phase (2003/4-2007/8) was driven by high levels of investment. As Khanna (2011) has argued, large public sector enterprises are very competitive and have had a very important role to play in the investment boom, even though it has been driven by the private sector.

⁵⁹ The current US\$ and PPP per capita income refer to per capita Gross Domestic Product. The constant (2004/5) prices rupee per capita income refers to per capita Gross National Product at factor cost. The current \$ and PPP estimates are based on data from IMF World Economic Outlook 2012 database. The constant (2004/5) prices rupee estimates are based on data from RBI Handbook of Statistics on Indian Economy.

⁶⁰ The average annual rate of growth of per capita income in constant (2004/5) rupees is as follows: 2.9% for the period 1980/81-1992/93; 3.9% for the period 1993/94-2002/03; and 6.9% for the period 2003/04-2010/11.

Alongside growth has come structural change⁶¹. For the period 1980/1-1982/83 average sectoral shares (i.e., share of sector in GDP at factor cost and constant (2004/5) prices) were as follows: agriculture – 29.4%; industry – 18.5%; manufacturing⁶² – 14.1%; construction – 7.4%; and services – 37.8%. For the period 1990/91-1992/93 average sectoral shares were: agriculture – 24.5%; industry – 20.1%; manufacturing – 14.6%; construction – 7.1%; and services – 43.1%. For the period 2000/01-2002/03 average shares were as follows: agriculture – 18.3%; industry – 20.5%; manufacturing – 15.2%; construction – 6.8%; and services – 50.9%. For the period 2008/09-2010/11 average shares were: agriculture – 12.8%; industry – 20.1%; manufacturing – 15.8%; construction – 7.9%; and services – 57.1%.

There are some noteworthy aspects about this pattern of structural change: first, as suggested by the literature on structural change, along with per capita income growth the share of agriculture has declined – from 29.4% (1980/81-1982/83) to 12.8% (2008/9-2010/11), i.e., a decline of 16.6%. Over that period, industry (and manufacturing) gained but little – between 1.5-2%. The lion's share of the gain has gone to services which saw an increase of 14% - from 43.1% (1980/81-1982/83) to 57.1% (2008/9-2010/11). As Balakrishnan (2010) points out, it is unusual for a country at India's per capita income levels to have a service-driven economy. Be that as it may, India's growth particularly in the first decade of the 21st century in both relative and absolute terms has been driven by the service sector⁶³.

In terms of integrating into the global economy the three major sectors are very differently situated. One measure of integration into the global economy is what we call the trade ratio – i.e., total trade (exports + imports) as a proportion of GDP. Along similar lines we define sectoral trade ratios⁶⁴ for India which are as follows: average agricultural trade ratio for the period 2008/9-2010/11 was 11.9%; over the same period manufacturing's trade ratio was 142%; for services it was 19.8%. Even if we narrow it down to the sub-sector 'financial and business services'⁶⁵, its trade ratio was 57.8% - in other words significantly below manufacturing. For manufacturing, both the pace and nature's its integration changed significantly in the first decade of the 21st century.

Manufacturing's average trade ratio in 1994/95-96/97 was 75.7%. By 2000/01-2002/03 the ratio had risen to 96.6% with the export ratio slightly higher than imports. This increase pales into insignificance as compared with that of the next decade when by 2008/09-2010/11 the average manufacturing trade ratio had risen to 142%, with import and export ratios at 74 and 68%. Therefore not only has integration increased sharply for the manufacturing sector but it has also been asymmetric – import penetration has almost doubled (increasing by more than 80%) whereas export integration has increased by 20%.

Therefore, not only was manufacturing's trade ratio the highest, manufacturing is the only sector that runs a trade deficit, with both other sectors running surpluses. The deficit is substantial, the

⁶¹ All calculations in the rest of this section are on the basis of data from RBI Handbook of Statistics on Indian Economy.

⁶² Manufacturing is a sub-sector of industry.

⁶³ See Dasgupta and Singh (2005) and Singh (2006) for different ways of looking at the phenomenon of services-led growth. See Singh (2009) and Mehta (2011) for a discussion of the impact of reforms on industrial and manufacturing growth and technological change.

⁶⁴ For example, the agricultural trade ratio is agricultural trade (exports + imports) as a proportion of agriculture's share in total GDP.

⁶⁵ Financial and business services include the following: finance, insurance, real-estate, and business services. Information technology (software services) and information-technology enabled services (e.g., VOIP services), in both which India is a leading exporter, are a part of business services.

average for the period 2008/09-2010/11 amounting to 44.2% of manufacturing GDP and rising – the average was only 9.2% of for the period 2000/01-2002/03. It will be recalled (see section IIIa) that India's trade deficit in goods increased significantly during the high growth phase, 2003/04-2010/11. One part of the trade deficit has to do with oil imports but equally importantly, the non-oil trade deficit had increased as well. This non-oil trade deficit is entirely accounted for by the manufacturing sector.

India's manufacturing sector – its most integrated as well that which has seen the sharpest increase in integration - therefore also makes the largest contribution to the trade deficit. Which also perhaps explains why despite very high levels of integration and, as we have seen (see Section IIIa), very high rates of manufactured goods exports growth, the share of manufacturing in GDP has risen a mere 1.5%. Indeed in the high growth phase its share increases by a mere 0.6% - from 15.2 to 15.8%. Globalisation has not changed manufacturing into a driver of GDP growth. Whereas causality is difficult to attribute, it is not a correlation one can run away from either.

In conclusion, GDP growth (as well as that of per capita income) has been service sector driven and, atypically for an economy at India's level of development, so has the accompanying structural change in output shares. In addition, asymmetric patterns of globalisation have resulted in manufacturing having become the most globalised sector as well as the highest net contributor to the trade deficit, adding to the fragility of the economy and its structure.

V. Growth, Employment and Quality of Life⁶⁶

Alongside structural change in output has come change in employment structure as well⁶⁷. In 1983 sectoral employment shares were as follows: agriculture – 68.5%; manufacturing – 11.2%; construction – 2.5%; and services – 17.3%. Employment shares in 1993/94 were: agriculture – 64%; manufacturing – 10.6%; construction – 3.3%; and services – 21.1%. In 2004/05 shares were: agriculture – 56.6%; manufacturing – 12.2%; construction – 5.7%; and services – 24.8%. Employment shares in 2009/10 were as follows: agriculture – 51.7%; manufacturing – 11.3%; construction – 9.6%; and services – 26.2%.

When we put structural change in output and employment together, the following trends are noteworthy: first in 2009/10 agriculture accounted for 12.3% of GDP but 51.7% of employment⁶⁸; second, between 1983 and 2009/10, the increase in the service sector's share in employment (9%) is much less than the increase in GDP (20.1%); third, between 2004/05 to 2009/10 - the high growth phase – construction's share in employment increased the most - by 4% - whereas its share in GDP increased by only 0.9%; finally, manufacturing's share in employment declined in the high growth phase. For the economy then there are two sets of issues related to employment – one the one hand, the lowest productivity sector agriculture still accounts the bulk of employment whereas the bulk of output comes from services; and on the other, in the high growth phase jobs were produced at two ends of the spectrum – low end jobs in construction and relatively high end jobs in services (also see Himansu (2011)).

⁶⁶ Sections V-VI are largely based on Mohanty (2012). For a different view of the reform process and related outcomes see Panagariya (2008) and Acharya and Mohan (2010).

⁶⁷ Data in this paragraph is taken from Mohanty (2009: Table 3). Sectoral employment shares for 2009/10 have been calculated on the basis of NSSO (2011).

⁶⁸ Ideally sectoral shares of employment and output should roughly be in balance. On the lop-sided structural transformation of the Indian economy also see NCEUS (2007), Patnaik Utsa (2007), Chatterjee (2008a) and Bardhan (2009).

Which perhaps brings us to the nub of the matter - despite the recent acceleration, growth in India has not been labour absorbing (see Patnaik (2007), Chandrasekhar and Ghosh (2007) and Himanshu (2011)⁶⁹). Not only has the economy not generated sufficient non-farm jobs as a result of which movement of labour away from agriculture is very slow, but agricultural growth itself has seen a secular decline⁷⁰ as a result of which the relative surplus labour in agriculture, which is the lowest productivity sector, has increased and the gap between agricultural and non-agricultural productivities has increased rather than decreased.⁷¹ As a result, as Mohanty (2011) points out, India has a combination of high rates of per capita income growth alongside very slowly declining levels of poverty. Between 1981 and 1993, poverty levels in India declined from 59.8 to 49.4%, and from 1993 to 2005 from it declined further to 41.6%, with a slight slowing in the rate of decline after 1993, the beginning of the reform period (see Ravallion (2009: 31 Table 1)). In comparison, over the same periods, China's poverty levels, starting from a much higher base fell much more rapidly – from 84 to 53.7% between 1981 to 1993 and then to 16.3% in 2005! China's growth has therefore been much more pro-poor than India's as a result of sustained growth in agriculture and the human development gains made in the Mao era – both features that Arrighi (2007) stresses upon (see also Ravallion (2009: 19, 22)).

It is not just poverty that declines much faster in China. China performs much better than India on almost all aspects of human development⁷². As Sen (2011) points out “Life expectancy at birth in China is 73.5 years; in India it is 64.4 years. The infant mortality rate is fifty per thousand in India, compared with just seventeen in China; the mortality rate for children under five is sixty-six per thousand for Indians and nineteen for the Chinese; and the maternal mortality rate is 230 per 100,000 live births in India and thirty-eight in China. The mean years of schooling in India ... to be 4.4 years, compared with 7.5 years in China. China's adult literacy rate is 94 percent, compared with India's 74 percent. ... literacy rate for women between the ages of fifteen and twenty-four ... is still not much above 80 percent, whereas in China it is 99 percent. ... a very substantial proportion of Indian children are ... undernourished (depending on the criteria used, the proportion can come close to half of all children), compared with a very small proportion in China. Only 66 percent of Indian children are immunized with triple vaccine ... as opposed to 97 percent in China.” It is useful to remind ourselves in this context that India has followed almost a quintessential accumulation by

⁶⁹ Not only has growth not been labour absorbing, but as Himanshu (2011: 57-58) has pointed out there is actually evidence to suggest that there is a negative relationship between output growth and female employment growth, i.e., when economic growth accelerates female employment falls.

⁷⁰ As Ramachandran and Rawal (2010) and Mohanty (2011) argue, the decline is at least in part the result of neoliberal financial sector reforms introduced in 1993 and its impact on credit flows to agriculture. But as Balakrishnan (2010) points out there are also longer-term issues related to declining investment and environmental degradation. In addition as Vaidyanathan (2010: Chap4) has argued there are a host of institutional factors that govern inefficient resource use and allocation, including of water and land. These need to be addressed if long-term efficiency and sustainability are to be achieved. Therefore while increasing investment is an important part of revival strategy it cannot be the only element.

⁷¹ See Patnaik Utsa (2007) on the slow decline in the share of agriculture in total employment. See Balakrishnan (2010) on the secular decline in agricultural growth and see Mohanty (2009) and (2011) on the secular increase in the relative surplus labour in agriculture. Mohanty (2011) also establishes that in China, for the period from 1978 to the early 1990s, there is a secular decline in relative surplus labour in agriculture.

⁷² Of course it might be argued that in per capita income terms China is far richer (more than 3 times) than India and therefore has better social indicators. But the point is that India's performance is worse than China's at comparable per capita income levels. In addition, whereas gains have been made in terms of improvements in human development indices over time, in comparative terms India has fared poorly even in comparison with countries at lower per capita income levels. For example in the Global Hunger Index for 2008, Pakistan, Nepal and Sri Lanka (all with per capita incomes lower than India) fared better. Vietnam with a per capita income similar to India's fared better as well (see Ghosh (2011)). This suggests that nationally, goal-setting remains a problem when it comes to social indicators.

dispossession strategy, particularly in this first decade of the 21st century⁷³. And post-reform China on the other hand, up to early 1990s had followed a strategy of accumulation without dispossession. Human development outcomes in China and India are therefore just as Arrighi, Aschoff and Scully (2010: 437) predicted - accumulation without dispossession leads to improvements the quality of labour and life-chances whereas accumulation by dispossession worsens the quality of labour.

Despite the fact that China has performed better than India in many respects, growth in the 1990s and the first decade of the 21st century has been deeply unequalising⁷⁴ within in each country. As Ravallion (2009: Table 1) notes China's Gini coefficient, a measure of inequality, increased from 29.1 from 1981 to 41.5 in 2005.⁷⁵ In the post-reform period, for India, the same measure rose from 30.8 to 33.4 from 1993 to 2005⁷⁶. It is worth noting that in 1981 at 29.1, China's Gini coefficient was lower than India's which stood at 35.1 (see Ravallion (2009: 31 Table 1)).⁷⁷ Therefore, while China and India have charted their own growth trajectories and have not slavishly followed the prescriptions of the Washington Consensus, particularly in resisting the dominance of finance capital,⁷⁸ the sharp increases in inequality within each of these countries suggests that there are significant aspects of economic policy that are seriously neo-liberal (see Harvey (2005), Andreas (2008) and Ghosh and Chandrasekhar (2009)).

Therefore for China and India there are similarities in terms of growth strategies: for both integrating with the global economy has been an important element of the high growth phase⁷⁹; over that phase, both have seen a significant increase in the rate of growth of per capita incomes; and in both economies inequalities have increased very sharply; the public sector is an important player in both economies, especially in banking; both have integrated only partially into international capital markets; and therefore both have charted their own paths and not slavishly followed the neoliberal Washington Consensus prescriptions; and finally, and importantly, for both however there are important elements of economic policy that are clearly neoliberal .

Where there are similarities, there are important differences as well: China's economy is industry and manufacturing driven whereas India's is service driven; and this is partly because China saw successful land-reforms⁸⁰ and therefore did not follow the classical European path where growth

⁷³ This has been widely documented. See Ramakrishnan (2011) for a more recent elaboration of the process. Arrighi (2007) has argued that from late 1970s to early 1990s China followed a strategy of accumulation without dispossession.

⁷⁴ In India it is not just economic policy that contributes to inequality. There are structural inequalities in terms of access to physical, human and cultural capital that is institutionalized in the shape of the caste-system and the marginalization of adivasis (indigenous peoples) (see e.g., Mohanty (2006) and Sundar (2010)). Neoliberal economic policy has worked to widen rather than narrow these structural inequalities. See Heyer (2010) on how dalits (people belonging to lower castes) are forced to remain as agricultural labourers because they are obstructed from taking non-agricultural occupations.

⁷⁵ See Ravallion (2009).

⁷⁶ Also see Sen and Himanshu (2004 a and b).

⁷⁷ The Gini coefficient measures income (or some proxy) inequality and therefore overstates the difference between China and India. If we factor in access to land, education and health, inequality in India would increase sharply (see Bardhan (2010)).

⁷⁸ Though as Ghosh and Chandrasekhar (2009: 737) point out, post the global financial crisis of 2008, the Government of India has, "bucked the trend" and moved towards closer integration with global financial markets. See also Mohanty (2011)

⁷⁹ For China's integration into the global economy see e.g., Ho-fung (2009 a and b), Bardhan (2010) and Chandra (2012).

⁸⁰ Land-reforms of the Mao period make possible rural industrialisation which laid the basis for small-enterprise (TVE) driven non-agricultural growth from the late 1970s to the early 1990s (see Arrighi (2007:364) and Andreas (2010: 66-69)).

was associated with dispossession of the peasantry⁸¹. In India on the other hand, elites successfully obstructed these⁸²; China's post-Mao reforms began with agriculture⁸³ whereas India's (1992/93) began with industry and international trade and followed by finance⁸⁴; China's agricultural growth has been significantly superior to India's⁸⁵; and finally, as a result, China's achievements in poverty alleviation and well-being are significantly superior to India's. Therefore what happens to and in agriculture and the dispossession of the peasantry seems to be critical in terms of well-being. In that light India's agrarian crisis is not only unfortunate but also a tragedy.

VI: Agriculture, agrarian crisis, dispossession and partial proletarianization of the peasantry

Declining growth rates, productivity and profitability in agriculture (Balakrishnan (2010)) and the associated agrarian crisis of the last two decades (see Patnaik Utsa (2003) and (2007) and Patnaik and Moyo (2011)) has meant that output from small and marginal farms is not enough even to guarantee peasant subsistence. Therefore land cultivation accounts for less than half of total farm household incomes, with the rest being accounted for by wages and petty production (Basole and Basu (2011: 50)⁸⁶. Perhaps the most tragic metric of the agrarian crisis is the continuing farmer suicides (see Nagaraj (2008) and Sainath (2011)). There are those such as Panagariya (2008) who would argue that farmer suicides can hardly be used as a metric for the depth of an agrarian crisis given how personal and psychological a response suicide is. But as Nagaraj (2008) has so meticulously argued, agriculture has a suicide rate higher than non-agriculture and other things being equal there is little reason why it should be any different. In addition scholars like Nagaraj (2008) and Sainath (2011) have carefully explored and established the mechanisms through which widespread agrarian distress leads to farmer suicides. Therefore to say that farmer suicides and the agrarian crisis are not linked is at best to behave like an ostrich.

But accumulation by dispossession in India has had one unexpected outcome – instead of proletarianising the peasantry and concentrating land in the hand of relatively large landowners and a dynamic middle peasantry, as has happened in the classical English transition to capitalist agriculture⁸⁷ (see Byres (2006: 47-51) - the reverse has happened. The average size of owned and operated landholdings in India has secularly fallen and largely due to decline in the average holdings of large, medium and small farmers (see Basole and Basu (2011: 42-44)) and a middle peasantry disproportionately squeezed by the agrarian crisis.

So in India as well, rural labour has had to “leave the land without leaving the village” but in the context of a stagnant rural economy which does not provide sufficient non-farm rural employment, the exact opposite of the dynamic Chinese case. Therefore in both China and India there has been a partial proletarianization of the peasantry, but one is the outcome of accumulation without dispossession and the other of accumulation by dispossession! Equally importantly, it would seem to complicate typologies Arrighi sets out, where accumulation strategies defined the process of proletarianization of the peasantry, which in turn implicated growth outcomes.

⁸¹ See Hart (2002) and Arrighi (2007).

⁸² See e.g., Mohanty (2008).

⁸³ See e.g., Arrighi (2007).

⁸⁴ See Chandrasekhar and Ghosh (2004).

⁸⁵ It is useful to remember that historically China's agriculture has been more efficient than India's. Some of the differences in productivity is the result of natural resource endowments including climate (see Bardhan (2010)). But a lot of it also has to do with institutional evolution and policy choice.

⁸⁶ Also see Rawal (2008) and Ramachandran and Rawal (2010).

⁸⁷ It is of course useful to remember in this context that the European transition to capitalism (and its variants) is not the only available path. There are other, most notably the East Asian, paths to transition as well where the role of agriculture has been very different (see Sugihara (2003) and Arrighi (2007)).

Be that as it may, as Mohanty (2008) in what he calls “the return of land hunger” in India notes, “[i]n the face of a lack of non-farm opportunities, rural or otherwise, for many small-scale farmers access to land was the only insurance against starvation. Many farmers therefore, despite the agrarian crisis, were simply unwilling to sell the little land that they owned. The previous inability to push through land reform then came back to haunt the urban bourgeoisie ... Similarly, Adivasis⁸⁸, long frustrated by lack of development and opportunities in their areas, were now unwilling to sign away their traditional rights to common property – just when the urban bourgeoisie wanted, and needed, land the most.” This unwillingness to sell land or give up access to livelihood sources has led to widespread and sustained resistance to acquisition of farm and forest land by federal and state (provincial) governments on behalf of domestic bourgeoisie and multinational capital (MNCs) (see Frontine (2011)).

VII: Conclusion: Globalization outcomes, contestation, politics and alternate paths to growth

What then has been the impact of globalisation on the growth trajectory of the Indian economy? Post-reforms, in the 1990s India changed course and chose greater integration with the global economy as an integral part of its development strategy. However even though integration levels increased, rates of growth of per-capita-income and investment levels did not change very much. But in the first decade of the 21st century both the pace and character of this integration changed. The quickening pace of integration also saw sharp increases in investment and savings levels and in per-capita-income growth. The fact that savings kept pace with rising investment levels meant that current account deficits were low even as international capital flows into the economy increased. Low current account deficits were predicated upon rapidly growing export of goods and services and inflows of remittances from migrant labour. Of particular importance, goods exports saw an improvement in its technology content and a switch of geographies towards Asia. As the centre of gravity of the world’s economic and trading activity has begun shifting back to Asia, India’s integration with Asia has deepened. This integration however also saw a structural increase in the import intensity of the economy as a result of dependence on hi-tech imports. The global economic slowdown as result of the financial crisis of 2008 uncovered these chinks as the deceleration of growth of the Indian economy was accompanied by a sharp widening in its current account deficit.

If, in the first decade of the 21st century, integration with the global economy has been associated with high levels of investment and savings, rapid per-capita income growth and dynamic export outcomes it has had other less beneficial implications as well. First, it has had little impact on the Indian economy’s anaemic employment performance. Second, and a related issue, the most integrated sector in the economy – manufacturing – has only seen a marginal increase in its share of output and actually a small decline in its share of employment. So global integration has been the driver of growth but distorted structural change. Third, indeed it (globalization) has worsened the mismatch between employment structure and output structure by having catalyzed a multi-dimensional agrarian crisis, as a result of which agricultural and non-agricultural productivities have diverged instead of converging. Fourth, the slow growth of employment opportunity both inside and outside agriculture is not only a driver of inequality but also the cause of land-hunger, leading to widespread resistance from below to the acquisition of land and other natural resources, an unintended consequence of globalization.

This resistance from below feeds into one of the most truly remarkable aspects of India’s democracy – that in India it is the poor and not the rich who are more likely to vote.⁸⁹ In the last couple of decades or so, it is the poor who have consistently and in larger majorities exercised their

⁸⁸ A loose equivalent would be the Canadian First Nations.

⁸⁹ See for example, Alam(1999) and Khilnani (1996)

democratic right at the ballot box.⁹⁰ And in India the vast majority of the middle (OBCs) and lower castes (Dalits), Adivasis and Muslims are poor⁹¹ and the poor overwhelmingly belong to these groups.⁹²

The radical intent of the Indian Constitution around the issues of land and caste (see Mohanty (2008)) then has manifested itself in the political space and the rhetoric of equality enshrined in it has been partially delivered, perhaps in ways not envisaged by its framers. Political space today is much more plural, and parties and groups dominated by upper castes play a much less hegemonic role than even 30 years ago. Access to political power is more equitable across social groups and at least some socio-economically marginalised groups have achieved legislative majorities and formed governments to an extent unimaginable in 1950. And all of these are the results of movements from below around land and caste that have characterised Indian politics.⁹³ The widespread resistance to the acquisition of farm and forest land in the current phase of accumulation by dispossession is of that lineage.

The fact that in India it is the poor who vote, that parties representing socio-economically marginalised groups have gained political power and the widespread resistance to the acquisition of farm and forest land, has placed the issue of land and land acquisition squarely on the political and legislative agenda⁹⁴ despite attempts by the big bourgeoisie and the political elite to finesse it. And if, and it still remains a big if, as a result land can no longer be expropriated at will, then it will bring to fore the issue that poverty cannot be solved without addressing land-hunger, and therefore the possibilities of accumulation without dispossession have to seriously explored. It will then open up the possibility of addressing issues of social exclusion and mobility because these cannot be addressed without confronting caste-related inequalities and broad-basing education and employment opportunities to include the millions of uneducated landless labourers who are also largely middle and lower castes (OBCs and Dalits)⁹⁵. Despite some important contributions to the recent literature on the political economy of growth in India (see Chatterji (2008a and b), Bardhan (2009) and Kohli (2010)) how this contestation shapes the choices that India makes has been inadequately studied.

Be that as it may, if therefore, because of resistance from below, India can switch to accumulation without dispossession and China can return to that path, both would have charted truly non-western paths to growth and well-being. But today at least that possibility exists. And as Arrighi (2009: 80) and Patnaik (2010) note, were this to happen, it would have an important bearing on the evolution of global capitalism. At least in India's case the partial proletarianisation of the peasantry is an unintended consequence of growth and the globalisation of the economy but it might yet have an important role to play in shaping India's economic trajectory.

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⁹⁰ Yadav (2000) calls it the "second democratic upsurge".

⁹¹ See Mohanty (2006: 3782)

⁹² See NCEUS (2007) on how socially narrowly based India's growth has been and how the overwhelming majority of middle castes (OBCs), lower castes (Dalits), Adivasis and Muslims are poor and vulnerable.

⁹³ See for example Jaffrelot's (2003) study of the rise of lower castes in northern Indian politics in what he calls the "silent revolution".

⁹⁴ See for example Venkatesh (2011).

⁹⁵ See Mohanty (2006).

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