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India: Globalisation and Growth

Mritiunjoy Mohanty

Professor

Indian Institute of Management Calcutta
Diamond Harbor Road, Joka, Kolkata 700104
INDIA

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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 saving 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 geography towards Asia. In the last three decades world trade relative to GDP has

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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 good exports from India; Section IIb the export of commercial services and Section IIc analyses the changing technology structure of goods exports as well as 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. Section

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 BRIC (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

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 export 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 shares 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, America’s export shares 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.

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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
1991-05	19.5	5.4	2.3	50.5 ^b		

modularisation and fragmentation of production technology. This process of “fragmentation of production” has facilitated a division of labour between 0.17 of labour

Fig1: Average rates of growth of goodsexports

Source: Same as Table 1

Table 3: Period Averages of Shares in World Exports of Goods (% p.a.)						
	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
1980-85	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 goodsexports has consistently increased, underpinned by the fact that growth rates of goodsexports from Asia is consistently higher than that of world goodsexports. We also know that over the period 2005-11, Asia outperformed both Europe and N. America. How has India fared in terms of goodsexport over this period? First, up to the 1980s, India's exports grew slower than world trade and growth was uneven. For the average rate of growth for the period 1955-74 was 6.8% when world exports grew at 12.3%.

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Fig2: Average rates of growth of services exports

Source same as Table 1

Table 4: Period Averages of Shares in World Exports of Commercial Services (% p.a.)						
	Brazil	Canada	China	Japan	Korea	India
1980-90	0.5	2.4	0.7	5.5	1.5	0.7
1991-05	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 1980-90 was \$2.8 billion. It increased a little more than 2 fold by 1993-05 – 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 1991-05 (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 1980-90. By 1993-05, 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 (Tj / TT T

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 structure have been different in each. As we noted earlier, in the 1980s, India’s good 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 export 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 good 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 good 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 good 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 span 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

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.

As Table 8 indicates, after a period of stagnation from the mid 1960s to

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

The bulk of international trade was in goods with services accounting for

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 services exports as a proportion of GDP; d – Private Transfers is a subset 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 of the economy's growth rate to 9%. As Table 11 demonstrates, the low current account deficit is not explained by surpluses on the services 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. On the 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 have

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)).

Table 12: India

not

revivethem by further liberalisingforeign investmentregulation⁴⁸, balancingthe economyon a knife edge.Giventhe influenceof foreign investmentinflows on the stockmarket, reversalof capital flows led to a stockmarketcrash⁴⁹

Gross inward FDI, outward FDI and Portfolio are all subset 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 r 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 r 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 balanced 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 2.30% of 6.7486 0 TD 0 Tc <00 account outward

maintained until 2008/9. Thereafter it decelerated quite sharply and by 2010/11 declined to 0.92%. Therefore an important part of 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 to 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 over 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

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period. into the

Alongside growth has come structural change⁶¹. For the period 1980/1 to 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 to 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 to 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 to 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 to 1982/83) to 12.8% (2008/9 to 2010/11), i.e., a decline of 16.6%. Over that period, industry (and manufacturing) gained but little – between 1.5 to 2%. The lion's share of the gain has gone to services which saw an

average for the period 2008/09 to 2010/11 amounting to 44.2% of manufacturing GDP and rising – the average was only 9.2% of for the period 2000/01 to 2002/03. It will be recalled (see section

Which perhaps brings us to the nub of the matter – despite the recent

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

Bethat asit may, asMohanty (2008)in what he calls“the return of land hunger” in Indianotes, “[i]n the faceof a leca

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 acquisitions 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 be 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 based education and employment opportunities to include the millions of uneducated and less 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 Yada (2000) calls it the "second democratic upsurge".

⁹¹ See Mohanty (2006: 3782)

⁹² See

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