Online Appendix for *Dynamism with incommensurate development: The distinctive Indian model*∗

Rohit Lamba  
Arvind Subramanian  

January 2020

A Appendix

A.1 Timeline of reforms

Figure A.1 provides a broad overview of the key reforms and economic in the recent economic history of India, as discussed in main text of the paper.

∗Lamba: rlamba@psu.edu; Subramanian: arvind_subramanian@hks.harvard.edu.

The start of modest pro-business reforms, easing access of domestic incumbents to foreign inputs, foreign exchange and technology. Public expenditure boom.

Unsustainable fiscal and current account deficits lead to balance of payments crisis.

Crisis induces repudiation of dirigiste model. Sweeping reforms of trade, foreign exchange, foreign investment and domestic price and production regimes.

Growth and democratic pressures lead to redistribution through rights and entitlements in employment, food and education guarantees. Corruption in allocation of natural resources and in financing of infrastructure boom: “Rents Raj.”

Growth fuels a credit bubble, leaving behind a Twin Balance Sheet crisis: private companies overindebted and public banks saddled with non-performing loans. Mini-macro crisis in 2013

More sectors opened up to domestic and foreign competition. Extensive tax and regulatory reforms; financial system liberalized.

Growth fuels a credit bubble, leaving behind a Twin Balance Sheet crisis: private companies overindebted and public banks saddled with non-performing loans. Mini-macro crisis in 2013

More sectors opened up to domestic and foreign competition. Extensive tax and regulatory reforms; financial system liberalized.

Growth and democratic pressures lead to redistribution through rights and entitlements in employment, food and education guarantees. Corruption in allocation of natural resources and in financing of infrastructure boom: “Rents Raj.”

Growth fuels a credit bubble, leaving behind a Twin Balance Sheet crisis: private companies overindebted and public banks saddled with non-performing loans. Mini-macro crisis in 2013

Growth fuels a credit bubble, leaving behind a Twin Balance Sheet crisis: private companies overindebted and public banks saddled with non-performing loans. Mini-macro crisis in 2013

Growth fuels a credit bubble, leaving behind a Twin Balance Sheet crisis: private companies overindebted and public banks saddled with non-performing loans. Mini-macro crisis in 2013

Nation-wide Goods and Services tax (GST) introduced. A new bankruptcy code instituted to resolve over-indebtedness. A “new basic needs welfarism,” initiated to provide essential private goods and services to poor.

Demonetization: 86% of currency is invalidated, inflicting shock to the large informal economy.

Figure A.1: Timeline of reforms
A.2 A trade puzzle

Surprisingly, India’s unusual specialization has not affected its trade openness. This puzzle is compounded by the fact that India’s trade policies in goods and services are—and have been—amongst the most restrictive in the world. India has amongst the highest most-favored-nation tariffs in goods and Borchert, Gootiiz, and Mattoo [2014] document the same for trade in services. But trade openness is also determined by a country’s level of development (as countries become richer they trade more, partly by liberalizing trade policies). Crucially, the gravity model of trade strongly predicts that trade openness is also determined by country size—larger countries trade less than smaller ones (Anderson and Wincoop [2003]).

India’s trade-GDP ratio (41 percent in 2015-17 and including goods and services), a standard measure of openness, is greater than that of comparable large economies such as China (38 percent), Brazil (25 percent), Indonesia (40 percent), United States (27 percent) and Japan (34 percent). Figure A.2 provides a general illustration of this finding. It plots the ratio of trade in goods and services to GDP (y-axis) against a measure of size (population) after controlling for a country’s level of development. The relationship is downward sloping as the gravity model predicts and India is a clear positive outlier (well above the line of best fit). It is true that India’s unusual specialization in services has made its trade in services exceptionally high. But even in goods and manufacturing which Indian policies penalized, trade openness remains normal and India is above the line of best fit across countries.

References