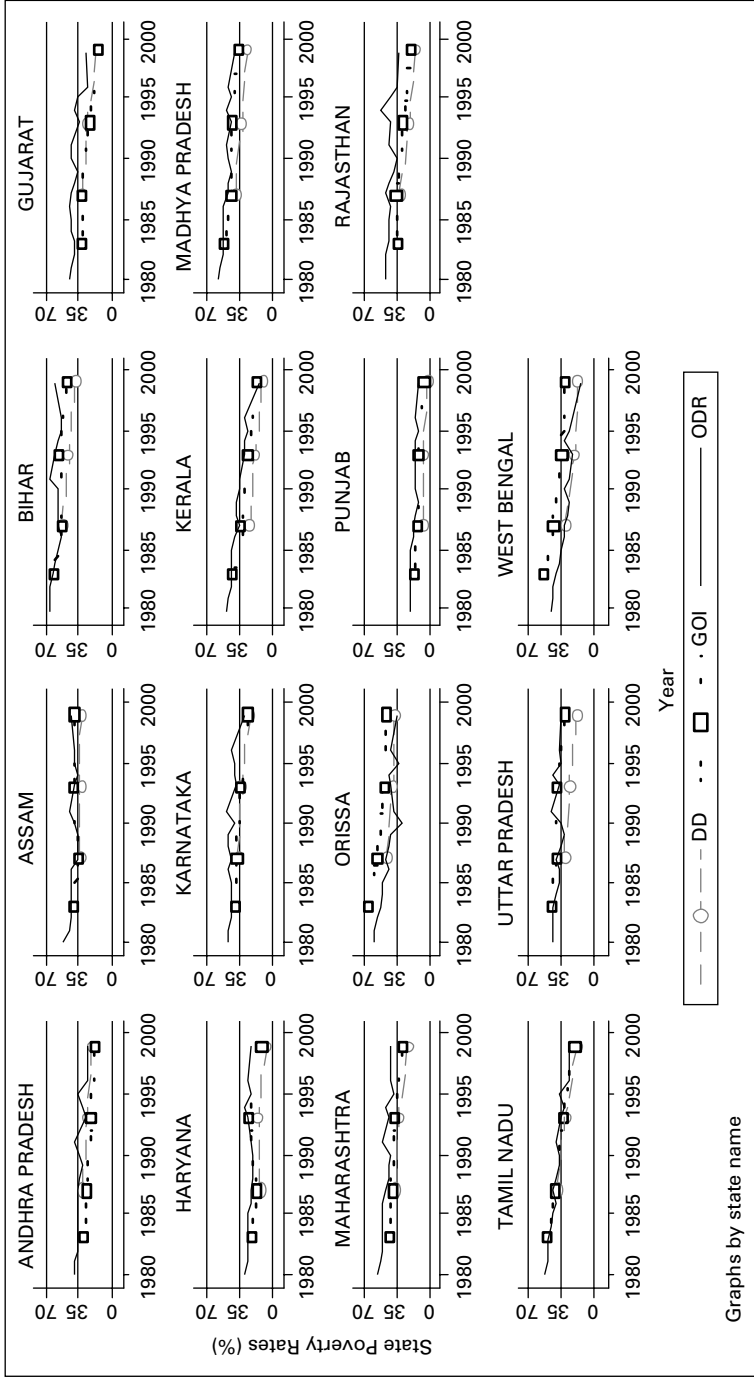


APPENDIX

FIGURE 1. Poverty Rates (Overall)



Graphs by state name

FIGURE 2. Poverty Rates (Urban)

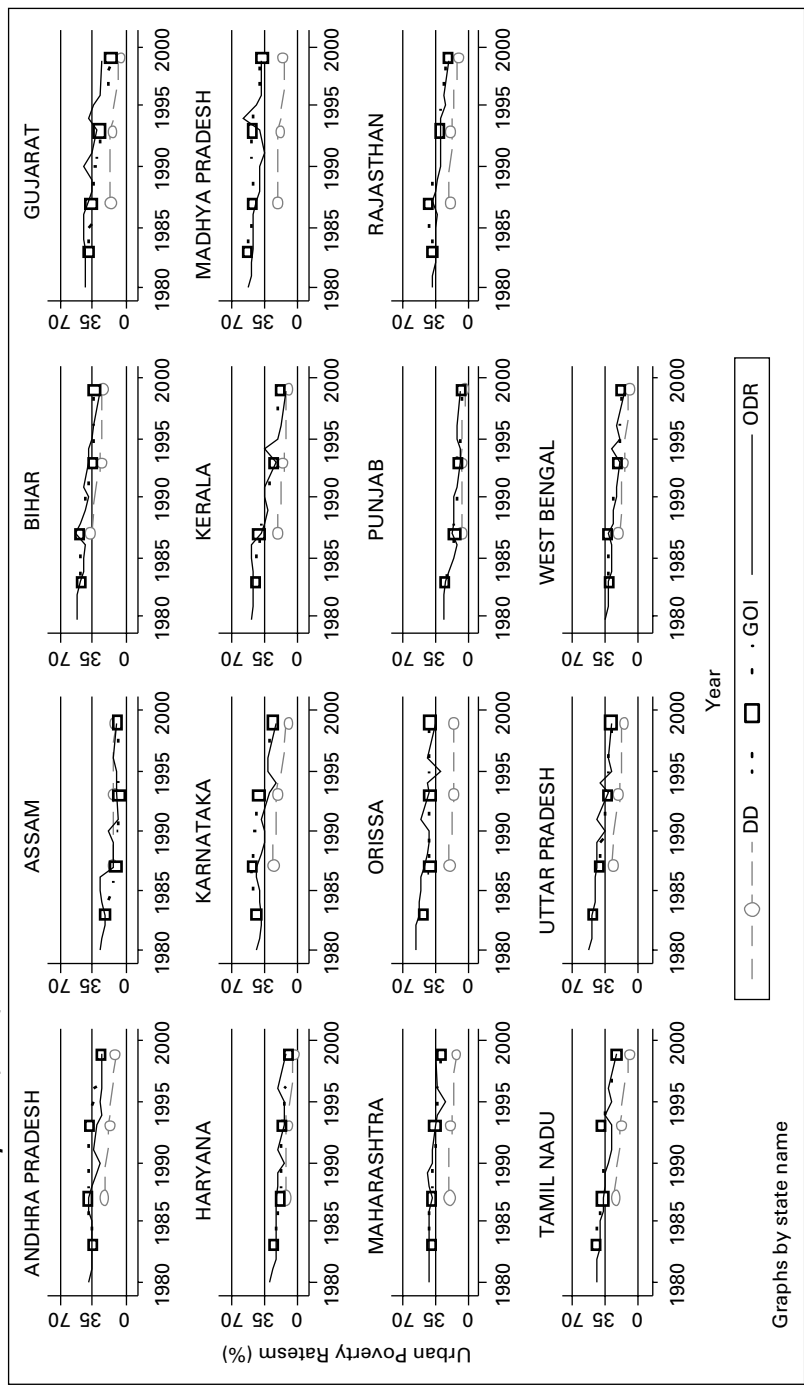
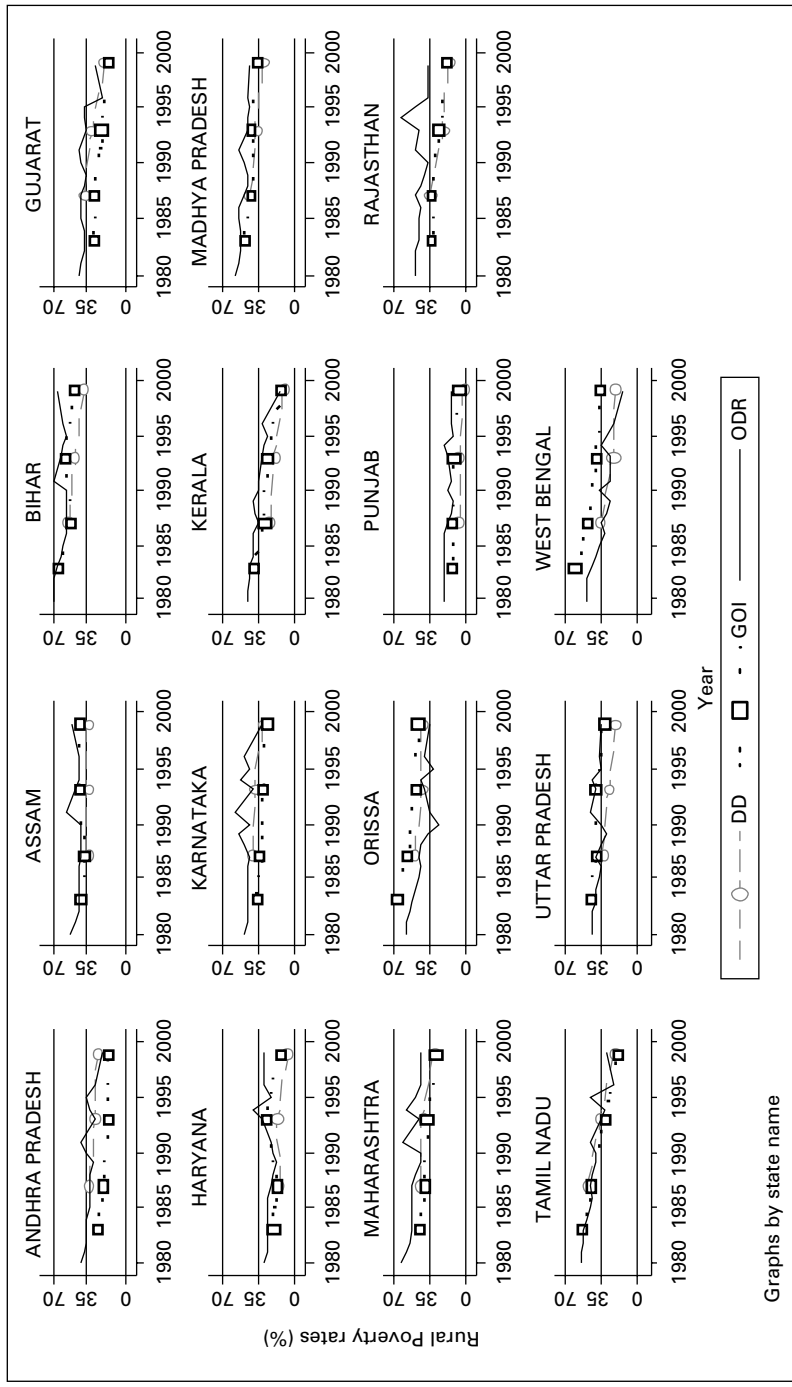
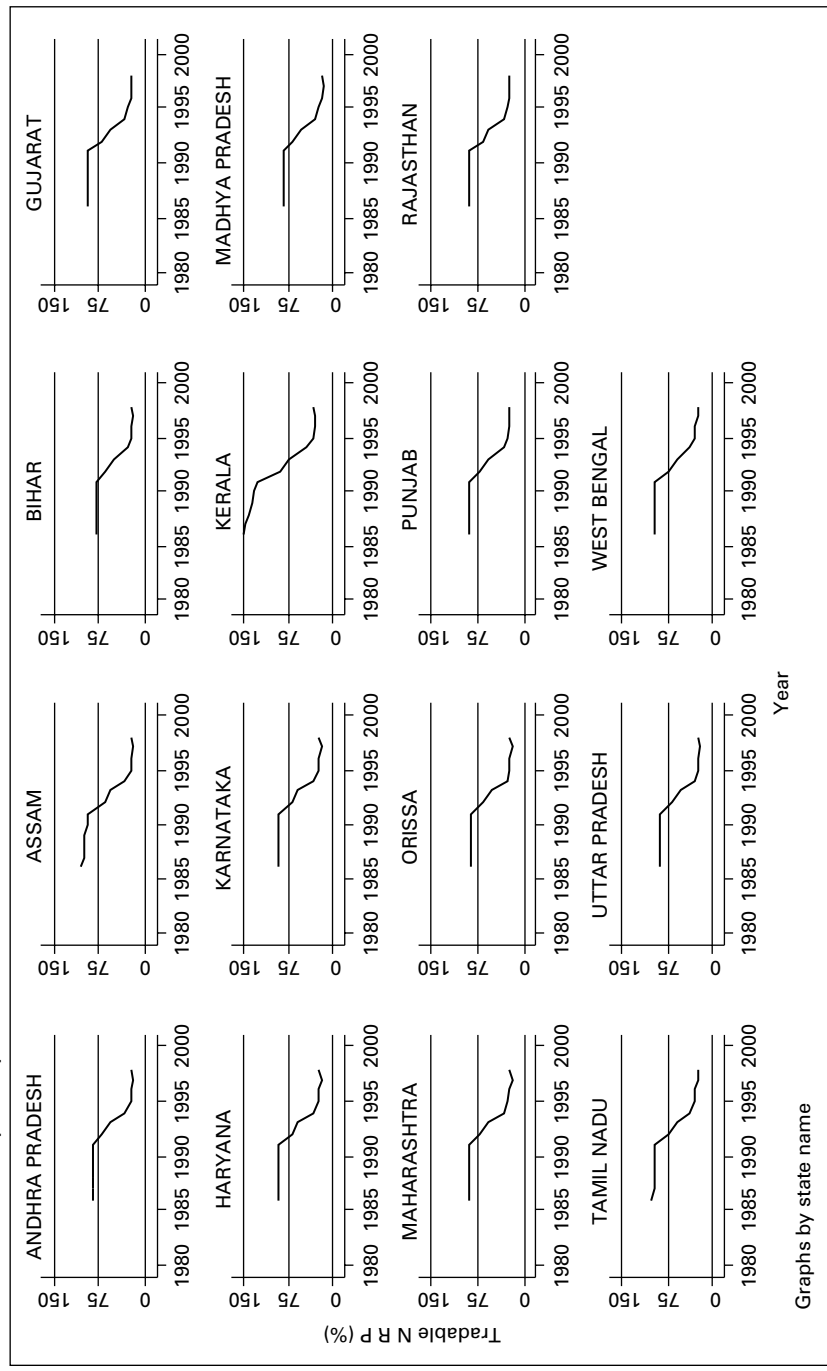


FIGURE 3. Poverty Rates (Rural)



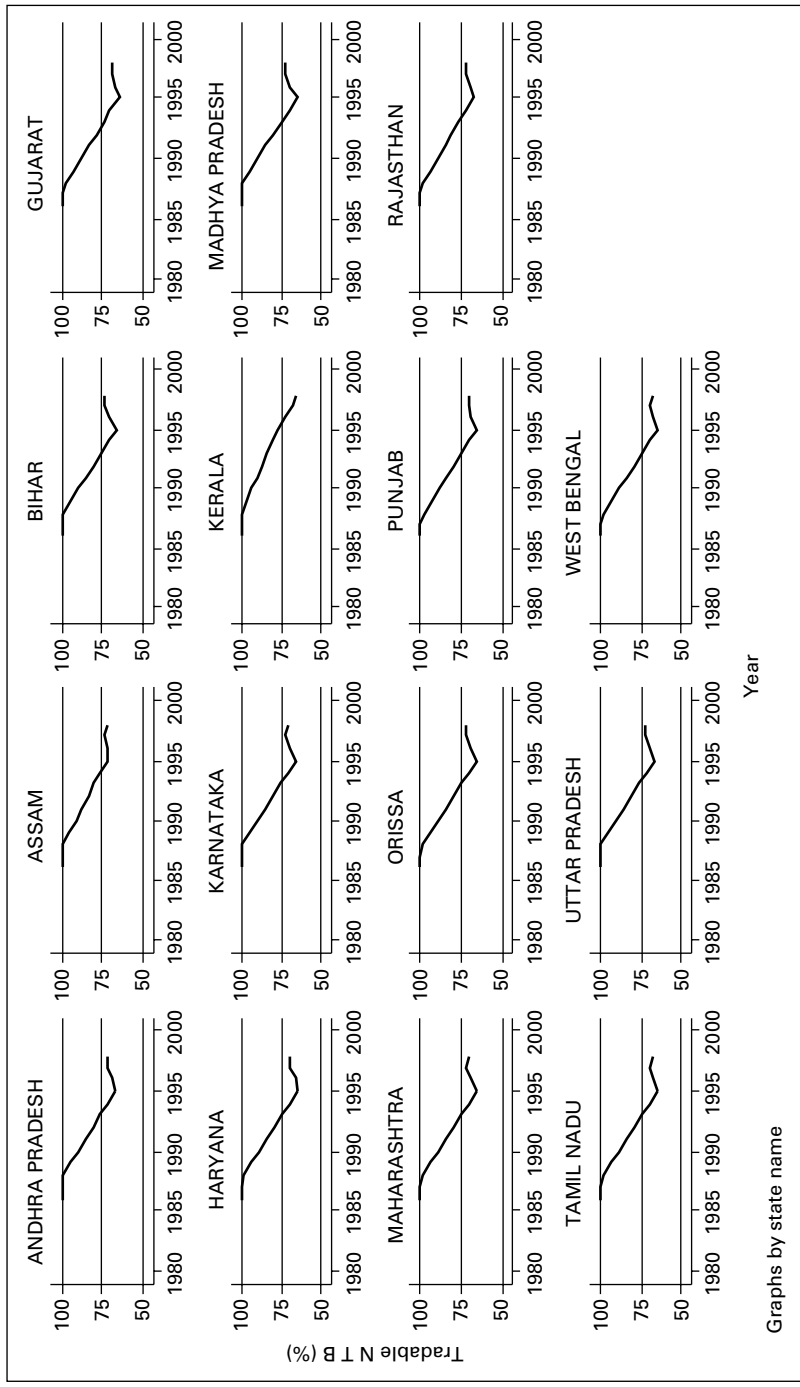
Graphs by state name

FIGURE 4. Tariff (Overall)



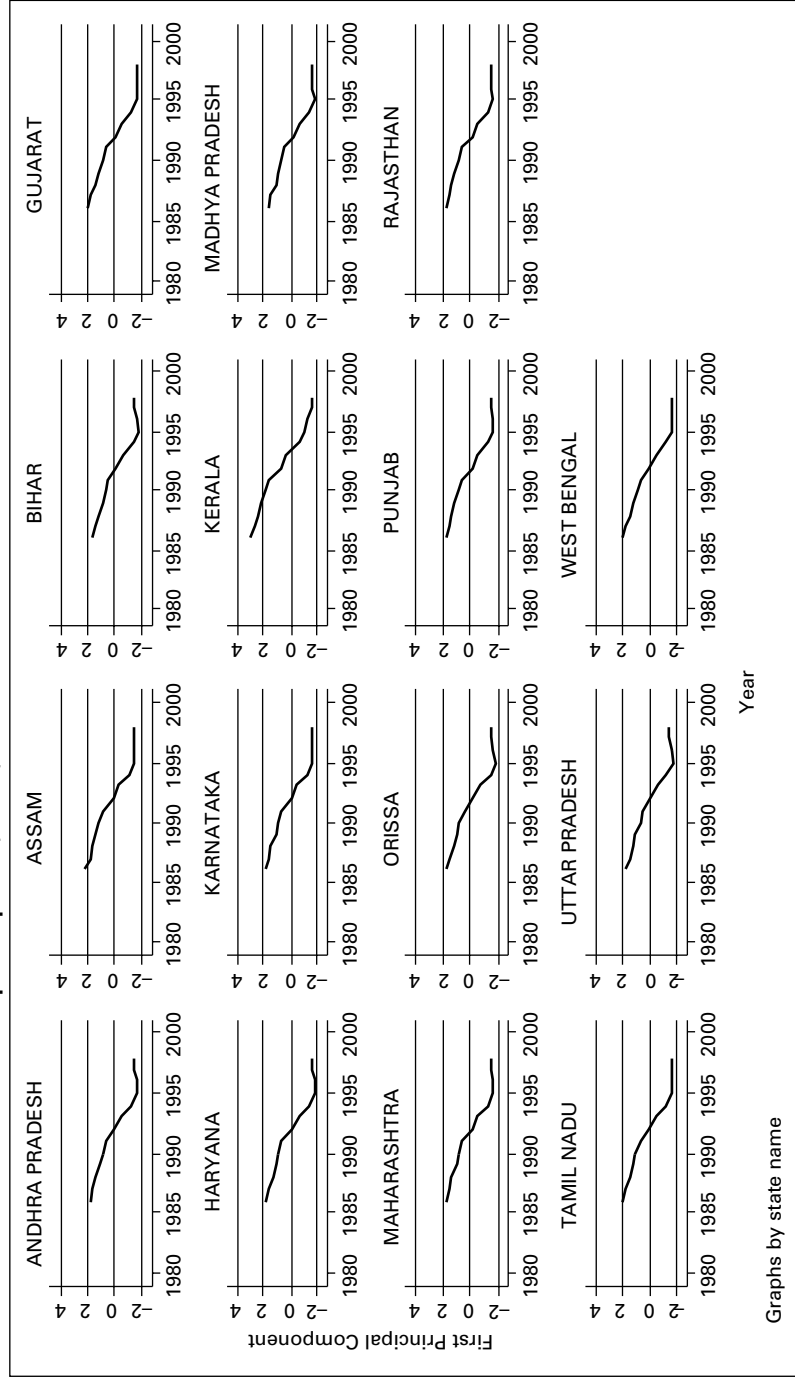
Graphs by state name

FIGURE 5. Non-Tariff Barriers (Overall)



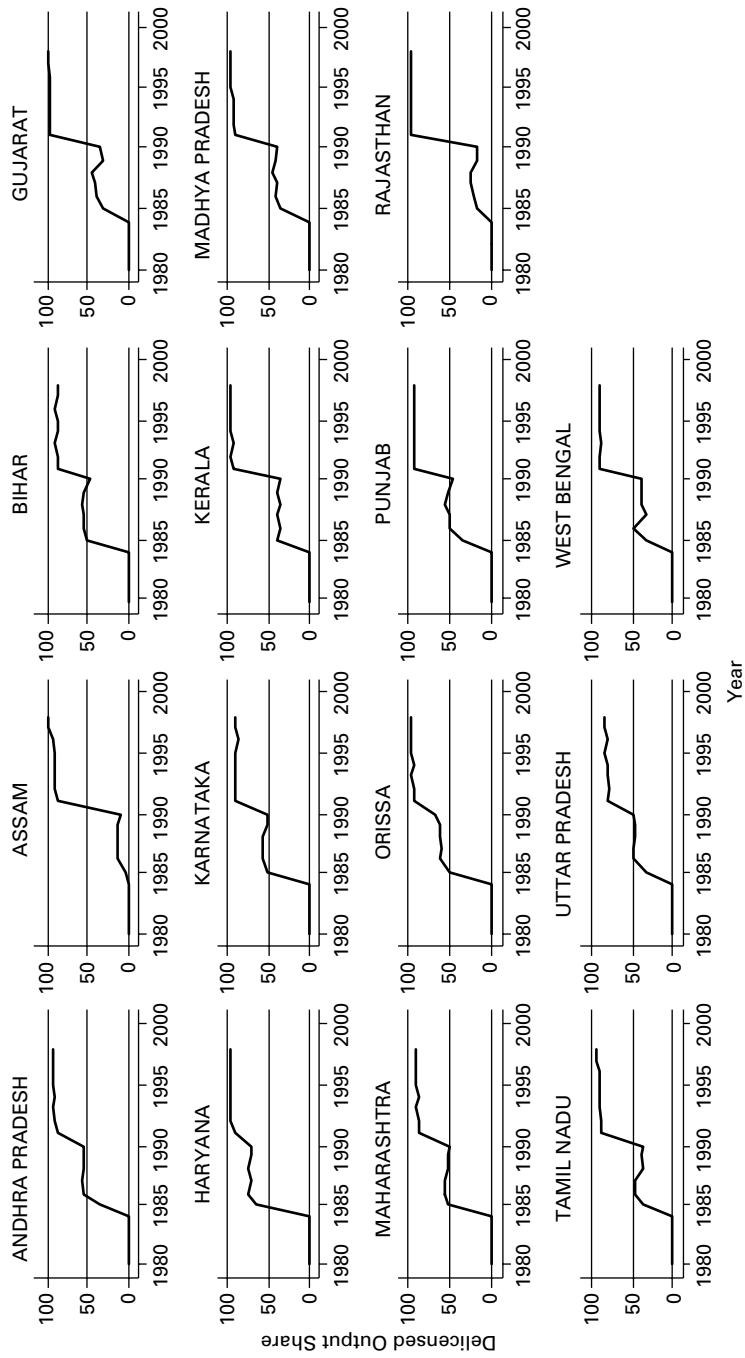
Graphs by state name

FIGURE 6. Protection First Principal Component (Overall)



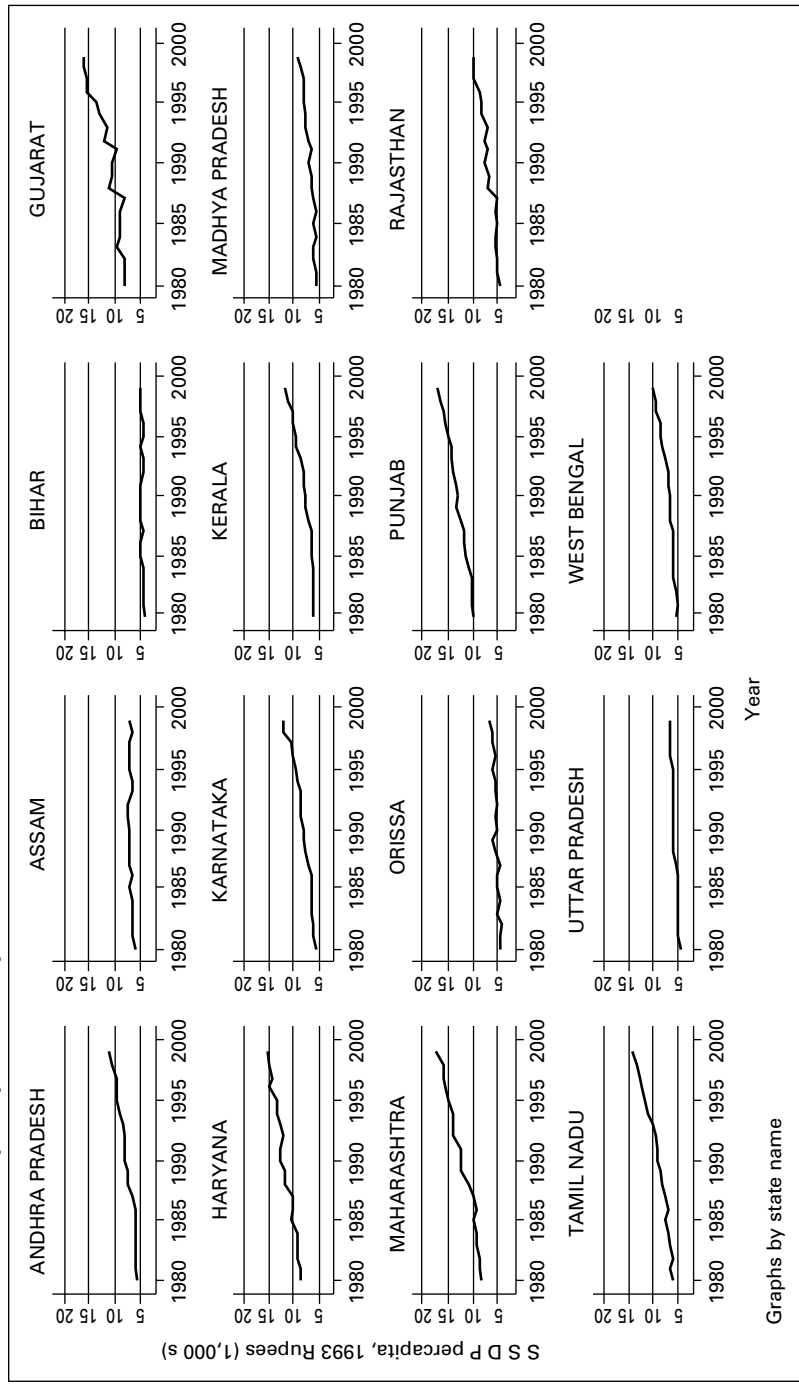
Graphs by state name

FIGURE 7. Delicensed Industries' Share of Output



Graphs by state name

FIGURE 8. GDP per Capita (1993 Rupees)



Graphs by state name

T A B L E 1 . State Per Capita Incomes and Policy: State Per Capita Income on Protection and Delicensed Output Share

<i>Variables</i>	<i>Tariff</i>											
	1	2	3	4	5	6	7	8	9	10	11	12
Constant	9.29 [660.85]***	9.29 [677.53]***	9.30 [786.17]***	9.31 [315.41]***	9.24 [283.23]***	9.35 [414.63]***	8.79 [298.92]***	8.80 [306.96]***	8.79 [322.31]***	8.97 [176.35]***	9.00 [188.06]***	8.99 [224.18]***
Protection	-3.53E-03 [16.71]***	-2.91E-03 [10.26]***	-2.56E-03 [10.63]***	-3.36E-03 [4.17]***	2.30E-04 [0.20]	-4.39E-03 [6.32]***						
Protection* Flex	-1.57E-03 [3.91]***				-2.00E-03 [5.23]***							
Protection* Flex2			-2.65E-03 [6.91]***			-2.83E-03 [9.83]***						
Delicensed							3.77E-03 [10.07]***	3.03E-03 [6.52]***	2.61E-03 [6.04]***	5.60E-04 [0.56]	-8.30E-04 [0.84]	-9.80E-04 [1.14]
Delicensed* Flex								1.91E-03 [2.58]**			2.34E-03 [4.75]***	
Delicensed* Flex2									2.71E-03 [3.73]***			2.94E-03 [6.24]***
Year Dummies	No	No	No	Yes	Yes	Yes	No	No	No	Yes	Yes	Yes
Observations	195	195	195	195	195	195	195	195	195	195	195	195
Number of states	15	15	15	15	15	15	15	15	15	15	15	15
R-squared	0.63	0.66	0.72	0.75	0.78	0.84	0.43	0.46	0.49	0.73	0.77	0.8

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

TABLE 2. Poverty and State Per Capita Incomes

<i>Variables</i>	<i>DD</i>			<i>GOI</i>			<i>ODR</i>		
	3	4		1	2		5	6	
Constant	13.59 [13.16]***	9.57 [5.15]***		12.07 [15.26]***	10.67 [8.29]***		9.59 [19.83]***	7.70 [8.43]***	
GSDP (per capita, log)	-1.15 [9.99]***	-0.70 [3.33]***		-0.96 [10.81]***	-0.81 [5.81]***		-0.67 [12.25]***	-0.47 [4.70]***	
Year Dummies	No	Yes		No	Yes		No	Yes	
Observations	45	45		60	60		255	255	
Number of states	15	15		15	15		15	15	
R-squared	0.72	0.77		0.76	0.8		0.54	0.62	

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

TABLE 3. DD Headcount Index: Urban

Variables	Tariff				NTB				First principal component						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Constant	2.12 [30.82]***	2.12 [32.11]***	2.11 [34.66]***	3.99 [1.62]	4.24 [1.97]*	1.71 [14.49]***	1.67 [16.00]***	1.70 [15.78]***	5.36 [2.23]**	6.19 [2.87]***	2.71 [106.47]***	2.71 [113.77]***	2.71 [111.44]***	4.97 [2.09]**	5.59 [2.70]**
Protection	6.75E-03 [10.80]***	5.99E-03 [7.05]***	5.72E-03 [6.87]***	5.25E-03 [4.08]***	4.86E-03 [3.67]***	0.01 [9.50]***	0.01 [6.91]***	0.01 [6.24]***	8.62E-03 [3.91]***	7.67E-03 [3.25]***	0.18 [10.23]***	0.16 [7.08]***	0.15 [6.59]***	0.13 [4.02]***	0.12 [3.49]***
Protection* Flex	2.28E-03 [2.25]**	2.09E-03 [1.99]*				6.52E-03 [2.85]***			5.30E-03 [2.15]**			0.08 [2.78]***		0.07 [2.30]**	
Protection* Flex2			2.62E-03 [2.45]**		2.51E-03 [2.44]**		5.00E-03 [2.01]*			4.41E-03 [1.89]*		0.07 [2.17]**			0.06 [2.12]**
Development Exp (per capita, log)				-0.20 [0.76]	-0.23 [0.99]				-0.38 [1.53]	-0.46 [2.08]**				-0.25 [0.95]	-0.32 [1.39]
Year Dummies	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
Observations	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
R-squared	0.81	0.83	0.84	0.83	0.84	0.74	0.78	0.77	0.79	0.79	0.78	0.81	0.81	0.82	0.82

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

T A B L E 4. DD Headcount Index: Rural

Variables	Tariff			NTB					First principal component						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Constant	2.83 [36.25]***	2.83 [33.76]***	2.83 [36.73]***	6.23 [2.52]**	6.20 [2.52]**	1.84 [8.10]***	1.85 [8.04]***	1.84 [7.96]***	7.54 [3.07]***	7.86 [3.13]***	3.26 [110.72]***	3.26 [110.77]***	3.26 [107.99]***	6.28 [2.54]**	6.39 [2.49]**
Protection	7.28E-03 [6.92]***	7.26E-03 [4.29]***	7.07E-03 [4.64]***	5.37E-03 [2.33]**	5.32E-03 [2.62]**	0.02 [6.77]***	0.02 [4.48]***	0.02 [4.46]***	8.29E-03 [2.07]**	9.18E-03 [2.14]**	0.16 [7.29]***	0.15 [4.58]***	0.16 [4.82]**	0.11 [2.40]**	0.12 [2.54]**
Protection*		5.00E-05 [0.03]		-4.00E-05 [0.02]			4.51E-03 [0.97]		2.84E-03 [0.62]			0.02 [0.49]		0.01 [0.38]	
Flex			6.10E-04 [0.32]		1.40E-04 [0.08]			1.90E-04 [0.04]		-7.60E-04 [0.17]			6.24E-03 [0.15]		-1.12E-03 [0.03]
Protection*				-0.36 [1.38]					-0.56 [2.28]**					-0.33 [1.23]	
Development															
Exp (per capita, log)															
Year Dummies	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
Observations	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
R-squared	0.66	0.66	0.66	0.68	0.68	0.57	0.58	0.57	0.62	0.61	0.64	0.64	0.64	0.66	0.66

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

T A B L E 5. GOI Poverty Measure: Overall with Year Dummies

Variables	NTB														
	Tariff					NTB					First principal component				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Constant	3.00 [32.45]**	3.08 [28.64]**	2.95 [32.23]**	6.39 [2.90]**	6.53 [2.96]**	-0.24 [0.14]	0.34 [0.22]	-0.14 [0.09]	2.69 [0.83]	2.61 [0.77]	3.73 [35.81]**	3.58 [22.79]**	2.84 [35.70]**	6.15 [2.59]**	5.14 [2.27]**
Protection	6.13E-03 [2.02]*	1.77E-03 [0.44]	6.88E-03 [2.15]**	2.22E-03 [0.71]	6.42E-03 [2.53]**	0.04 [2.28]**	0.03 [1.89]*	0.03 [2.08]**	0.02 [1.52]	0.03 [1.59]	0.38 [6.08]**	0.27 [2.26]**	0.39 [9.51]**	0.23 [1.99]*	0.35 [5.54]**
Protection* Flex		2.83E-03 [1.56]		2.30E-03 [1.45]			6.99E-03 [2.19]**		6.53E-03 [2.07]**			0.05 [1.27]		0.04 [1.24]	
Protection* Flex2			2.79E-03 [1.85]*		2.52E-03 [1.77]*			5.87E-03 [1.90]*		5.58E-03 [1.85]*		0.07 [2.34]**			0.06 [2.33]**
Development Exp (per capita, log)				-0.36 [1.51]	-0.39 [1.63]				-0.21 [0.83]	-0.24 [0.98]				-0.28 [1.07]	-0.25 [1.02]
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
R-squared	0.67	0.7	0.7	0.72	0.73	0.7	0.74	0.73	0.74	0.74	0.71	0.73	0.75	0.74	0.76

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

T A B L E 6 . ODR Headcount Index: Overall with Year Dummies

Variables	Tariff										NTB					First principal component				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15					
Constant	2.94 [12.18]***	3.20 [13.41]***	2.79 [11.42]***	7.15 [6.34]***	6.81 [5.72]***	2.29 [1.61]	2.06 [1.85]*	2.47 [1.56]	6.32 [4.09]***	7.22 [4.50]***	4.40 [44.76]***	4.27 [33.53]***	4.44 [42.94]***	7.53 [6.71]***	7.59 [6.80]***					
Protection	7.48E-03 [2.91]***	4.03E-03 [1.52]	8.28E-03 [3.19]***	4.43E-03 [1.86]*	7.34E-03 [3.26]***	0.01 [0.92]	0.01 [1.21]	9.79E-03 [0.60]	9.51E-03 [0.95]	6.46E-03 [0.47]	0.55 [9.40]***	0.46 [5.75]***	0.55 [8.87]***	0.41 [5.45]***	0.49 [7.87]***					
Protection * Flex	2.05E-03 [2.43]**		1.36E-03 [1.69]*				6.62E-03 [3.39]***		5.18E-03 [2.71]**			0.04 [2.30]**		0.03 [1.77]*						
Protection * Flex2			2.24E-03 [3.08]***		1.72E-03 [2.35]**			3.68E-03 [1.98]*		2.78E-03 [1.53]			0.04 [2.97]***		0.03 [2.42]**					
Development Exp (per capita, log)				-0.45 [3.48]***	-0.44 [3.31]***				-0.43 [3.51]**	-0.49 [3.75]***				-0.37 [2.92]***	-0.36 [2.84]***					
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes					
Observations	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150					
Number of states	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15					
R-squared	0.45	0.48	0.49	0.54	0.55	0.39	0.46	0.42	0.52	0.49	0.52	0.55	0.56	0.59	0.59					

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

T A B L E 7 . DD Headcount Index: Overall with Time Trend

<i>Variables</i>	<i>Tariff</i>			<i>NTB</i>			<i>First principal component</i>		
	1	2	3	4	5	6	7	8	9
Constant	2.77 [10.82]***	2.82 [8.33]***	2.72 [11.00]***	4.09 [3.76]***	4.18 [3.98]***	4.11 [3.71]***	2.89 [17.78]***	2.96 [12.67]***	2.86 [17.39]***
Protection	6.71E-03 [2.59]**	5.97E-03 [1.50]	6.65E-03 [2.53]**	-6.13E-03 [0.57]	-8.93E-03 [0.87]	-7.11E-03 [0.65]	0.30 [3.63]***	0.26 [1.89]*	0.31 [3.94]***
Protection* Flex		7.60E-04 [0.38]			5.57E-03 [1.37]			0.02 [0.42]	
Protection* Flex2			1.44E-03 [0.87]			2.09E-03 [0.50]			0.03 [0.79]
Time Trend		-4.96E-03 [0.35]	-2.07E-03 [0.15]	-0.06 [2.12]**	-0.06 [2.25]**	-0.06 [2.11]**	0.04 [1.57]	0.03 [0.83]	0.04 [1.74]*
Observations	45	45	45	45	45	45	45	45	45
Number of rstate	15	15	15	15	15	15	15	15	15
R-squared	0.73	0.73	0.73	0.69	0.71	0.69	0.72	0.72	0.72

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

T A B L E 8 . DD Headcount Index: Urban with Time Trend

<i>Variables</i>	<i>Tariff</i>			<i>NTB</i>			<i>First principal component</i>		
	1	2	3	4	5	6	7	8	9
Constant	1.51 [2.54]**	1.49 [2.54]**	1.42 [2.61]**	3.89 [4.07]**	3.02 [2.74]**	3.76 [3.86]**	2.44 [5.85]**	1.81 [3.90]**	2.38 [6.27]**
Protection	0.01 [2.60]**	0.01 [2.40]**	0.01 [2.66]**	-7.87E-03 [0.85]	-9.90E-04 [0.10]	-8.52E-03 [0.90]	0.31 [1.53]	0.58 [2.59]**	0.31 [1.68]
Protection * Flex		2.31E-03 [2.22]**			4.66E-03 [1.67]			0.11 [3.95]**	
Protection * Flex2			2.72E-03 [2.64]**			4.65E-03 [1.85]*			0.07 [2.19]**
Time Trend	0.03 [1.06]	0.04 [1.12]	0.04 [1.32]	-0.08 [2.37]**	-0.05 [1.24]	-0.08 [2.19]**	0.04 [0.66]	0.13 [1.93]*	0.05 [0.88]
Observations	45	45	45	45	45	45	45	45	45
Number of rstate	15	15	15	15	15	15	15	15	15
R-squared	0.81	0.84	0.85	0.77	0.79	0.79	0.78	0.83	0.81

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

TABLE 9. DD Headcount Index: Rural with Time Trend

<i>Variables</i>	<i>Tariff</i>			<i>NTB</i>			<i>First principal component</i>		
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>
Constant	3.02 [11.36]***	3.04 [8.90]***	3.00 [11.42]***	4.49 [3.73]***	4.63 [4.00]***	4.49 [3.66]***	3.23 [12.78]***	3.33 [10.44]***	3.22 [11.31]***
Protection	5.48E-03 [1.99]*	5.02E-03 [1.19]	5.48E-03 [1.94]*	-9.24E-03 [0.78]	-0.01 [1.11]	-9.23E-03 [0.76]	0.17 [1.33]	0.11 [0.64]	0.18 [1.28]
Protection* Flex		4.80E-04 [0.21]			5.87E-03 [1.20]			0.02 [0.49]	
Protection* Flex2			3.80E-04 [0.19]			0.00E+00 [0.00]			0.01 [0.17]
Time Trend	-0.01 [0.74]	-0.01 [0.69]	-0.01 [0.66]	-0.06 [2.18]**	-0.07 [2.33]**	-0.06 [2.14]**		3.35E-03 [0.10]	5.14E-03 [0.13]
Observations	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15
R-squared	0.66	0.66	0.66	0.64	0.65	0.64	0.64	0.65	0.64

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

TABLE 10. DD Headcount Index: Overall with Cumamend

Variables	Tariff			NTB			First principal component		
	1	2	3	4	5	6	7	8	9
Constant	2.75 [30.47]***	3.05 [11.73]***	3.04 [11.45]***	-0.19 [0.12]	-0.17 [0.10]	-0.20 [0.12]	3.34 [26.07]***	3.32 [23.96]***	3.32 [23.38]***
Protection	4.52E-03 [1.62]	3.60E-03 [1.28]	3.73E-03 [1.30]	0.04 [2.26]**	0.04 [2.25]**	0.04 [2.21]**	0.31 [4.41]***	0.30 [3.82]***	0.30 [3.70]***
Protection* Cumamend		-5.20E-04 [1.17]	-4.80E-04 [1.07]		-7.90E-04 [1.05]	-1.05E-03 [1.17]		-7.11E-03 [0.89]	-7.79E-03 [0.91]
Cumamend	-0.06 [0.98]		-0.03 [0.49]	-0.03 [0.58]		0.05 [0.56]	-0.05 [0.97]		-0.06 [0.86]
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15
R-squared	0.74	0.74	0.74	0.76	0.76	0.77	0.76	0.76	0.76

Absolute value of robust t statistics in brackets

* significant at 10%; ** significant at 5%; *** significant at 1%

TABLE 11. DD Headcount Index: Urban with Cumamend

Variables	Tariff			NTB			First principal component		
	1	2	3	4	5	6	7	8	9
Constant	1.88 [2.31]**	1.64 [2.01]*	1.63 [1.94]*	2.60 [2.20]**	2.01 [1.39]	1.90 [1.20]	2.70 [7.20]***	3.10 [6.27]***	3.12 [6.11]***
Protection	8.39E-03 [1.37]	0.01 [1.65]	0.01 [1.61]	3.78E-03 [0.32]	9.75E-03 [0.68]	0.01 [0.68]	0.20 [0.90]	0.42 [1.47]	0.43 [1.46]
Protection* Cumamend		-5.60E-04 [2.35]**	-5.50E-04 [2.26]**		-9.00E-04 [1.63]	-1.02E-03 [1.40]		-0.02 [1.86]*	-0.02 [2.12]**
Cumamend	-0.05 [0.48]		-0.02 [0.19]	-0.03 [0.36]		0.03 [0.31]	-0.03 [0.35]		-0.06 [0.65]
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15
R-squared	0.82	0.83	0.83	0.81	0.82	0.82	0.81	0.83	0.83

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

T A B L E 1 2 . DD Headcount Index: Rural with Cumamend

<i>Variables</i>	<i>Tariff</i>			<i>NTB</i>			<i>First principal component</i>		
	1	2	3	4	5	6	7	8	9
Constant	3.21 [10.16]***	3.30 [10.46]***	3.29 [10.20]***	1.19 [1.19]	1.28 [1.32]	1.28 [1.31]	3.16 [18.42]***	3.20 [17.48]***	3.20 [16.72]***
Protection	3.08E-03 [0.87]	2.05E-03 [0.58]	2.19E-03 [0.61]	0.02 [1.79]*	0.02 [1.73]*	0.02 [1.71]	0.19 [1.89]*	0.17 [1.56]	0.17 [1.50]
Protection* Cumamend		-5.80E-04 [1.05]	-5.30E-04 [0.97]		-7.70E-04 [0.76]	-9.00E-04 [0.73]		-7.38E-03 [0.71]	-8.10E-03 [0.70]
Cumamend									
	-0.06 [0.82]		-0.04 [0.45]	-0.05 [0.62]		0.02 [0.21]	-0.06 [0.81]		-0.07 [0.70]
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15
R-squared	0.67	0.68	0.68	0.68	0.69	0.69	0.68	0.68	0.69

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

TABLE 13. Poverty Measures: Overall with State Per Capita Income

Variables	DD Headcount Index						First Principal Component			GOI Poverty Measure			ODR Headcount Index		
	Tariff		NTB		NTB		First Principal Component			GOI Poverty Measure			ODR Headcount Index		
	1	2	3	4	5	6	7	8	9	Tariff	NTB	FPC	Tariff	NTB	FPC
Constant	8.93 [3.96]***	9.52 [3.79]***	11.94 [3.66]***	5.84 [2.01]*	5.75 [1.97]*	8.83 [2.66]**	8.03 [3.19]***	9.10 [3.37]***	10.66 [2.66]**	10.63 [6.27]***	7.94 [3.57]***	9.42 [5.13]***	8.20 [6.49]***	8.53 [5.15]***	8.28 [6.52]***
Protection	2.83E-03 [1.28]	3.90E-03 [1.15]	1.35E-03 [0.54]	0.02 [1.99]*	0.02 [1.88]*	0.02 [2.07]**	0.21 [2.67]**	0.25 [2.26]**	0.15 [1.22]	4.18E-03 [1.90]*	0.02 [1.82]*	0.25 [4.26]***	5.48E-03 [2.24]**	8.55E-03 [0.69]	0.43 [4.93]***
Protection* Flex	-8.00E-04 [0.42]				2.90E-04 [0.08]			-0.02 [0.57]							
Protection* Flex2			-2.69E-03 [1.09]			-5.06E-03 [1.14]			-0.05 [0.82]						
GSDP (per capita, log)	-0.66 [2.77]**	-0.73 [2.69]**	-0.98 [2.82]***	-0.54 [2.26]**	-0.53 [2.04]*	-0.82 [2.62]**	-0.56 [2.05]*	-0.63 [2.15]**	-0.85 [1.95]**	-0.82 [4.53]***	-0.74 [4.37]***	-0.71 [3.54]***	-0.57 [4.21]***	-0.65 [5.11]***	-0.44 [3.03]***
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45	45	45	45	150	150	150
Number of states	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
R-squared	0.77	0.78	0.79	0.78	0.78	0.79	0.78	0.79	0.79	0.76	0.77	0.78	0.52	0.49	0.57

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

TABLE 14. DD Headcount Index: Urban with Delicensed Output Share

<i>Variables</i>	1	2	3	4	5	6	7	8	9	10
Constant	3.31 [26.08]***	3.30 [26.07]***	3.30 [26.46]***	13.63 [6.94]***	13.66 [6.92]***	2.81 [19.62]***	2.77 [21.81]***	2.80 [21.62]***	4.82 [2.01]*	5.21 [2.39]**
Delicensed	-7.75E-03 [4.44]***	-6.86E-03 [3.05]***	-6.82E-03 [3.12]***	-1.25E-03 [0.86]	-1.37E-03 [0.97]	3.66E-03 [1.28]	5.57E-03 [2.03]*	4.82E-03 [1.71]*	4.78E-03 [1.79]*	3.99E-03 [1.61]
Delicensed* Flex		-2.31E-03 [0.66]		-5.50E-04 [0.25]			-3.48E-03 [2.29]**		-2.97E-03 [1.78]*	
Delicensed* Flex2			-2.21E-03 [0.62]		-1.80E-04 [0.08]			-2.51E-03 [1.51]		-2.00E-03 [1.26]
Development Exp (per capita, log)				-1.20 [5.27]***	-1.20 [5.26]***				-0.23 [0.86]	-0.27 [1.10]
Year Dummies	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15	15
R-squared	0.38	0.38	0.38	0.68	0.68	0.82	0.83	0.83	0.84	0.83

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

T A B L E 15. DD Headcount Index: Rural with Delicensed Output Share

<i>Variables</i>	1	2	3	4	5	6	7	8	9	10
Constant	3.78 [34.52]***	3.77 [35.76]***	3.78 [35.24]***	11.52 [6.01]***	11.62 [5.90]***	3.56 [16.18]***	3.52 [18.89]***	3.55 [17.73]***	6.30 [2.51]**	6.77 [2.58]**
Delicensed	-6.63E-03 [4.37]***	-5.64E-03 [2.73]**	-5.94E-03 [2.53]**	-1.43E-03 [1.14]	-1.81E-03 [1.36]	-1.50E-03 [0.35]	2.20E-04 [0.05]	-6.80E-04 [0.15]	-8.40E-04 [0.24]	-1.79E-03 [0.48]
Delicensed* Flex		-2.58E-03 [0.97]		-1.26E-03 [0.70]			-3.15E-03 [1.59]		-2.46E-03 [1.47]	
Delicensed* Flex2			-1.64E-03 [0.61]		-1.00E-04 [0.05]			-1.79E-03 [0.85]		-1.11E-03 [0.61]
Development Exp (per capita, log)				-0.90 [4.09]***	-0.91 [4.02]***				-0.31 [1.10]	-0.36 [1.21]
Year Dummies	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15	15
R-squared	0.36	0.37	0.36	0.59	0.59	0.67	0.69	0.67	0.7	0.69

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

T A B L E 1 6 . DD Headcount Index: Overall with Delicensed Output Share

<i>Variables</i>	<i>Tariff</i>			<i>NTB</i>			<i>First Principal Component</i>					
	1	2	3	4	5	6	7	8	9	10	11	12
Constant	2.65 [5.65]***	3.27 [7.41]***	2.69 [6.75]***	2.52 [6.34]***	-0.30 [0.19]	-0.26 [0.05]	-1.27 [0.93]	0.26 [0.15]	3.26 [9.31]***	3.04 [8.41]***	3.25 [9.63]***	3.27 [11.27]***
Protection	4.93E-03 [1.79]*	-2.30E-04 [0.06]	3.50E-03 [0.84]	7.50E-03 [2.75]**	0.04 [2.50]**	0.04 [0.65]	0.05 [3.40]***	0.03 [2.09]**	0.33 [3.70]***	0.17 [1.15]	0.37 [2.52]**	0.37 [4.56]***
Protection* Flex		-6.90E-04 [0.24]					-0.01 [1.57]				-0.07 [1.01]	
Protection* Flex2				-1.48E-03 [0.54]				-5.46E-03 [0.64]				-0.05 [0.74]
Protection* Delicensed		2.30E-04 [1.68]				0.00E+00 [0.01]				2.81E-03 [1.23]		
Delicensed* Flex			-3.61E-03 [1.29]				-9.13E-03 [2.24]**				-5.57E-03 [1.60]	
Delicensed* Flex2				-4.76E-03 [1.63]				-4.19E-03 [0.94]				-5.41E-03 [1.58]
Delicensed	9.00E-04 [0.20]	-1.87E-02 [1.54]	2.18E-03 [0.51]	3.75E-03 [0.86]	-1.68E-03 [0.46]	-2.08E-03 [0.04]	1.51E-03 [0.41]	1.00E-05 [0.00]	1.09E-03 [0.25]	-3.23E-03 [0.61]	3.36E-03 [0.79]	3.52E-03 [0.88]
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15	15	15	15
R-squared	0.73	0.75	0.75	0.76	0.76	0.76	0.8	0.77	0.76	0.77	0.78	0.78

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

TABLE 17. DD Poverty Gap Index: Urban with Year Dummies

Variables	NTB														
	Tariff					NTB					First principal component				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Constant	0.07 [0.06]	0.03 [0.04]	-0.20 [0.21]	3.09 [0.82]	3.34 [0.92]	1.51 [1.11]	-0.71 [0.42]	1.32 [0.91]	2.58 [0.60]	5.30 [1.48]	0.85 [1.86]*	1.56 [3.01]**	0.92 [2.13]**	3.79 [1.10]	4.72 [1.59]
Protection	9.88E-03 [1.26]	9.01E-03 [1.25]	1.06E-02 [1.48]	7.06E-02 [0.98]	8.25E-03 [1.10]	-1.39E-03 [0.10]	0.02 [1.07]	-1.86E-03 [0.13]	0.01 [0.87]	-2.40E-03 [0.17]	0.14 [0.52]	0.49 [1.71]*	0.14 [0.57]	0.43 [1.29]	0.09 [0.33]
Protection* Flex		3.39E-03 [2.71]**		3.09E-03 [2.44]**			9.80E-03 [3.22]**		8.71E-03 [2.55]**			0.14 [3.74]**		0.12 [2.92]**	
Protection* Flex2			3.23E-03 [2.32]**		3.03E-03 [2.28]**			5.82E-03 [2.01]*		5.31E-03 [1.99]*			0.08 [2.10]**		0.07 [2.07]**
Development Exp (per capita, log)				-0.32 [0.85]	-0.36 [1.06]				-0.34 [0.93]					-0.25 [0.62]	-0.42 [1.23]
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
R-squared	0.81	0.84	0.84	0.85	0.85	0.8	0.84	0.83	0.85	0.84	0.8	0.85	0.83	0.86	0.84

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

TABLE 18. DD Poverty Gap Index: Rural with Year Dummies

Variables	Tariff			NTB			First principal component								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Constant	1.83 [4.81]***	2.16 [4.78]***	1.80 [4.23]***	5.31 [1.65]	5.72 [1.56]	-0.94 [0.90]	-0.29 [0.29]	-0.98 [0.88]	2.69 [0.55]	2.58 [0.50]	1.70 [7.56]***	1.93 [5.98]***	1.67 [6.48]***	5.06 [1.45]	5.18 [1.31]
Protection	1.74E-03 [0.41]	-3.15E-03 [0.54]	1.89E-03 [0.43]	-2.45E-03 [0.50]	1.59E-03 [0.42]	0.03 [2.06]**	0.02 [1.27]	0.03 [1.98]*	0.01 [0.74]	0.02 [1.23]	0.17 [1.30]	0.01 [0.05]	0.18 [1.28]	-5.48E-03 [0.03]	0.14 [0.91]
Protection* Flex		3.33E-03 [1.08]		2.73E-03 [0.94]		7.59E-03 [1.29]			6.97E-03 [1.20]			0.07 [1.01]		0.06 [0.96]	
Protection* Flex2			5.20E-04 [0.17]		2.20E-04 [0.07]			1.97E-03 [0.33]		1.37E-03 [0.23]			0.02 [0.36]		0.01 [0.23]
Development Exp (per capita, log)				-0.36 [1.00]	-0.44 [1.09]				-0.28 [0.65]	-0.33 [0.73]				-0.35 [0.92]	-0.39 [0.90]
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
Number of states	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
R-squared	0.69	0.7	0.69	0.71	0.7	0.7	0.71	0.7	0.72	0.71	0.69	0.7	0.7	0.71	0.71

Absolute value of robust t statistics in brackets.

* significant at 10%; ** significant at 5%; *** significant at 1%.

Comments and Discussion

Kenneth Kletzer: This is an interesting and thoughtful paper that reconsiders the impact of trade liberalization on poverty rates across regions of India. The paper is a companion study to the district-level examination of differences in poverty reduction due to tariff reduction by Topolova (2005). Hasan, Mitra and Ural modify Topolova's approach and arrive at qualitatively different conclusions. The empirical methodology and theoretical arguments of the two papers are essentially the same. Therefore, my comments first address the line of research in both studies and then turn to the contribution of Hasan, Mitra and Ural.

The question of whether trade liberalization, or market reform in general, reduces poverty is an important one and does not have an unambiguous theoretical answer. As argued by the authors, the impact of protection on the incidence of poverty requires empirical investigation. The means by which trade reforms affect poverty rates are not quite as simple as suggested by these papers. It is tempting to place this research in the context of cross-country estimates showing that trade raises growth rates and growth in turn reduces the incidence of poverty. However, directly regressing poverty rates on measures of trade protection skips over the means through which trade reforms affect income growth and poverty. These include the static income distribution effects of trade policy changes and the net effects of trade liberalization on growth through factor accumulation and productivity increases.

The empirical model in the Topolova paper is interpreted using a specific factors model of trade with labor as a fixed factor in traded goods industries. This assumption is motivated by the low degree of unskilled labor mobility across sectors and regions, particularly for rural populations, in India. The approach of this line of research is to relate differences in the rate of decrease in poverty to differences in the impact of trade liberalization for regions of India. Trade impact is measured by weighting the relative prices of tradable goods by employment to obtain an index of the terms of trade for each state or district. Tariff reductions, therefore, should have a larger effect on the incomes of unskilled laborers for a region that has a higher share of employment in import-competing industries weighted by the percentage tariff reduction for the output of each industry.

This approach has a parallel in the estimation of the effect of trade or technological progress on earnings and employment in advanced industrialized countries using relative producer prices to measure trade impacts. The movement of labor from declining to expanding sectors takes time so that laborers in trade-impacted industries realize short-run income losses even if they eventually gain from trade liberalization. Workers with lower human capital are less mobile and tend to suffer larger losses in declining sectors. Therefore, the effect of trade on the incomes of low-skilled labor depends on rates of worker mobility and job creation in expanding industries.

The analog in the case of India is that the sign of the effect of regional trade exposure on low income households over the decade of the 1990s should depend on the rate of adjustment in employment as well as medium-run equilibrium returns to unskilled labor. While Topolova finds that districts with greater trade exposure experience a lower rate of poverty decline between the 1988–89 and 1999–2000 surveys. This is consistent with the interpretation that unskilled labor is a specific factor. In the current paper, Hasan, Mitra and Ural find state-wide exposure to trade is correlated with a larger rate of poverty decline using the additional survey round for 1993–94, implying labor mobility between activities. This is only a partial interpretation since trade liberalization probably had a positive effect on India's aggregate growth rate in the 1990s contributing to the overall reduction in poverty. These papers measure the differences in poverty declines across regions that differ by trade exposure controlling for inter-regional differences in social spending on poverty reduction. The finding that districts with more employment in import-competing industries experienced lower rates of labor income growth may not be very surprising over a short horizon. The results of the current paper suggest that the poorest households are benefiting from India's trade reforms within a span of a few years.

The major differences in the empirical approach include the addition of a measure of non-tariff barriers by Hasan, Mitra and Ural. The reduction of quantitative trade restrictions complemented tariff rate reductions during the 1990s so that tariff rates might be an insufficient measure of the impact of trade reform on incomes. The index of non-tariff barrier coverage rates may measure the impact of non-tariff barriers poorly, but the addition seems reasonable and appears to matter for the results. Hasan, Mitra and Ural also add variables that measure labor market flexibility and industry delicensing. Two measures are used to represent labor market flexibility. The first is the coding of state amendments to the Industrial Disputes Act by Besley and Burgess (2004). The second modifies Besley and Burgess' classification of states based on the authors' view of the reasonableness

of the classification of states such as Maharashtra, Gujarat and Kerala. The new measure is a qualitative measure based on survey data. Both measures are at best ad hoc and do not have a sound quantitative grounding. The last added variable is a more reasonable quantitative measure of industrial delicensing which may capture variance in the ease of firm entry across states.

The paper also aggregates the data to the state level but repeats the analysis for National Sample Survey regions (strata). The NSS regions are typically made up of several districts, so that the number of observations used in the district-level analysis of Topolova is much greater. Since many states of India are very populous, with populations for some exceeding one hundred million, the state-level regressions are analogous to cross-country regressions with a common policy change. Therefore, we should worry about all of the shortcomings of cross-country regressions. It is difficult to understand why aggregation is desirable, even if the analysis at the regional level confirms the results. It would be useful to run the regressions for the district level poverty data including the measures of policy reform added by Hasan, Mitra and Ural so that we might see if adding non-tariff barriers or delicensing variables leads to the reversal of Topolova's result. Otherwise, it is hard to see whether these measures or the unit of observation is responsible for finding that more trade-impacted regions experience higher rather than lower rates of poverty decline.

To elaborate this point, a state with a population exceeding any member of the European Union has a fairly diversified sectoral composition of output. A district, however, should be much more specialized in traded goods industries. A higher share of employment in import-competing goods may be associated with smaller decline in poverty at the district level, but aggregating over a large number of heterogeneous districts can make the result disappear. Adding up employment in import-competing, export and non-traded goods industries across districts could very likely yield regression results that reflect the overall gains from trade liberalization in poverty rate declines. A state that has more international trade can experience net gains from liberalization even though it will have a larger employment share in import-competing industries.

I would like to reiterate the major point made by T.N. regarding the measurement of the impact of tariff reductions on regional employment. The construction of the protection index uses tariff rates so that it measures border prices. With the high cost of transporting goods within India, this index is a poor measure of relative producer prices inland. Since transport costs for traded goods can vary widely by region, goods that are tradable in Mumbai may not be tradable in rural eastern Maharashtra. If the cost

of producing a tradable good locally is less than the cost of delivering the same good imported to a district, then that good is non-tradable. Reducing the tariff rate should not affect the local price of the good until the total cost of an imported unit equals the local cost of production. Therefore, tariff reduction will not proportionally reduce the price of some tradable goods, and the effect of tariff reductions on relative producer prices will vary by location. Some goods very likely can remain non-traded in some regions while becoming traded in others. Variations in commodity taxes both across regions and over time can also give rise to non-proportional changes in relative prices with tariff reductions.

Because the tradability of a good for an interior district that can be imported or exported at the coast is endogenous, the measure of relative prices used in this paper only works at the border. The index based on tariffs incorrectly measures impact of trade liberalization on different regions or states of India by overstating relative price changes for regions facing high costs of transportation from ports. A problem is that the costs of transportation and whether a good is traded could be correlated with changes in the level of poverty. Poorer districts could well have higher transport costs and be more specialized in production creating a bias in the estimations. This argument should also apply to the index of non-tariff barriers.

Studying the effects of policy reform on poverty using disaggregated regional variation in production and employment is an interesting and promising research agenda. The underlying theory connects trade liberalization and other policy reforms to regional outcomes through its impact on relative prices at the level of the producer. This requires the data on changes in local prices in the presence of significant variation in the cost of transportation. That said, the effort to estimate empirically the effects of trade and regulatory reform on poverty in India is a worthy enterprise.

T. N. Srinivasan: At the outset I want to express my appreciation for the hard work the authors have put in the revision, and the seriousness and care with which they have tried to address comments of the discussants of the conference version of the paper. My following comments raise my remaining concerns, some of which apply to the genre of the literature and not specifically to the paper and others, though specific to the paper, might be difficult or impossible to address without substantial additional work. Let me hasten to add that I will be quite happy with the publication of the paper as it is—it is a vast improvement over the much overrated paper of Topalova.

First, although the authors rightly emphasize the importance of tariff as well as non-tariff barriers (NTBs) to trade, they (and the literature in general) do not adequately recognize and address the fact, that both measures are often used simultaneously to protect the same product. For example, in India quantitative restrictions (QR), an ubiquitous Indian NTB until a WTO Dispute Settlement ruling several years after reform ruled it out, as well as a tariff were imposed on imports of many commodities. In many cases, the tariff served merely as a device to transfer part of the quota rent to the government—it had no protective effect, in the sense that any changes in tariff within limits would have had *no effect* on imports. Thus, the tariff equivalent of the QR in such cases was higher than the actual tariff. In others, the QR was not binding and only the tariff determined the level of imports. Thus, the joint protective effect of a tariff and NTB on a product is not a straightforward matter—at the margin, only one, affects imports and not both.

The authors construct a separate sectoral measure of tariffs and NTBs and use them *one at a time* in their regressions (in addition to using only the first principal component). I would argue that they should have used both in *each* regression, unless the correlation between the two was very high. Since there are only two, tariffs and NTBs, I would presume that there are only *two* principal components (which *are* orthogonal linear combinations of tariffs and NTBs). Only one degree of freedom is saved by using the first principal component, rather than both tariffs and NTBs in each regression. I do not see much point in using the principal component. While the authors are absolutely correct in rejecting Topalova's economically meaningless treatment of non-traded goods as if they are traded goods with zero tariffs, they do not probe the effect of changes in real exchange rates (that is, relative price of traded goods in terms of non-traded goods) following trade liberalization on poverty. It can go either way, depending on the weight of non-traded goods in the poverty basket.

Second, I am not convinced that there is any need to use several poverty measures—whatever may be the merits and demerits of one measure as compared to another, they would not be expected to bias the results of the paper (unless merits and demerits of a poverty measure interacts with protection, which is implausible), since its focus is the poverty impact of differences in protection *across states or regions*. If I am right, the authors can drop the discussion of alternative poverty measures and use only one and explain why. Also, the description of the methodology of computing “official” poverty lines by the Planning Commission in footnote 15 is misleading. Even if a fixed basket of goods (poverty basket) was used and

valued at 1973 prices to determine the 1973 price poverty line, its updating by price indices with a fixed weighting pattern that has no connection to the weights implied in the poverty basket breaks the link between the poverty line and the poverty basket for years other than 1973. The authors say (p. 4) that “an urban stratum is never a district but is based on either a “hospital area” or an “industrial area” or a “bazaar area” within a city or a collection of small towns.” I have no idea where they got this idea. NSS report 506 (Appendix B, p B-2) states that “In the urban sector, strata were formed within each NSS region on the basis of size class of towns as per Population Census 2001.”

Third, the authors run price-transmission regressions in response to my comment on the importance of taking into account the implications of domestic transport costs, taxes, movement restrictions, etc. The broader thrust, beyond price transmission, of my comment was that each state or region of a country is open to trade, to varying degrees, *not only with other countries but also with other states or regions within the country*. This being the case, what is traded (exported from or imported into it) by a state or region, and what is not (that is, produced and consumed within the state) are endogenously determined in an equilibrium, in which the market clears within each state for *non-traded* goods, and for to other goods, markets may clear at the level of a sub-set of states or nationally or globally. Even if the country is a price taker in world markets so that global market clearance is not relevant for internationally traded commodities, still the general spatial equilibrium set-up is complicated. Although, the price transmission regressions are surprisingly strong, given the level of commodity aggregation, I am not sure they are to be interpreted as saying that, through tariffs and NTBs, world price movements are transmitted fully to relevant prices faced by producers and consumers in each state. Besides, there is an endogenous real exchange rate analogue at the state or regional level that has to be taken into account in analyzing poverty.

Fourth, given that any two digit sector almost surely will include exportables as well as importables, sectoral tariffs and NTBs apply only to the importable subset of products within the sector. This being the case, the fact that domestic taxes and transport costs would affect the domestic price of importable and exportably differentially relative to their prices at the port, I am not sure the price transmission regressions adequately capture the differential effects. And these differential effects are central to the determination of whether a commodity is a non-traded one within a state.

Fifth, the authors cite (but do not reference) the paper of Nagaraj (2002) for the finding that labour market regulations had no impact. This study

and several others are defective: they do not take into account the fact that the regulations affect the entry-exit dynamics of firms so that firms in existence at any point in time are survivors of those who entered earlier.

Lastly, the authors use a uniform one period lag between changes in tariffs and NTBs and their effect on poverty. One could argue that a distributed lag model would be more appropriate.

General Discussion

Esther Duflo began the general discussion by questioning the paper's decision not to use district level analysis. She argued that the NSS design in fact preserves random sampling even within districts, so that poverty rates calculated at the district level are valid. She further pointed out that performing analysis at the state level can introduce unnecessary noise into the data.

Professor Duflo also raised the issue of treatment of correlation in the error term of individual states over time. As the paper compares cross-sectional regressions run for three different time periods, she suggested that without taking account of the error correlation the paper's significance findings could be overstated.

Abhijit Banerjee noted that the regression coefficients on labor flexibility appeared quite sensitive to which measure of flexibility was used. He thought that the switching of only a few states from flexible to inflexible led to implausibly large changes in the coefficients, making interpretation of the results problematic. Dilip Mookherjee took up this point and suggested that because the two flexibility measures reflected distinct underlying trends (one in labor laws and the other in business climate), the regression should properly include both variables. Devesh Kapur cautioned against using the Besley and Burgess labor-law measure of flexibility, noting that it did not take account of the level of enforcement of labor laws in different states.

He also suggested that any study of poverty in India should control for remittances across states. If heterogeneous trade restrictions lead to variance in growth across Indian states, then it might follow that labor would migrate to the faster growing states leading to high levels of remittances to the poorer areas. It is possible that this would lead to observed reductions in poverty in poorer states, albeit through a very different channel than that investigated by the authors.

Arvind Panagariya questioned the relevance of the data series used for delicensing. In his view, the more important change in licensing restrictions

in India in the 1980s concerned the gradual across-the-board raising of the investment ceiling for firms without a license, rather than the industry-specific abolishment of licensing requirements used in the paper.

Abhijit Banerjee was concerned about the emphasis on the Deaton-Dreze measures of poverty. There is a large divergence between their and the official poverty measures that may have significant effects on the empirical results. There are also difficulties of comparing rural and urban poverty and poverty across urban areas of different size. He did not believe that state-level measures of poverty were particularly meaningful. The data difficulties were also highlighted by participants who pointed to the increasing divergence between reported levels of income and consumption in the household surveys.

Other participants thought that a further parsing of the trade restrictions data could be useful. The well-known theory of the second best says that reducing product market tariffs without concomitant reductions in input markets can lead to reduced living standards. It would therefore be useful to know something about input market imperfections in various states, particularly with regard to capital markets.

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