Jairam Ramesh, secretary of India's Congress Party Economics Affairs Department, has served in several central government departments and was a key player in developing India's 1991 economic reforms.

Ramesh discusses India's state-led industrial growth, areas of political and economic success, the influence of the former Soviet Union and of Britain on India's development, and the risks and benefits of globalization for India and other developing countries.

India's State-Led Industrial Growth

INTERVIEWER: Nehru and Gandhi had different visions for India's economy. Can you describe them and contrast them?

JAIRAM RAMESH: Gandhi's vision was more village-centered and he had a deep distrust of modern industrialization. Nehru was more influenced by the Soviet experience of forced industrialization. He was a Fabian socialist. He wanted to usher India into the modern industrial era.

I think the differences have been largely exaggerated, but the differences are essentially on the role of industrialization. I think Gandhi would have been more comfortable with a more village-oriented economy, where as Nehru saw the benefits of modern heavy industrialization.

INTERVIEWER: With hindsight, some economists would say India's mistake was trying to impose a modern heavy industrial economy on itself, whereas organic growth might have been the wiser path to follow.

JAIRAM RAMESH: No, I think there's no question about it that. India has industrialized, and industrialized fairly rapidly, in the last 50 years. After all, in 1715 they accounted for 25 percent of world industrial output, so it's always been an industrial nation in that sense of the term.

But while it's certainly true that we have industrialized, the industrialization has not been of the efficient kind. For example, we have been unduly influenced by the Soviet model, and we have built a very large and extensive base of heavy industry, whereas other countries, like in

East Asia, concentrated on labor-intensive manufacturing. They concentrated on textiles, on toys, on sports goods and consumer appliances.

Part of the reason India went the heavy industrial route and East Asia went the labor-intensive manufactured goods route goes back to the Gandhian legacy. Gandhi had this dichotomy between mass production and production by the masses, and he felt that mass production was not there for India, and they should go for production by the masses. As some sort of a respect for the Gandhian legacy, while we went with the Soviet model of heavy industrialization, we also adopted the Gandhian legacy of a deep distrust of mass production.

So today, for example, all over the world you find Chinese goods. You find Chinese toys, you find Chinese garments, you find Chinese electronic appliances, but you don't find "Made in India" as a label. Part of the problem is that mass manufacturing is not something India has excelled in.

INTERVIEWER: Along with Soviet heavy industrial model, [India] also imported the idea of Soviet central planning. In your own words, describe how that worked and how successful that was.

JAIRAM RAMESH: Don't forget that 80 percent of the economy, which was agriculture, was outside the advent of central planning, and, unlike in the Soviet Union and China, was entirely in private hands. Agriculture in India has never been "collectivized," never been "cooperativized." The main focus of central planning was on industry, on infrastructure, saying that we have a shortage of resources, therefore we must have a system to allocate the resources to the best possible use, that India can't afford to have the luxury of a market economy.

So the planning part was essentially oriented towards modern industry. And it worked through a sequential licensing system: First come, first served. In other words a group of wise men in government decided that so many million tons of steel should be produced, and then licenses were then doled out for those x million tons of steel.

Central to the central planning vision was the notion of the public sector, which is where we have to thank the British for this legacy. This was the Fabian socialist model, [in which] you have a deep distrust of the private sector and you feel that these are all areas in which the public sector must occupy, what came to be called the commanding heights of the economy. And that's why steel, coal, machine tools, capital goods—all the areas of heavy industry—were in the public sector and not in the private sector.

INTERVIEWER: Sounds logical, but did it work?

JAIRAM RAMESH: It sounded logical. It worked to the extent that it created a base. It created an infrastructure; it created human capital; it opened up backward areas. Most of our public sector units are in the most backward and depressed regions of the country, where no private sector would have gone or will go even today. But the question then is, What is the function of a steel plant? Should a steel plant run a hospital? Should a steel plant open a backward area? Should a steel plant educate people? Or should a steel plant also produce steel? Unfortunately, what happened was that the primary function of the public sector, which was production, creation, surplus generation, got into the background, and the other social dimensions of the public sector got primacy.

In the process, the public sector became less commercial, less profitable. In 1960, for example, there was a World Bank report which said that India has the competitive advantage to produce steel and South Korea has no business in producing steel because it has no advantage in producing steel. By 1990, one plant in South Korea was producing more steel than all of India put together, and that plant was set up by Indian engineers. But this was the irony, that you had created a technological base, you had created a manpower base, but the economic environment was simply not conducive to efficiency or profitability.

INTERVIEWER: You talked about steel, and Milton Friedman visited India in 1955. We interviewed him and he talked about a bike manufacturer who had quotas of steel set for him, so he was having to buy old pots and pans and melt them down to fulfill his quota, and he referred to this "stupid rationing system."

JAIRAM RAMESH: Milton Friedman was perhaps the only man who called it a "stupid rationing system." In the 1950s, India was the Mecca of all economists. John Galbraith, Paul Rosenstein-Rodan, Oskar Lange, you talk of any economist in the world and they were advising the Indian government. And the advice was, "You must have a state-led model of industrial growth."

Barring Milton Friedman..., [few economists] dissented with what India was doing at that time. I think there was a certain romanticization in the '50s that government intervention could substitute for market failures, that government could actually act in the interests of market forces, and [that] government intervention would necessarily promote efficiency and equity simultaneously. It's only in the '80s and the '90s that the costs of this strategy became painfully evident.

INTERVIEWER: What did people realize had happened?

JAIRAM RAMESH: The first thing that they realized was that we were in a shortage economy. My father waited 15 years to buy a car. Today I can go and buy a car off the shelf, to give you a simple example. If you think a car is a luxury in India, think of the two-wheeler, the ubiquitous two-wheeler in India. The two-wheeler was the most prized element in the daily transaction in the Indian managers, because you had to wait 20 years to get a Bajaj two-wheeler. Today, Bajaj is trying to go to consumers and say, "Please buy my product."

You had a black market for cement. You had a black market for every conceivable product, consumer or industrial, so we were running a shortage economy. A shortage economy meant some people where extracting rents from the economy. The monopolists became rich, industrialists became rich, and consumers suffered. So clearly the consumer angle, insofar as industrial growth was concerned, was completely missing.

Right through the '60s and the '70s the government said that the people of India should wear cotton clothes, that they should wear khaki, hand-woven, but all Indians wanted to wear polyester. Why? Because it's only the rich who can afford to wear cotton and khaki and hand-woven, because of the cost of ironing, the cost of washing, the cost of maintaining. And polyester is very cheap today.

But the central planning model said polyester is bad for India, poly-cotton is good for India. As it turned out, the people were actually consuming more polyester than they were consuming cotton.

I think that you know the notion that an economy as complex as India, as large as India, could be masterminded by material balances, by a group of wise men deciding what is good for the rest of the economy, is simply not true. It was good to launch the economy in the '50s. Japan did this; China did this; even South Korea did this. All the East Asians did this—import substitution. I think all countries followed import substitution in the '50s and in the '60s, but I think by the '70s countries were getting out of that first phase of the strategy. East Asia got out of import substitution and went to export promotion. Japan got out of import substitution and went to export promotion. But unfortunately India became very inflexible, and it was only when we had a crisis, in the '90s, that we made this paradigm shift from an inward-looking economy to an outward-looking economy.

INTERVIEWER: Just stepping back, though, to the failure of central planning, two or three questions. I think somebody said that India produced brilliant economists but a lousy economy.

JAIRAM RAMESH: There are three rules of a modern society: That the rate of growth of any economy is inversely proportional to the number of economists. So you look at South Korea, you look at India. South Korea produces no economists, but it has three times the growth rate as India, which produces three times the number of economists.

The rate of growth of the management skills of any country is inversely proportional to the number of MBAs. Germany produces no MBAs, but America used to produce MBAs by the millions, and you saw the German economy, until at least the '90s, was certainly more efficient than the American economy. And the third, of course, is the development of civil societies in the West in proportion to lawyers. When you have more lawyers, the civil society is not going to develop. So it's true that we had an embarrassing surplus of economists, and these economists were telling us [to follow] a particular model of economic growth. But I wouldn't blame the economists. I think [the problem lies with] the economic fraternity as a whole, the international fraternity as a whole.

There was a general consensus that market failures are bad in a developing country, that private sector is not to be trusted in an early phase of industrial development, and that government and public sector have to take on this onerous responsibility of developing the economy. I think there was a broad consensus that existed in the economics fraternity. The broad problem was that we didn't get out of this when we saw the oil shock. South Korea gave up the strategy when they had the first oil shock of '73, '74. So did Japan, so did the East Asian countries.

Unfortunately, India persisted with this strategy for far too long, and I think they made the shift maybe 15 years too late. That is because right through the '60s we had three wars, then we had droughts. We had a lot of natural calamities going on in the '60s and '70s.

Economic Growth and the Indian Permit Raj

INTERVIEWER: People talk about the Permit Raj and the Hindu rate of growth. Indians use these phrases. Can you explain what they mean?

JAIRAM RAMESH: Between 1950 and 1980 the Indian economy grew by about three and a half percent per year. The GDP growth was about three and a half percent. Between '50 and '60 it was three and a half, between '60 and '70 it was three and a half, between '70 and '80 it was three and a half. This led an Indian economist, Raj Krishna, a very famous Indian economist, to say that whatever governments do, whatever the international environment, whatever the national environment, there is a Hindu rate of growth, which is three and a half percent per year. This is GDP growth, which translates to a per capita income growth of about one percent per year. So this is the genesis of the term "Hindu rate of growth." Although I must say that between '80 and 1990 the Hindu rate of growth increased from three and a half percent to about 5.2 percent, and between '90 and 2000 this became about 6.3 percent. So in the '80s and '90s... 5 percent is now becoming a neo-Hindu rate of growth.

The Permit Raj really was government-allocated materials. They allocated cement; they allocated steel; they gave licenses; they controlled production. You would determine the demand for industrial commodities, and then you created supplies for those industrial commodities because you wanted demand and supply to always balance with each other.

But I must add that this is only as far as industry was concerned. The largest sector of the Indian economy, which was agriculture, was outside governmental control, outside this central planning.

If you were to ask me what is the greatest miracle that has taken place in India in the last 50 years, I would say that the greatest miracle is that we went from being the world's largest importer of food grains to being self-sufficient in wheat, in rice, in agricultural products, so much so that now we are a major exporter of agricultural commodities. I think a country that cannot feed itself cannot have self-confidence. A country that cannot feed itself cannot have self-pride, and in the mid-'60s 20 percent of all the wheat produced in America came into India. We were agriculturally a basket case. And 15 years later, 20 years later, we have become an agricultural power. This is the famous Green Revolution.

INTERVIEWER: Didn't it get hopelessly bogged down in bureaucracy, red tape, and rubber-stamping? I think somebody said that the English invented bureaucracy and the Indians perfected it.

JAIRAM RAMESH: Absolutely. There's no question about it. It became inefficient. As I said, the public sector became a gargantuan animal which became a hospital bed, an intensive care unit for unprofitable units. And it did not fulfill the basic purpose, which is to generate surpluses, to generate wealth, to make profits, so that those can be invested in education and health, nutrition, and so on and so forth.

A Comparison of India and East Asia's Economic Growth

INTERVIEWER: There is no question that Indian industrialization, focusing on heavy industry, focusing on the public sector, missed the bus.

JAIRAM RAMESH: In 1950, India had 25 percent of the world's developing countries share in textiles. By 1990, that had come down to three percent. Countries like the Philippines, Thailand, Malaysia, Indonesia, which did not exist as major players in world trade in textiles, [out-competed] India.

The point is while India focused on building the "sinews of industrialization," which was the Soviet phrase, and occupied the "commanding heights" of the economy, which is the Labor Party phrase, a phrase from England, the fact of the matter is that in the industries which counted—textiles, agro-processing, consumer goods—India really lost out. And it lost out because other countries came with more cost-effective, more efficient processes, and the second reason is the Gandhian legacy, which had a deep distrust of mass production and felt that all consumer goods should be built by production by the masses. So every village must make its own little TV sets. Every village must make its own little electric irons. Every village must make its own two-wheelers. I'm exaggerating deliberately, but the fact of the matter is that until 1990 the Indian consumer goods industry was largely seen as a cottage industry and not as an industry which demanded modern technology, economies of scale, and new investment.

INTERVIEWER: So as Indians in the '70s and '80s looked abroad, they saw the extraordinary success of the Asian Tigers and they also saw a great deal of success by Indians living abroad. Tell me about them and what they were doing.

JAIRAM RAMESH: I think the success of Indians living abroad had less to do with the change in the Indian mindset than with the success of East Asia. I remember in 1990 we had a prime minister called Mr. V.P. Singh, who went to Kuala Lumpur. He had [previously] gone to Kuala Lumpur in 1974, when he was a lowly minister in the Ministry of Commerce. And I still remember he gave a press conference at the Delhi airport, and he said, "I went to Kuala Lumpur 16 years ago, and I've just come back from Kuala Lumpur, and I must tell you I'm ashamed to be in India. What I have seen in Kuala Lumpur makes me wonder what have you been doing for the last 16 years." This was an Indian prime minister who said this.

Now, throughout the '60s and '70s and much of the '80s, India dismissed East Asia as running dogs of American imperialism. ASEAN wanted India to be a member of ASEAN in 1965, in 1968, but we thought these East Asian countries were domino import dictators masterminded by somebody in Washington.

But to the Indian psyche, by the mid-1980s what had happened in East Asia was a traumatic experience, because here were these countries whom you had derided and criticized, and they had overtaken you, in a most visible manner. Not only were they beating you in market share, but they were beating you in terms of quality of life. They had improved education, they had improved income distribution, they'd assured gender justice, and also had an 8 percent rate of growth. I think the East Asian success was the first sign that something was completely wrong with the way India was evolving as a modern industrial nation.

Yes, there was this diaspora, the Indian diaspora, but I don't think that the Indian diaspora played a very critical role in changing the Indian mindset. There are two ways that the diaspora can contribute. One is to do what the Israeli diaspora has done, or the Chinese diaspora has done, which is to go and invest back in their home country. But the Indian diaspora is not a capital-accumulating diaspora. The Indian diaspora is doctors, lawyers, professors. Or newspaper sellers. They are basically trade- or profession-oriented, and so they're not major investors in their home country.

The other way to influence the home country is through informal networks of influence, and in the '80s I don't think that the Indian Diaspora had reached that level of eminence and status, as it did in the late 1990s. But certainly the developments of East Asia had a very major impact on what was happening, the comparison between East Asia and India and India coming out second best.

And secondly what is happening in China: The fact that the Chinese economy was opening up and the Chinese were beginning to occupy the headlines, and China was able to catapult itself into the world economic super-leagues over India. These were the factors that weighed very heavily in the minds of most Indians interviewed in the '80s.

But even in the '80s, the base of change, of reform in India was homeopathic. There was certain belief in India that you could tinker with the system, that the system was fundamentally sound, that the system required marginal tinkering, that you could give autonomy to the public sector and it would be made more efficient. You should export more, yes, on the margin. There was a realization that we need to do things differently, definitely. But there was no questioning of the basic paradigm, the basic model. That came when we had the severe economic crisis of 1991.

India's Economic Crisis of 1991

INTERVIEWER: What happened in the 1991 crisis?

JAIRAM RAMESH: Very simply, the manifestations were that India became bankrupt. On June 21, 1991, when the new government came to power, India's foreign exchange reserves totaled $900 million, which was enough for five days of imports. Of kerosene, edible oil, fertilizer, steel—essential imports. We had a foreign exchange for five days of imports. There was an acute, unprecedented balance of payments crisis.

There were three or four options for any government at that point of time. One option was to declare a default, which is what most countries did. Poland did this; Mexico did this; Russia threatened to do it. And default is based on a very simple economic principle: If you owe somebody $500 you should be worried. If you owe somebody $5 billion, he should be worried. Since we owed the world, we should just get up and default.

I think default was alien to the Indian psyche. We have not borrowed much, but whatever we have borrowed we have repaid on time. We are conservative in terms of financial planning. So default was ruled out.

The second option was to go and get overseas Indian investment, but as I explained to you, overseas Indians did not have the type of capital that overseas Chinese have. The overseas Chinese bring in about $30 billion every year into China, but overseas Indians are not in the same league, so we could not use the overseas Indian route.

The third option that was considered was the gold option. Anybody who has come to India has seen gold. This fascination for gold in India is absolutely incredible. There's something like $70 billion worth of gold floating around, on the necks of most Indian women or [their] bangles, because gold is the most potent form of social security in India. There is no other form of social security system other than gold. And India is the world's largest importer of gold. We import something like $7 billion worth of gold every year from South Africa and Russia.

One option was to take this gold and pledge it, say, with the Bank of England, and borrow against that gold, redeem all your debts and declare yourself solvent. But we have tried this in the past. We have tried appealing to the sentiment of the Indian housewife in 1962 when we had a Chinese war, in 1965 when we had a war in Pakistan. I'm afraid the loyalty to gold overweighs loyalty to everything else. And whenever we had a gold bond scheme, the government was not successful in taking the gold out of the walls of the private homes.

Basically, the only option left was to say, Hey, look, where have we gone wrong? What have we done wrong? I think that was the beginning of the questioning of the paradigm [that] I mentioned to you, the basic paradigm which was an inward-looking paradigm, which was a paradigm based on public sector primacy over private sector, and a paradigm based on a deep suspicion of foreign investment. After all, the first multinational in India, or in the world, was the English East Indian Company. So this, the East Indian Company mindset, meant that all foreign capital was destabilizing, and politically we are to pay a very heavy cost.

In these three areas—opening to foreign capital, integration with the rest of the world economy, which means more exports and more imports, and a greater role for the private sector as opposed to the public sector—that was the paradigm shift that took place in 1991. We went to the IMF, we went to the World Bank, and, I have no hesitation in saying this, if we had not gone to the IMF and the World Bank we would not have changed our paradigm, either. I think the paradigm shift took place out of compulsion and not enough conviction. In '91 the crisis was so great, and the time period we had between default and living as a solvent nation was just five days, and the international institutions are not Mother Theresa-type of institutions, they will extract a price from you. And they said, All right, we will bail you out, we'll give you $10 million, but in return for which you are to make fundamental changes in your economic policy.

So I'm afraid in '91, if we had not had a crisis and we had not gone to the IMF and the World Bank, we would not have made the paradigm shift. We would still have continued with the old model, tried to think over that, and say, All right, from 3.5 Hindu rate we've gone to 5; from 5 we'll go to 6; from 6 we'll go to 7. This incrementalism would have persisted. What the '91 crisis forced on us is a desire to break out of this incrementalism approach and go for the big bang approach.

INTERVIEWER: And it worked.

JAIRAM RAMESH: It did work. What is interesting is that all the parties that criticized the party that introduce reforms are not taking forward those reforms. I think '91 to 2000 has shown that the economic liberalization which was started out of compulsion has ended up being a process that has been driven by conviction. We have had four governments at the center, at the federal level in the last four years, but there has been no U-turn, there has been no reversal. India has got 25 states, and in each of these states you'll find chief ministers wanting to have greater autonomy, have greater freedom, greater liberalization.

I feel frankly that Indians have now realized that government was doing things that it should not have done in the first place. And was not doing things that it should have done in the first place. Government was producing steel, government was producing textiles, government was producing bread, government was producing soft drinks, government was running hotels, government was running airlines, but government was not investing in primary education. Government was not investing in nutrition. Government was not providing basic infrastructure like roads. I think that realization has certainly come in India: that we must have a government that does things that it ought to be doing and gets out of things which others can do better.

That is what reform is all about. Liberalization, globalization, they are all phrases, but in a sense what it means is government should invest in those areas where nobody else will come, and in other areas they should make the environment such that other investors will come and invest.

India's Political, Agricultural, and High-Tech Successes

INTERVIEWER: People are beginning to talk about an Indian miracle. Is this really there, or is it a myth?

JAIRAM RAMESH: I think there are three Indian miracles. The first Indian miracle is the political miracle. I don't think India is given enough credit for the fact that it has sustained a political democracy over the last 50 years in the face of the grimmest of wars. External wars, internal ethnic strife, low economic growth, and [for India] to maintain a commitment to the universal adult franchise in a system where the literacy rate is no more than 60 percent and where economic growth has not been spectacular, I think is a remarkable tribute. What was the '90s? The '90s was a move to free markets and to political democracies. But India had already had that political democracy 50 years ago. So I think the first miracle of India is political democracy. India is a democracy. We had a brief experiment with authoritarianism for two years, but within two years we went back to being a democracy. India is legitimately the world's largest—maybe the world's poorest, but certainly the world's largest—democracy.

The second miracle is the agricultural miracle. To go from being the world's largest importer of food grains to having the ability to feed yourself and export to the rest of the world is a miracle where we should not be sneezed at. This miracle has embraced rice, wheat, oil, seeds. India is now the world's largest producer of milk. We were the world's largest importer of milk 15 years ago. Today we're the world's largest producer of milk. So I think in agriculture what we have achieved is truly remarkable, and that is a miracle.

The third miracle of India is the high-tech miracle. It's not the primary education miracle—we have still literacy rates lower than sub-Saharan Africa, so that is a matter of deep shame. But we have produced a miracle at the higher education end—the software engineers, the IT engineers, the doctors. The higher-education miracle certainly is something that India can be legitimately proud of.

They did three miracles: political, agricultural, and higher education.

Soviet Influence on India's Economy

INTERVIEWER: The Soviet Union was an influence on the thinking of the leaders of the independence movement, and yet the Soviet Union had its day. How big an impact did that have on India?

JAIRAM RAMESH: Undoubtedly, the Soviet Union held great fascination for India as an example of a backward country that forced itself into the modern industrial era, became a world superpower. There's no question that Indians were fascinated by what the Soviets had been able to accomplish in a 30-year time span. At that time the evils of Stalinism and communist totalitarianism were not all that evident as they are today.

I think the demise of the Soviet Union in '89, and the fall of the Berlin Wall first, was another reason for us to question the paradigm that we had adopted. Basically, the mixed economy meant to play America off Russia, and if you don't have the other pawn, who do you play America off against? So I think not only the fall of the Soviet Union, but the fact that even the Soviets were beginning to reform. I was in the government in the mid-'80s and I remember sitting in a meeting with Mr. Gorbachev and then-Prime Minister Gandhi. Mr. Gorbachev [was] talking about the need to bring reforms into agriculture because potato production was not increasing, and he wanted potato production to increase. He said: "Look, why should we have all these controls on industry? I ask my planners to produce more potatoes and they say steel, more steel." This was in '88.

We were beginning to realize that even the Soviets were now talking about a modern, outward-looking, consumer-oriented economy, and that certainly was one of the reasons that helped us to change our minds. The fact [is] that the Soviet Union didn't exist, [it had] disappeared by the time our economic revolution took place in June 1991.

Certainly, there's no question that the Soviet Union was an important trading partner for us—it was our largest trading partner. It was a source of technology for us. It was a source of investment for us. Our entire defense industry depended on the Soviet Union, so although we were not aligned, the fact is that we were instinctively and sympathetically closer to the Soviet Union than we were to the U.S., simply because the Soviet Union is geographically closer to us than the U.S. The U.S. is some distant power. The Soviet Union is right across our border virtually—or was across our border.

British Influence on Independent India

INTERVIEWER: The Attlee government in 1945 in Britain [was] probably the greatest peacetime government the country has ever had. Was that influential abroad, particularly in India?

JAIRAM RAMESH: The early generation of our founding fathers were all educated in England. Our tragedy is that not many crossed the Atlantic. In fact, there were only two of our leaders who crossed the Atlantic, and they made a substantial difference to India. One man who crossed the Atlantic and did his Ph.D. at Columbia University wrote India's constitution, and he brought the idea of egalitarianism into a deeply stratified... society. This is Dr. Ambedkar, who is considered the father of India's constitution. The other Indian politician who went and studied in America was a Punjab chief minister... who came back to Punjab and said he wanted to make Punjab like Kansas or Nebraska or Iowa; he wanted to create a green revolution in Punjab, and that's what he did.

Unfortunately, for the most part, barring these two exceptions, most of our politicians went to Cambridge. Some went to Oxford, a large number went to the London School of Economics, so Harold Laski had a very, very strong influence on that generation of political leaders.

I think it was natural. We had colonial ties with England, we spoke the English language. America was not there on our radar screen, so there was a great influence of the Labor Party on Indian politics. Fabian socialism was basically an import from England. Even the phrase "commanding heights of the economy" was a phrase that is being used by the Labor Party. So there is no question that the British influenced us.

If you would ask me to summarize, I think Nehru tried to impose a Soviet type of industrial system with a British type of a political system on an Indian social system. You had an Indian social system based on caste, based on passions. You had a British system of parliamentary democracy that was superimposed on the social system, and then you had a Soviet economic system that was superimposed on this.

The Soviet system worked for 30 years because it is a totalitarian system. The Chinese system worked because you had the power of the state. But Nehru was a great democrat, and great democrats cannot impose fear. Democrats cannot impose central planning. Central planning demands political authority. You cannot have central planning and political democracy go together.

Unfortunately, we had a heady brew of central planning, political democracy, and social inequality, all three together. And that is what led to this Hindu rate of growth of 3.5 percent.

The Making of India's High-Tech and Agricultural "Miracles"

INTERVIEWER: Someone we spoke to said the only two [Indian] industries that are world industries and do really well are the two industries which the government had absolutely nothing to do with whatsoever: high tech in Bangalore and movies in Bombay.

JAIRAM RAMESH: There's a third: beauty contests. But no, I would say that Bangalore is not an example of [a lack of] government investment. I need to debunk this theory that government did not do anything. Bangalore is a creation of government. The IT miracle of Bangalore has been possible because there has been 40 years of investment in higher education, in research, in aerospace research, in defense research, in electronics research. [There is] the Indian Institute of Science. Bangalore is a Silicon Valley. Silicon Valley would not have been possible without Stanford University. The Bangalore Stanford University is the Indian Institute of Science, which was set up by the government.

Bangalore's ambiance for research was created because a lot of the technology-intensive public sector companies in the '50s and in the '60s in telecommunications, electronics, aeronautics, materials, all went into Bangalore. It's not true to say that Bangalore is [the] creation of private enterprise. It's not.

In the post-'80s and '90s period, it's certainly [driven by] private enterprise, but the intellectual infrastructure for Bangalore has been created by public investment in high tech, research, engineering, and development. That is in fact the reason. See, the key trigger of why Bangalore became Silicon Valley is when Texas Instruments decided to open a development center in Bangalore in 1987. Texas Instruments went to Bangalore because the climate is beautiful throughout the year, number one. Number two, huge infrastructure for education, higher education, engineers coming out by the hundred thousands, which again is government investment, and again because there were a lot of research laboratories, which meant there were a lot of white-collar jobs, research jobs, trained manpower, available. All this was possible because of public investment. I think that Bangalore epitomizes what good public investment can trigger.

The agricultural miracle is also a miracle. President Reagan called the Green Revolution the "magic of the marketplace." It is not the magic of the marketplace. The Green Revolution was possible because government invested in irrigation; government invested in research; government invested in infrastructure, marketing, price support. The Green Revolution is another example of the marriage of government intervention and private initiative.

I think the Green Revolution and the IT revolution show that you need the right type of public investment to trigger and catalyze private entrepreneurial initiative. Unfortunately, we've had the wrong type of public investment. We're having huge public investment in industries, which did not trigger a downstream effect. Even in America, it's well known that the Internet was a spin-off from the Defense Department's activities to create a network of networks.

I wouldn't knock government investment and public investment and say Bangalore was entirely a creation of these young whippersnapper IT nerds; it's not true. These are all the children, the products of a generation that was created by public investment.

The Risks and Advantages of Globalization for India

INTERVIEWER: We're now into the year of globalization. In terms of the big picture, is this good for India or not?

JAIRAM RAMESH: Absolutely. I'm very concerned about this upper-middle class backlash against globalization in the developed countries. Let's take India as example. If global markets are free and fair, Indian farmers are going to benefit. If global markets are free and fair, Indian textile producers are going to benefit, and that is going to create jobs by the millions for young Indians. The fact of the matter is today all the areas in which countries like India have a comparative advantage, like textiles, are closed. Agriculture is closed and subsidized. The fact is that the rules of globalization today are really against countries like India. But in the WTO, where there is this agreement that has taken place, hopefully over the next five to six years many of these rules will be changed in order to accommodate a more equitable trading regime between America and the rest of the world.

INTERVIEWER: You said that globalization's great if the rules are fair. Are they fair?

JAIRAM RAMESH: Let's take the textile trade. Now, all textile imports into America, for example, are governed by quotas. Every country is allocated a certain quota. It's not free trade—it's managed trade. America is free to sell textiles to us, but we are not free to sell textiles to America. A simple example. That is an example of a system that has been against countries like India.

Let's take agriculture. The Americans spend billions of dollars, something like $50, $60 billion, subsidizing their farmers. The European Union, the Common Agricultural Policy [is the same], billions of dollars subsidizing European farmers.

The import duty on rice into Japan is 700 percent, and the Japanese come and lecture to us on how to globalize. What does economics teach you? That countries specialize in the areas where you have a comparative and a competitive advantage. Now we have a competitive advantage in agriculture, but we are not able to sell our products in America and Europe because the American government and the European governments subsidize their farmers.

We cannot afford to subsidize our farmers to the extent that the developed countries are subsidizing. Take milk, for example. We are now the world's largest producer of milk. We can't export milk into New Zealand. Well, New Zealand and Australia are open economies. But we can't export cheese and milk products into Europe because of the huge subsidies that are given by the governments there. I think a global trading system has to be free, has to be fair. Both.

I think 10 years ago it was very, very heavily in favor of developed countries. But thanks to the World Trade Organization, the rules are gradually becoming more equitable. I am hopeful that in the next five to six years we will have a system of global trade based on a system of negotiation which will be fair to all countries concerned.

I don't think many people in America are aware, and many people in India certainly are not aware, that back in 1947, in the post-World War II era, countries got together to set up institutions to promote international economy and international trade. There were three institutions that were envisaged: The World Bank, to promote reconstruction and development, the IMF, the International Monetary Fund, to promote currency stability, and the International Trade Organization. And the country that opposed the creation of the ITO was America. It was not the developing countries, it was Harry Truman who said the creation of an

ITO violates American sovereignty. This is language from a Third World politician, not from a leader of a world superpower. And for 45 years, until the WTO came into being in 1995, we didn't have an international trade organization. We had a thing called GATT, General Agreement on Tariffs and Trade.

The problem that somebody like me has is that we see the benefits of globalization for our countries, but we find the movement towards globalization being thwarted by these people, these children of privileged section of society living in developed countries, saying no to imports from developing countries. I think that would be the single most anti-poor measure that any government could take. They say no to textile imports from countries like India and Bangladesh, no to agricultural imports from countries like India and Sri Lanka. Through a process of trade jobs get created, prosperity gets created.

Globalization has great benefits, it has great risks. A country has to manage those risks. East Asia has shown how you can globalize prematurely and financially, and economies can collapse. I'm not recommending that model of globalization. But I think globalization of trade, globalization of technology, globalization of investment certainly brings a lot of benefits, and not just to elite sections but to lower-middle class and lower sections of society in countries like India.

International Trade and Labor Standards

INTERVIEWER: You weren't quite fair to the anti-capitalist demonstrators. They're not saying no to imports from India or no to imports from China, they're saying no to imports made in China by slave labor or prison labor, no to imports from India by child labor. What's your answer to that?

JAIRAM RAMESH: Well, you know, that's a distinction with a difference. There is a lobby that says no to imports of carpets, for example, which are made of child labor. This is a tough issue. By banning imports of carpets made from child labor ,you're actually sending more millions of families into poverty and you're defeating the very purpose, the very objective that you want to fulfill.

I think child labor should stop. I think all children should be at school. I think child labor is a blot on the fair name of any society. I'm 100 percent with the abolition, [the] elimination of child labor, but the problem is when you start linking trade with child labor. I don't think that it is economically fair or socially fair to link trade with environment, trade with child labor. I think there are environmental concerns, there are child labor concerns which have to be met as concerns in themselves. But for you to link it with trade is something that distorts the very purpose of trade. And that is what I am objecting to. Our position has always been that we welcome pressure on India to abolish child labor. We welcome pressure on India to have clean technologies, but for God's sake, don't link it with international trade. Because if you start linking it with international trade, then you're going to defeat the very purpose which you want to fulfill, which is increased prosperity, increased employment, greater well being for the depressed sections of society.

INTERVIEWER: But I suppose people would say that if you allow the trade to continue, then the child labor will continue. If an industry like carpets is going to depend on child labor, if you don't put some sort of pressure on it, how [will it stop]?

JAIRAM RAMESH: I think the pressure is to be welcome.

INTERVIEWER: What you're saying sounds slightly self-contradictory. You welcome the pressure, but you don't want to stop the trade, so how's [child labor] going to stop?

JAIRAM RAMESH: You say we'll give you five years, or we'll give you ten years, we'll give you x amount of time, we'll provide you with so much amount of material and financial assistance [if you] eliminate the practice of child labor. That's not what has happened.

What has happened is legislation has been passed which says no to carpets where child labor has been used, or no leather imports into Germany if certain azotes, which are carcinogenic, are being used. I think it's a transition that we're talking about. It's how you break into that period. It's a time-consuming process. What you consider child labor is considered by many of these communities as family tradition. I mean yes, I consider it as child labor, but I am a part of the modern enlightenment. But there are millions and millions of people who consider child labor as family tradition. You have to educate these people that it's in their interests not to continue this family tradition and put these children into school.

The Threat of Anti-Capitalist Movements on Developing Countries

INTERVIEWER: One last question. You have made this point, but as a spokesman for a developing country, do you see the growing anti-capitalist movement in the West as a threat to you, or as your friend?

JAIRAM RAMESH: Absolutely. At a time when developing countries are seeking to globalize, at a time when developing countries are seeking to participate in a more aggressive manner in the international system of trade, technology, finance, and capital, the growing protectionist sentiment in developed countries and the growing suspicion of globalization in countries like America and Germany and France is a matter of deep concern to me. I think we will be denied benefits, which these countries have got in the first place.

Let me give you an example. America comes in, tells us, Change your patent laws. We have changed our patent laws, we are in the process of changing our patent laws for pharmaceuticals. India had a law in pharmaceuticals which did not recognize product patents. We recognized only process patents. So America put pressure on us through the WTO and said, Change your product patent laws.

So India said all right, prices of medicines will increase, but we are responsible international players, we will introduce product patents. We are in the process of introducing product patents. But there is a quid pro quo also. Nothing is free. If we introduce product patents, then the developed countries should also improve their access to labor-intensive manufactured goods, which is not happening.

The fact is the rules of the game are tilted in favor of the economically powerful. I understand. I respect that, and until India is economically powerful we are not going to be able to influence the rules of the game. But there must be reciprocity in all these international trade negotiations. What has happened is that the costs to the developing countries are being front-loaded and the benefits to the developing countries are being back-loaded. To take the most absurd example, the textile trade. America was able to impose a phase-out of import quotas.

You will laugh, but it's actually true. The World Trade agreement is that from January 1, 1995, to December 31, 2004, 49 percent of the quotas would be dismantled. From January 1, 1995, to December 31, 2004, 49 percent of all quotas imposed by the developed countries on import of textiles from developing countries would be dismantled. And mysteriously, by some stroke of great miracle, on January 1, 2005, the balance, 51 percent, will be dismantled. Forty-nine percent will be dismantled in nine years and 364 days, and 51 percent will be dismantled on the first or the last day of the 10th year of the decade. This is absurd. This is an incredulous agreement. But India bought the agreement.

All developing countries sign on the dotted because the alternative to this was not to have the agreement. This is an example of what I mean. Benefits you will see in 2005. Costs you have to bury in 2000. This is a mismatch, and that is why you are seeing opposition to globalization in countries like India. People are saying, the pains are today, the gains are 10 years from now. We don't want to wait for 10 years; we want immediate deals.

If countries like America and Europe are going to be protectionist, are going to say no to imports, no to trade, no to investment, I'm afraid we are going to go back to the '50s, where you're going to have protective walls around all these countries.

I think the responsibility on the part of the developed world is far more today, because all developing countries, whether it's India or it's Burundi or if it's Burkina Faso, are looking for ways and means of joining the international community. Barring North Korea and Iraq, all countries want foreign investment, all countries want international trade, all countries want to be part of a global trading system, but at such a time for America and Germany and France and England and Japan to take an ostrichlike attitude is not pro-poor. You are not doing the poor of the developing world any great service by this approach.