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India can get ahead if it gets on a bike

Why has India failed to match the double-digit growth rates of its east Asian neighbours? After all, the economic reforms of the past decade have strengthened the business classes. Foreign exchange reserves are a whopping \$63bn (€62bn). Information technology exports fetch \$8bn. And foreign investment has gone up from less than \$1bn in the early 1990s to \$6bn this year.

The answer lies in a widespread myth about the size of India's middle classes. Most estimates put the figure at an impressive 300m. The reality is more sobering: according to our forthcoming report, there are only 5m middle-class households in India. These people enjoy comforts such as cars, computers and washing machines. Meanwhile, there is a "bike" economy of 25m households, which lack many comforts but do have telephones and motorbikes. The remaining 83 per cent of Indians belong to the "bullock cart" class, who have a television at most.

These bike and bullock-cart classes form the vast majority of the population - and the economic reforms have failed them: growth in industrial output has fallen from 8.5 per cent a decade ago to just 5 per cent today; the growth in annual agricultural production has fallen from 5 per cent to 1.2 per cent over the same period.

Farmers must purchase fertilisers from state-owned companies at three times the international prices. They must sell their produce only through the government's agriculture produce marketing committees or to only one specified co-operative society. There are controls on the movement of commodities from one province to another, creation of food processing facilities, and sale of land.

Less than 2m of the 240m agricultural workers own tractors and only 2,000 out of 70m dairy farmers possess milking machines. When there is no money to buy food, clothes or agricultural equipment, it is easy to be tempted into crime or even terrorism.

The most violent conflicts in India

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are in Kashmir, the north-eastern states of Assam and Nagaland, Bihar and parts of central India. These are precisely the areas where a shortage of rural employment opportunities has combined with flawed governance. In the 1980s, Punjab experienced insurgency when controls on agricultural trade and on the establishment of agriculture-based industries created frustration among sons of rich and poor farmers alike. Pakistan's intelligence agency can take some credit for fomenting trouble in Kashmir and Punjab. But dissent finds few recruits in the sensitive border state of Sikkim, known for its balanced agricultural development.

Experience shows that farmers can improve their lot only if they are free. Since 1997, Maharashtra state has allowed sugarcane producers to sell to more than one co-operative sugar factory. With permission to negotiate prices, many farmers have doubled their income, invested in technology and doubled their production.

To transform India's vast bullock cart economy into the bike economy, the government must abolish most farm controls, increase investment in irrigation and rural roads, and allocate 80m hectares of wasteland at low rates to entrepreneurs for establishing agro-industrial growth centres.

It must also stop subsidising loss-making co-operative factories and allow a level playing field between co-operatives and private enterprises. It must persuade food-processing companies to invest in capacity-building by their suppliers. It must eliminate intermediaries by abolishing agriculture produce marketing committees as well as laws restricting market access to farmers and downstream manufacturers. It must introduce and enforce a comprehensive, simple and non-discriminatory food safety act. It must provide incentives for hygiene at the farm level and for refrigerated supply chains linking farmers with consumers. Finally, it must invest in the education of rural youth.

If the government introduced these reforms, it would unleash productivity and entrepreneurship: even if only 10 per cent of India's 500,000 villages developed efficient co-operatives, farm companies and agro-industrial enterprises, the country's gross domestic product would increase three percentage points to 8.9 per cent.

India has neglected its periphery for too long. As 100m young people prepare to join the rural labour market in the next decade, or be available as prey for terror groups, the time has come for India to rethink its future.

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