

## **India hits a bottleneck on its way to prosperity**

*David Pilling*

If ever there were a symbol of India's ambitions to become a modern nation, it would surely be the Nano, the tiny car with the even tinier price-tag. A triumph of homegrown engineering, the \$2,200 (€1,490, £1,186) Nano encapsulates the dream of millions of Indians groping for a shot at urban prosperity. That process has stalled.

The Nano has run into trouble because of a messy tussle over land with dispossessed farmers. But the struggle to determine whether West Bengal's paddy fields yield up crops or cars is symbolic of something much bigger: the difficulty India has in emulating the manufacturing-led models of countries that have hauled themselves from poverty.

No big economy has prospered without undergoing a huge, often brutal, shift of labour from the countryside to cities and from farms to factories. In Britain, this process was underpinned by the enclosure acts of the 18th and 19th centuries, which drove people from the land by expropriating the commons, creating a landless working class that became fodder for the dark satanic mills of its industrialisation.

The pattern, with some variations, was repeated elsewhere, including in Japan and South Korea, where people were pushed by poverty and pulled by ambition to work in vast urban conglomerations. China, today, is in the throes of the biggest mass migration in history as people flock from subsistence farming to clock in at the world's workshop. As many as 600m people, or about 47 per cent of China's population, live in cities, at least 100 of which have swelled to more than 1m inhabitants. According to McKinsey, the consultancy, the country is adding a new Chicago a year to its urban throng.

Now look at India. According to Rana Hasan, labour expert at the Asian Development Bank, of the 406m labour force in 2000, 78 per cent lived in rural areas against just 22 per cent in towns and cities. The structural transformation from low-productivity farm labour to higher-productivity industry has been painfully slow. Today, agriculture employs about 60 per cent of the workforce but accounts for a measly one-fifth of national output. The predominantly urban, "organised" sector produces 40 per cent of output with just 7 per cent of the workforce.

According to unpublished research\*, in 2004 there were 6.75m "standard workers" (working 300 days a year, eight hours a day) engaged in Indian manufacturing versus 61m in the Chinese sector. The Indian figure may underestimate the true picture by up to two-thirds because of "unregistered enterprises" that slip through the statistical net. Even so, there is a yawning gap with China.

India's information technology and service sector, no matter how dynamic, simply cannot absorb enough labour. To truly shine, India will need millions, perhaps tens of millions, more manufacturing jobs. Why has it not created them?

One answer is that it got off to a false start. Mahatma Gandhi's idealisation of rural simplicity set the tone for post-independence policies that concentrated on heavy-industry import substitution but was biased against creating labour-intensive manufacturing jobs. Policies of "reserving" entire production lines for small-scale enterprises throttled automation.

Even now that some of these policies are being dismantled, as states vie for investment, you often need up to 100 permits, chits and slips to set up a factory. Rigid labour laws, which make it hard to fire workers, as well as pot-holed roads and intermittent electricity supplies, remain formidable barriers to industrialisation.

More fundamentally still, as the dispute over land in West Bengal shows, it is hard to engineer mass migration in a democracy. In contrast to 18th century Britain and 21st century China, the vote of a dispossessed Indian peasant is worth the same as that of a would-be industrialist. Collectively, it is worth more. "You have to hand it to Indian democracy," says Mr Hasan. "It does give you a voice. But that makes it very difficult to negotiate change."

The fact that a process is slow and messy does not mean it is doomed, argues Kishore Mahbubani, dean of Singapore's Lee Kuan Yew School of Public Policy. India was slow off the mark, dismantling the Licence Raj in 1991, more than a decade after Deng Xiaoping unleashed China's potential. "My sense is that it will catch up," Mr Mahbubani says. Indeed, where investment has come, such as in automotive components, advocates argue that quality matches world standards.

Amartya Sen, Nobel economist, agrees that democracy need be no obstacle to industrialisation. But even if short-term obstacles - such as bureaucracy and access to land - are overcome, he sees a severe bottleneck ahead. That is the neglect of basic education and healthcare which, as well as being scandalous in its own right, deprives India of the fit and literate workforce any competitive industry requires.

Mao Zedong, for all the reckless horror he unleashed, did bring schools and rudimentary healthcare to the peasants. "The train of China's industrialisation runs on the secure foundation of Maoist rails," says Prof Sen. If India is to become a car-owning democracy, it will have to solve some basic problems first.

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