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Nurturing entrepreneurship in India's villages

The world's great cities and the professionals who live in them are linked more tightly to one another than they are with their own rural hinterlands. Yet true prosperity starts in the countryside.

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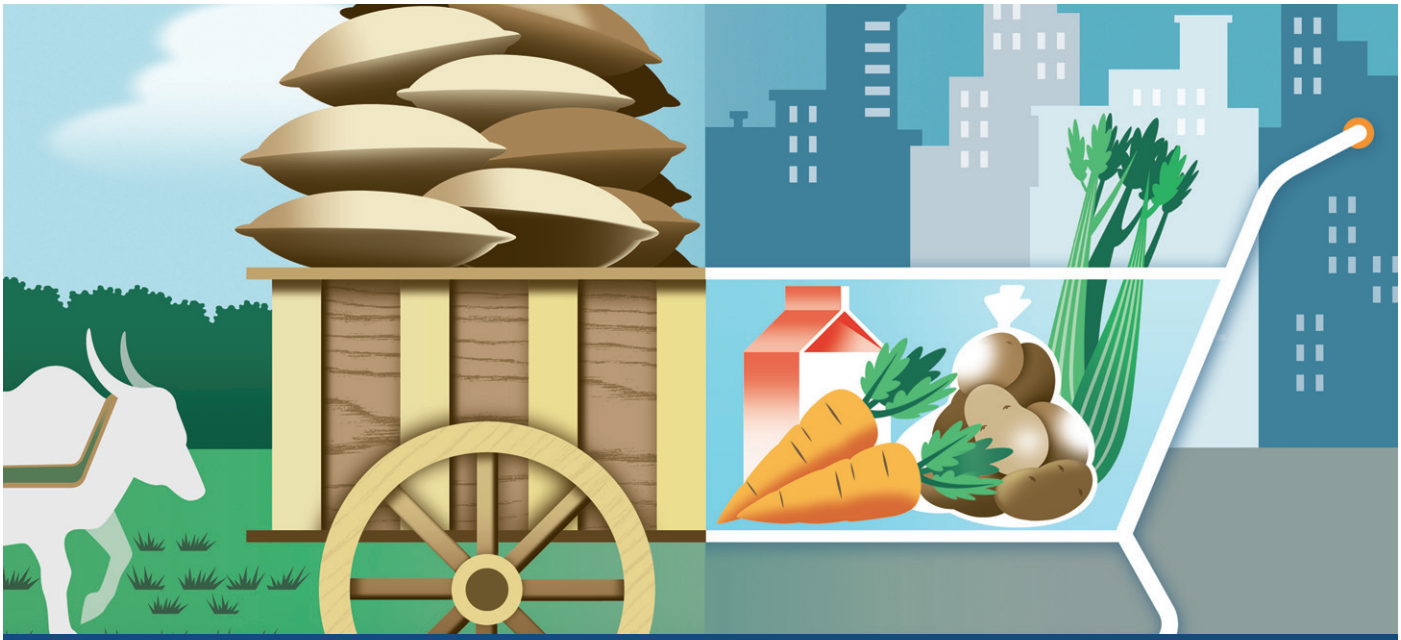

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It's not surprising that well-travelled professionals living in global cities, such as New Delhi, New York, Paris, Rio, and Shanghai, have more in common with one another, in lifestyle and values, than they do with rural citizens in their respective nations. In general, villagers, particularly in the emerging world, have benefitted less from globalization than urbanites have. Seventy percent of India's citizens, for instance, live in rural isolation, largely disconnected from the benefits of their nation's fast-paced economic growth.

These are globalization's forgotten frontiers, where more must be done to connect urban markets with rural ones in order to speed their development. How this happens will vary from nation to nation. In China, for instance, the government actively spurred the village economy, largely through agricultural-reform measures implemented during the 1980s. By contrast, India's government has only a limited ability to bring about real change in the country's villages. Private entrepreneurs might well be more effective.

Recently, I trudged through the mire of a government-run food auction yard, or *mandi*, in Bangalore, the global economy's offshoring capital. Piles of supposedly fresh produce lay everywhere, rotting in the sun and competing with mangy dogs and scampering mice for my attention. Huddles of impecunious farmers, wearing the traditional *dhoti*, looked on with resignation. A government agent, pen tucked behind ear, offered a pittance for the produce on display.

The farmers' day had started before dawn. Chugging along on narrow so-called highways, they came to the auction yard in ramshackle public buses, bullock carts, trucks, and even tractors. Their produce unloaded, they accepted whatever they got. After snatching a few hours' sleep in a shady corner, they retraced their steps home.

In India, agricultural mandates have long required farmers to sell their produce through such wholesale yards. Although meant to free poor farmers from the clutches of local moneylenders, the *mandi* has become a monopoly. The farmer remains exploited, but now by local political interests.

But let's change the scene from a city market in India to a rural village in China. Not long after I visited Bangalore, I crisscrossed parts of Henan—the name means "south of the Yellow River" (*Huanghe*). The province, one of China's most populous, is home to more than a hundred million people. I started in Zhengzhou, the capital, a major industrial center and railway junction, and traveled to Chengguan, a county seat with 100,000 inhabitants. Chengguan was scrupulously clean; municipal services were apparent even in the predawn hours. The city bustled, but there was no squalor in the streets. I

then headed to the very small village of Qiu, with a population of no more than a few thousand. The paved roads, in better condition than the Massachusetts Turnpike and other highways I know at home, led right up to the cornfields on the edge of the village. Qiu itself, if not quite prosperous, had none of the desperation so obvious in many Indian villages.

Rural development is crucial for the overall development of a nation's economy. China's economic revolution started with the reform of its village enterprises; foreign direct investment followed. Agricultural development in rural areas generated economic surpluses that in turn fed light manufacturing in rural and semiurban areas and, ultimately, industrialization in urban ones. A virtuous cycle ensued. The economic surplus promoted reinvestment in new technology and released human capital for broader development. This was China's path, as it was Indonesia's, and Vietnam has taken it since 1989.

India, however, has not. The nation's government has failed to invest in its villages. The farmers who sold their produce in a *mandi* in Bangalore live a daily struggle for existence in their home villages. Today, 89 percent of all rural households do not own a telephone, and 52 percent have no domestic power connection. The average village is two kilometers away from an all-weather road, and 20 percent of rural habitations must walk for miles to obtain safe drinking water, have access to it for only a few hours a day for much of the year, or have no access at all.

Where India's government has failed, social and business entrepreneurs are accumulating a better track record. The Self-Employed Women's Association (SEWA), for example, centered in Gujarat, has economically empowered hundreds of thousands of women, helping them to become economically self-sufficient by providing small loans to start myriad businesses catering to health care, elementary education, and the like. Companies such as Hindustan Unilever and Indian Tobacco Company (ITC) have long had distribution networks that provide some investment, goods, and services to Indian villages beyond the government's reach.

India should take a page from China's playbook and fix its villages, but not in the way China has. China's strong government was able to force the rapid dissemination of rural agricultural reforms. India's weak one cannot accomplish anything remotely comparable. Instead, India should seek to empower its villagers and nurture entrepreneurial activity, while also taking advantage of its strengths in the private sector. Corporations need a seat at the table of village reform—even multinationals, because the task of reform is so enormous. Outright foreign direct investment, by Düsseldorf-based Metro AG, for example, should be welcome, as should joint ventures, like the one between

Bharti Enterprises and Wal-Mart Stores. Such businesses, together with local ones, can lay the foundations for a modern agricultural supply chain linking the village farmer with the urban market.

Only then will India, and not just its global cities, rise.

About the Author

Tarun Khanna is the Jorge Paulo Lemann Professor at Harvard Business School and author of *Billions of Entrepreneurs: How China and India are Reshaping Their Futures and Yours*, published in 2008 by Harvard Business School Press and Penguin Books India. This is an adaptation by the author of a broader perspective on India and China that appeared originally in an online publication of the Center for the Study of Globalization at Yale University.

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