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RURAL DEVELOPMENT AND NON-FARM SECTOR: A REVIEW

ARNAB GHOSH
ASST. PROFESSOR
DEPARTMENT OF ECONOMICS
KRISHNATH COLLEGE
BERHAMPORE

ABSTRACT

This paper chronicles the different perspectives for examining the rural non-farm sectors commonly used in the existing literature and their developmental role. We also provide a comparative study of the evolution of the rural non-farm activities in Asian, African and Latin American countries and the success story of some of those countries which may be helpful to build an understanding about the pre-conditions required for the expansion of remunerative rural non-farm activities and their poverty implications. The paper provides extensive ideas regarding the on-going researches on the developmental role of the RNFS and also explores the heterogeneity of the sector which helps to identify those areas of the sector which has developmental impact on all sections of the people in the developing countries. We have identified a large number of factors likely to be responsible for the expansion of the non-farm activities. However, it varies from time to time, region to region. Those factors are broadly classified into two categories: demand-pull and distress-push. However, while some of those factors are generated from the agricultural sector, some others are non-agricultural in nature. We also have noticed a 'vicious cycle' operating on the rural manufacturing sector. Lack of education, together with lack of technical skills, provides little incentive for rural firms to invest in technology, leading to low level of labour productivity in the rural manufacturing sector. Thus, a high level of illiteracy in rural India seems to have hampered the growth of the modern rural non-farm sector.

KEYWORDS

farm-non-farm linkage, rural development, rural non-farm sector.

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INTRODUCTION

In recent times, a much debated issue in the context of rural development has been receiving increasingly attention that recognizes the pervasiveness of the rural economic activities surpassing the periphery of the agricultural sector. In fact, the rural economy satisfies a wide range of needs of rural inhabitants including social service provision, economic activities, infrastructure and natural resources (Csaki and Lerman, 2000). Since the early 1970s, a large number of studies on rural development have emphasized the importance of the non-agricultural economic activities. Evidences from the developing world suggest that occupational diversification in the countryside has the potential to promote local economic growth and to alleviate the rural-urban income gap as well as rural poverty. Diverse incomes portfolios in the rural non-farm economy can include income from (1) seasonal / longer-term domestic/overseas migration and remittances, (2) daily travel to nearby urban employment, (3) local wage labor opportunities and (4) self-employment in trade, agro-processing, tailoring, services etc.

In this paper, we chronicle the different perspectives for examining the rural non-farm sectors commonly used in the existing literature and their developmental role. We also provide a comparative study of the evolution of the rural non-farm activities in Asian, African and Latin American countries and the success story of some of those countries which may be helpful to build an understanding about the pre-conditions required for the expansion of remunerative rural non-farm activities and their poverty implications.

DIFFERENT PERSPECTIVES ON THE RURAL NON-FARM ACTIVITIES

If we go through the existing literature on the non-farm activities, we can identify four major perspectives that emerged for examining the rural non-farm economy, which are:

1. Agricultural growth-induced expansion of the non-farm sectors: This literature stems out from the notion of increase in demand for non-farm goods via consumption and production linkages driven by the growth in agricultural income and production. The source of inspiration of such thinking has been embodied in the success of the Asian green revolution.
2. Off the farm view on non-farm employment: This type of literature focuses on different constraints faced by the rural non-farm enterprises on both demand and supply sides and views agricultural sector as the dominant source of rural demand.
3. Rural households' livelihood diversification strategy-induced promotion of the non-farm activities: Such theories deal with risk management, labour allocation and push and pull factors that induce farm households to diversify into various non-farm activities.
4. Region-specific development of the non-farm activities: This provides a spatial perspective that highlights the spatial concentration of demand as well as supply-side determinants of the non-farm activity focusing on the rural infrastructure and public services.

There is some overlapping among these different perspectives which makes the study on the rural non-farm activities a multidisciplinary approach involving agricultural economics, anthropology, business management, economics, geography, public administration, regional planning and sociology.

AGRICULTURAL GROWTH-INDUCED PROMOTION OF THE NON-FARM ACTIVITIES AND RURAL DEVELOPMENT: FARM-NON-FARM GROWTH LINKAGE

In the early 1970s, we observed an increasing concern regarding the failure of the urban industrialization to absorb the surplus labour and to control rural poverty coupled with the amazing success story of agricultural productivity gains from the green revolution technologies in Asia. This coincidence motivated agriculturalists to claim that the agrarian sector could itself serve as the locomotive instead of the common belief on the industry as an engine of growth. There was also shift in the priorities from mere focus on the economic growth rate to thrust on the issue of equity, income distribution and poverty throughout the developing world. Industrial growth failed to address the issue of equity. Even when growth had been rapid, income distribution and poverty did not necessarily improve. The benefits of industrial growth had not trickled down to the poorer sections. In this context, agriculture took the center stage displaying its ability to grow at historically unprecedented rates. The new agricultural technology also proved to be labour-using. The rapid and broad-based agricultural growth changed the conventional pessimistic views on agriculture's potential to contribute to economic development.

According to Mellor, Johnston and Kilby, agriculture could play a crucial role in rural development and economic growth. Johnston and Kilby (1975) focused on the substantial production linkages generated by the successful implementation of the green revolution technology. The use of newly introduced high-yielding varieties of seeds needed to be supported by the uninterrupted supply of pumps, sprayers, fertilizers, cement, construction-labour and repair facilities from the non-agricultural firms. Consequently, substantial backward linkages had been produced. Moreover, strong forward linkages were generated in rural areas through considerable expansion of milling, processing and marketing activities. Mellor and Lele (1973) pointed out that consumption linkages were also generated by the increase in agricultural income due to technological development. As agricultural income increased, farm households spent their additional

earnings on rural non-farm products such as the non-agricultural goods and services as well as perishable and high value farm commodities like milk, meat, vegetables etc. As a consequence, a growth impetus was created in both the farm and non-farm sectors. Combining these findings, Mellor developed his famous 'growth-linkage theory' (1976) based on his experience with rural India following green revolution since the mid-sixties. He argued that as a result of development of green revolution technologies and the subsequent increase in productivity and incomes of farmers, demand-led growth of both the agricultural and non-agricultural sectors would take place through their multiple linkages, stimulating a 'virtuous circle' of growth of food production and employment. Consumption linkages would arise out of increased incomes for farmers and labourers, generating increases in demand for goods and services, and would be largely concentrated in the rural areas since the goods and services demanded are typically produced by the small-scale, labour-intensive enterprises. Production linkages would also emerge from the agricultural sector. Backward production linkages would result from the farmers' increased demand for inputs from the non-agricultural sector, whilst forward linkages would develop through the increased need for agro-processing activity. Thus, according to Mellor, the initial increase in rural income triggers a sequence of multiplier effects, which can invigorate expanded production and employment in other sectors of the economy including consumer goods industries and small-scale units in the RNFS which are likely to be labour-intensive. In fact, Mellor's growth-linkage theory challenged Hirschman's theory of unbalanced growth (1958) by arguing that agriculture has not only production linkage but also consumption and fiscal linkages. While Hirschman saw agriculture in general, and subsistence agriculture in particular to have a little linkage effects, Mellor realized that technologically advanced agriculture allows a large net increase in national income. This, in turn, provides the dynamics of growth led by the agricultural sector. The basic difference in their perception comes from the fact that while Hirschman identifies two types of production linkages working in the economy, Mellor identifies an additional and even stronger demand side linkage, called the consumption linkage, which affects other sectors of the economy too.

EMPIRICAL EVIDENCES ON AGRICULTURE-LED GROWTH

The empirical issues that emerged in the field of applied agricultural economics during the decade of 1970s were broadly classified into two sets. The first set of issues emphasized on employment, underemployment and surplus labour. Employment and farm management surveys began to assemble data measuring the extent of employment, underemployment, and productivity of farm labour in order to understand the phenomenon of surplus labour. In this context, it was observed that the farm households might devote as much as 30 to 40 per cent of their annual household labour to the non-farm pursuits (Norman, 1972; Byerlee and Eicher, 1974).

There is also a second set of issues which emphasized on the measurement of the production and consumption linkages intrinsic in the agricultural development. Initially, Mellor and Lele (1973) focused on the spending pattern of the farm households. This attracted a series of parallel works. All these works suggest that consumption linkages are approximately four times as important as production linkages. Bell and Hazell (1980) estimated combined linkage effects using their newly developed analytical methods of combining input-output and consumption parameters. Their new techniques motivated a large number of emulators and launched a veritable cottage industry to the measurement of agricultural growth linkages.

In the 1990s and 2000s, the periphery of linkage theory further expanded beyond its initial concentration on product market consumption and production linkages to labour market linkages and general equilibrium interactions between the agriculture and the RNFE. In the historical context, Adleman (1984) showed that agricultural demand-led industrialization can generate superior growth and equity as compared to export-promoting industrialization strategies using her classic computable general equilibrium model of the growth linkages in the South Korean economy. Adleman and Mellor threw challenge to Hirschman's theory of unbalanced growth (1958) by arguing that agriculture has not only production linkage but also consumption and fiscal linkages.

HOUSEHOLDS' DIVERSIFIED LIVELIHOOD STRATEGIES AND THE RURAL NON-FARM ACTIVITIES

Most of the rural non-farm activities are undertaken by diversified rural households that operate farm and non-farm enterprises simultaneously. In response to a series of agro-climatic shocks and dislocation accompanying structural adjustment programs of the 1980s and 1990s, analysts have developed household economic models and field methods to understand how poor rural households have adapted to their radically altered production environment. A large number of empirical works on the household's livelihood strategies has been developed in this line of thought to provide valuable insights regarding the evolution and opportunities of the rural non-farm activity for the rural poor.

Empirical evidences suggest that there are two sorts of motivation on the part of the rural people to participate in the non-farm activities: (i) demand-pull, and (ii) distress-push. The demand-pull factors work where rural people respond to the new opportunities. Reardon *et al.* (1998) suggest that when relative returns are higher in RNFEs than in farming, and returns to farming are relatively more risky, pull factors are at work. The demand-pull also includes any increase in the demand for rural products resulting from increases in income of lower and middle-income rural households and increased demand from urban areas (Islam, 1997). Conversely, the distress-push diversification occurs in an environment of risk, market imperfections and of open and/or hidden agricultural unemployment. Thus, when rural people engage in economic activities that are less productive than agricultural production and are motivated by the need to avoid further income decreases, the push factors are at work.

The major implication of this approach is that the distribution of diversification activities over households would follow a bimodal distribution over household incomes in the presence of both the *demand-pull* and *distress-push* diversification. There would be two clusters of low-return and high-return activities, which are engaged in by the poor and affluent households, respectively. Moreover, if *distress-push* diversification dominates, we would expect poorer households to engage more in diversification than others. In the case of the predominantly demand-pull diversification, we would expect that higher income households would engage more in the non-agricultural diversification than the poorest households. The non-farm economy is thus important in situations of both stagnant and buoyant agricultural sector.

Many farm households in agriculturally advanced zones are found to pursue opportunities for diversification into attractive non-farm activities. Evidence from a series of sites across Africa suggests that the high-income farm households appear to be more able to diversify into high-return non-farm activities requiring skilled labour. Likewise, historical evidence from Japan confirms that wealthy farm households are diversifying into subcontract weaving and commerce in textiles (Hayami, 1998).

Case study evidence from Sri Lanka also supported the view that the households in high-risk and low-potential agricultural environments regularly respond by shifting themselves to the non-farm activities. In fact, high population density and acute population pressure drive those poor rural households to seek over half of their incomes from the off-the-farm sources (Von Braun and Pandya-Lorch, 1991). In the West African Sahel, farmers cope with their unpredictable agricultural environment by devoting significant resources to non-farm commerce and labour migration to Ivory Coast (Reardon, Malton and Delgado, 1988). Women, in northern Ghana, found to be engaged in the non-farm activities for coping with agricultural production uncertainty (Abdulai and Delgado, 1999).

A U-shaped relationship between the rural non-farm activities and incomes is reported for rural households in many developing countries. These observations support the distinction between the 'demand-pull' and 'distress-push' factors in the rural diversification process. They also explain the recent shift in attitudes towards the RNFE from viewing it as a symptom of backwardness towards a potential motor of the rural economy (Lanjouw and Lanjouw, 1997).

Davis and Pearce (2000) summarize the push and pull factors of diversification in the rural non-farm economy. According to them, the push factors are (1) population growth, (2) increasing scarcity of arable land and decreasing access to fertile land, (3) declining farm productivity, (4) declining returns from farming, (5) lack of access to farm input markets, (6) decline of the natural resource base, (7) temporary events and shocks, (8) absence or lack of access to the rural financial markets. On the other hand, the pull factors are (1) higher return on labour in the RNFE, (2) higher return on investments in the RNFE, (3) lower risk of RNFE activities, (4) generation of cash in order to meet household objectives, and (5) economic opportunities, often associated with social advantages, offered in urban centres and outside the region or country.

THE ASIAN EXPERIENCES

It has been a widely recognized fact that economic activities in rural Asia are becoming highly diversified in the form of the rural non-farm activities. A large proportion of the rural labour forces of Asian countries are employed in the rural non-farm activities. It varied from 19 per cent in India (in 1981) to around 50

per cent in Malaysia (in 1980). During the mid-1980s, the observed retardation in the rate of labour absorption in South Asian agriculture made a group of Asian scholars to search for an alternative employment generation strategy. Rapid population growth in South Asia accompanied with increasing landlessness and a simultaneous failure of agriculture to absorb the ever growing labour force, was leading to an increase in low-return rural non-farm employment. On the contrary, agricultural growth in Japan, Taiwan, and other newly industrializing countries in East Asia led to rapid expansion of increasingly remunerative rural non-farm activities. On the basis of these differential results, a section of economists came to the conclusion that in an agriculturally backward region, the rural non-farm employment may simply serve as a "sponge" or employer of last resort offering low-productive jobs. Mukhopadhyay and Lim (1985) distinguished two types of RNFA prevalent in East Asia: RNFA-1 with certain degree of technical sophistication yielding higher income and RNFA-2 with primitive technology catering mostly to local market yielding lower income. They argued that, the "rural non-farm units with strong links with urban industry in countries like Taiwan, Japan and Korea, have higher rates of profitability and dynamism. On the other hand, there are also some units which have stronger linkages with agriculture."

THE RANIS-STEWART MODEL AND THE EAST ASIAN EXPERIENCES

The East Asian studies improved our understanding of the rural non-farm activity along several important dimensions. On the basis of the evidences from Taiwan and the Philippines, Ranis and Stewart (1993) reformulated the Hymer-Resnick model by distinguishing between the modern and traditional non-farm goods. They generated completely different growth dynamics. According to Ranis and Stewart, the pessimistic conclusions of the Hymer-Resnick model regarding the role of the rural non-farm sector depend on a restrictive set of assumptions, which may not apply, either during the colonial period or after the independence. By relaxing those restrictive assumptions, particularly allowing for a dynamic food producing sector and the modernization of the rural non-farm goods sector, they showed a very different picture from that of Hymer and Resnick which was very much optimistic regarding the role of the rural non-farm sector, which has the potential for the generation of balanced growth in the rural areas, complementing efficient urban industrialization. They pointed out that conditions may be relatively favourable and unfavourable for the achievement of rural balanced growth depending on the policies adopted by the government in both the colonial and post-colonial era.

LESSONS FROM THE GROWTH OF CHINA'S TOWN AND VILLETTE ENTERPRISES

The experiences of the expansion of the Chinese rural non-farm sector have contributed much to the rural non-farm literature reemerging from Asia. The early history of rural industrialization in China has attracted ongoing academic interest. Since 1949, China has been pursuing the objective of industrialization, urbanization and modernization. Rural non-farm activity in China was collectivized during the period of first five year plan (1953-57). However, the process of the promotion of rural industrialization was initiated in China in 1958 during Mao Tse-Tung's Great Leap Forward. The subsequent steady growth of collectively owned commune and brigade enterprises from 1968 to 1978 was portrayed as 'phenomenal'. Before the initiation of economic reform in the late 1970s, the town and village enterprises (TVEs) were fully integrated with agriculture within the commune system. From the 1980s onwards, China invested heavily in agricultural technology, infrastructure and input supply which had propelled rapid agricultural growth. This agricultural prosperity fuelled the rural economic growth forming the base for the expansion of the rural non-farm sector by releasing the surplus labour to the non-farm sector and creating demand for industrial product. China's rural non-farm development was largely driven by the growth of the TVEs. China has been experiencing an extraordinary burst of growth in rural TVEs during the period 1984 to the early 2000 which attracted considerable international attention. It has been observed that the TVEs' contribution to gross national industrial output increased from 9 per cent in the late 1970s to 58 per cent in the late 1990s (Lin and Yao, 1999). Although agriculture served as the motor of China's rural non-farm growth during the 1980s, the international export markets and urban subcontracting to rural TVEs have enjoyed increasing prominence during the late 1990s and early years of the twenty-first century.

THE LATIN AMERICAN EXPERIENCES

Unlike the widespread interest among scholars of Africa and Asia, Latin American scholars were not so much focused regarding the developmental role of the rural non-farm sector for many decades. After many years of neglect, the Latin American scholars started to concentrate on the rural non-farm debates since the late 1990s. As liberalization facilitated trade, foreign direct investment, and the application of supply chain organizational models from the outside world, rapid concentration in agribusiness and food retailing had emerged prominently in Latin America since the 1990s. Consequently, during the 1990s, the share of supermarkets in total food retailing grew from 20 per cent to over 70 per cent in both Brazil and Argentina. In Mexico, Costa Rica, and El Salvador, the supermarkets controlled over half of all food retailing by the end of the twentieth century. In rural Latin America as a whole, income from the non-farm activities accounts for roughly 40 per cent household income.

Empirical literature on the expansion of the non-farm sector in Latin America documented how motive forces outside of agriculture might propel the growth of the RNFE. There are four important features of the rural non-farm sector as identified in the literature:

(i) Large variety of non-farm activities, (ii) Importance of human capital, infrastructure and location, (iii) Inequitable access to remunerative non-farm activities, (iv) Pro-poor impact

There is an indirect mechanism as identified in Latin American literature on RNFAs through which the poor get the benefit. Initially, the remunerative non-farm employment tends to go to the relatively better off. It leads to a general tightening of the labour market, including agricultural wage labour market where the poor are, usually, concentrated. The tightening of wage labour markets ultimately benefits the poor through higher wage and higher participation rate. Further, even if the poor are engaged in low-productive activities, it controls at least the intensity of their poverty. Thus, the role of the RNFs as residual sectors cannot be ignored in view of the widespread poverty of the developing countries.

EMPIRICAL EVIDENCES FROM INDIA

The existing studies on the rural non-farm sector in India can broadly be classified into two types. The first set of studies focuses on the pattern of non-farm employment and their significance at national, state and district levels. On the other hand, the second set of studies investigates the macro and micro determinants for the expansion of the non-farm activities.

SOME MACRO EVIDENCES ON THE EXPANSION OF THE NON-FARM EMPLOYMENT IN INDIA

As per the Census data, there has been a continuous shift in rural employment towards the non-farm sector. As observed from the Census data, the percentage of the non-farm workers has steadily increased from 18 per cent in 1981 and 1991 to 28 per cent in 2011. However, there have been considerable variations in the degree of occupational diversification across states. According to Chadha (1994), the various states of India stood at three levels of non-farm development, towards the end of 1980s, in terms of the percentage of rural non-farm workers. Analysis of the Census data for 1961 to 1981 indicates that the states where non-farm employment expanded were Gujarat, Haryana, Jammu and Kashmir, Karnataka, Kerala, Maharashtra and Rajasthan (Bhalla, 1993b). Analysis of the NSS data shows that the states where non-farm employment for male workers expanded fast during the 1970s and 1980s were Punjab, Haryana, Gujarat, Himachal Pradesh, Rajasthan, Kerala and Tamil Nadu. A modest expansion was witnessed in Karnataka, Maharashtra, Orissa and West Bengal (Chadha, 1997). During 1987-88 to 1993-94, the proportion of rural male workers engaged in non-farm activities witnessed a sizeable growth only in Haryana and West Bengal. In most other states, it remained constant or increased marginally.

Bhalla (1993a and 1997) computed a diversification index at the state level for 1961, 1971 and 1981. This is a more sensitive measure, which takes into account the changing composition of the non-agricultural segment as well as agriculture's and non-agriculture's shares in the total workforce. According to her, rural India experienced, over the two decades up to 1981, a deepening of workforce diversification - an increasing complexity and balance within the non-cultivating segments - rather than a significant widening of rural workforce diversification. Of the three broad sectors of the rural economy, the tertiary sector has diversified the fastest, the secondary sector next, while the primary sector has scarcely diversified at all. Within the primary sector, however, the other than cultivation segment has diversified the most, even more than the tertiary sector. Analysis of district-level data reveals the existence of three kinds of regions:

The first, concentrated in Bihar, displays symptoms of agricultural involution; the second, high farm productivity districts of Punjab and coastal Andhra Pradesh, shows increasing concentration in agriculture. The third is now a large block of highly diversified districts, clustered around industrial towns, or forming long geographical corridors, linking large urban conglomerations (Bhalla 1997). Most conspicuous of this extends from Delhi through Haryana, Rajasthan, and Gujarat all the way to the coast, viz., Ahmedabad and Surat (Bhalla, 1993b).

FACTORS DETERMINING THE EXPANSION OF THE RURAL NON-FARM EMPLOYMENT IN INDIA

The regional studies in Indian context may be classified into two types. The first are cross-sectional econometric estimates of the relationship between the level of non-farm employment and either level or growth of the independent variables. The second type tries to estimate the dynamic association between growth of non-agricultural employment and changes in various macro indicators. According to Lanjouw and Lanjouw (1995), such aggregate level estimates, using cross-sectional or pooled data, suffer from the fact that both sets of growth rates may differ across regions for many reasons, introducing bias which might swamp any relationship which exists.

Empirical researchers such as Bhalla (1981), Papola (1987, 1990), Chadha (1994), Hazell and Haggblade (1991) and so on emphasized the importance of agriculture-induced growth of the non-farm sector. Chadha (1986) documented strong relationship between agriculture and the non-farm economy using time-series data in the Indian context from Punjab, a fast-growing agricultural state. Bhalla (1981) highlighted the importance of agricultural production in Haryana for raising demand for consumer goods and agricultural inputs. It was Harris (1987) who cited a number of factors on which policy formulation regarding the agriculture-led growth of the non-farm sector had been conditioned: (i) whether growth linkages are stronger in agriculture or industry; (ii) whether consumption linkage is stronger than the production linkage; (iii) whether local linkages are stronger or weaker than the non-local; (iv) whether state governments should implement policies to strengthen local secondary benefits in regions already favoured with public sector investment in agrarian sector. Taking cue from this, a large number of researchers examined the relationship between agricultural growth and the growth of the non-farm sector. Nachane *et al.* (1989) found a strong correlation between the agricultural and non-farm growth and also argued that agriculture had strong forward as well as backward linkages with agro-based industries. Dev (1990) showed that agricultural productivity is a more important factor rather than crop production at disaggregated level. However, he also admitted that inequality in land distribution was negatively correlated with the non-farm employment. Using survey data from Tamil Nadu, Harris (1991) pointed out that agricultural development is necessary but not sufficient for the growth of the rural non-farm activities. On the basis of district level data, Hazell and Haggblade (1991) argued that growth in agricultural sector is the principal factor responsible for the growth of the non-farm activities through both production and consumption linkages. However, according to Shukla (1991, 1992), consumption linkage is more important than production linkage. On the basis of his econometric modeling of data from the state of Maharashtra, he showed that consumption linkage were twice as strong as production linkages and concluded that 'once the consumption effect had been removed, agricultural production had little impact on the growth of the non-farm sector'. Moreover, she argued that forward production linkages were stronger than the backward linkages. Papola (1994) found that the rural industrial sector as a sub-sector of RNFS had strong correlation with agricultural productivity in different states. Fisher *et al.* (1997), using the 1991 Census data, observed that in states with a healthy agricultural sector, such as Punjab, Haryana and West Bengal, over 25 per cent of the rural workers were engaged in the non-farm sector, whilst in Bihar and Madhya Pradesh (with more limited agriculture), it was only 10 per cent. Thus, they conclude: "growth in the RNF sector is clearly boosted by a thriving agricultural economy". Basant (1994) found, in his district level study on Gujarat, that the level and growth of agricultural productivity, per capita agricultural production and production of non-food crops are not significantly correlated to expansion of the rural non-farm activities. Chadha (1994) conducted an extensive micro study in 18 villages of Bihar (representing backward region), Andhra Pradesh (as agriculturally developed region with relatively low non-farm activities) and UP (representing agriculturally developed region with developed non-farm sector) and concluded that although increase in agricultural productivity promotes non-farm activities within the villages, the proportion of non-farm income increases for poorer households.

However, Vaidyanathan (1986)'s study based on data from 16 states initiated a lively debate in India on the issue of whether growth in rural non-farm employment is a consequence of distress diversification, or because it is responding to demand as the rural economy develops. Vaidyanathan found a positive correlation between the non-farm employment and unemployment rate, and postulated that the non-agricultural employment absorbed surplus labour when the potential of agricultural employment was limited, suggesting a distress-induced growth of the non-farm sector. Unni (1991), however, hypothesized that distress conditions perhaps do not lead to the growth of non-farm activity due to lack of demand for such goods in such regions. Unni pointed out that Vaidyanathan's findings were based on the NSS data, which only capture open and visible unemployment. Using the Census data for the districts of Kerala, Eapen (1995) found that land-man ratio and percentage of marginal to total land holdings were positively related to non-farm employment in 1981 and 1991. She concluded that while both demand-related and distress factors were important for growth of the non-farm employment in 1981, the distress factors and urbanization were important in 1991. According to Saith (1991), the rural poor engage in non-farm activities in the labour and product markets as part of their survival strategies.

In the context of West Bengal, the study by Chandrasekhar (1993) is widely referred as it demonstrated the absence of a clear relationship between agricultural growth and the RNFE. He described three phases of this relationship, resulting in an inverted U-shaped 'time profile' when per capita output is plotted against share of non-farm employment: (i) In the pre-green revolution phase, there is some limited local demand for products of labour-intensive manufacturing and services, and percentage of nonagricultural workers is low. (ii) As the locality enters the early green revolution phase, increased demand for agricultural labour reduces the elasticity of labour demand for RNF employment resulting in a net movement of labour into agriculture (despite increased demand for agriculture-supporting RNF activities), thus reducing further the share of the rural non-agricultural workers. (iii) As the agricultural sector matures, increased demand for more specialized goods of higher quality increases the share of RNF employment, with some of the demand met by urban-based production. Chandrasekhar argues that much of India is yet to reach the third phase, or is in the early stages, explaining low participation in RNF employment in certain regions of India. Basant (1994), however, argues that such a process cannot be necessarily generalized for the rest of India.

Another much-debated issue, in this context, was whether the process of rural diversification has been driven by the growth in the agricultural sector (justifying Mellor's linkage theory based on agriculture-led growth strategy) or it has been driven by the strong linkage effect of the urban economy. It was Eapen (2001) who examined the role of agricultural and urban linkages in the growth of rural non-farm sector in Kerala and highlighted the importance of both the factors depending on the location of rural villages relative to the location of nearby rural town.

Empirical studies also suggest some other prime movers of the non-farm economy such as rural infrastructural facilities (Hazell and Haggblade 1991, Jayraj 1994), literacy and education (Eapen, 1994; Jayraj, 1994; Samal, 1997a; Basant, 1993), urbanization (Bhalla, 1993, 1997), migration, liberalization of the domestic economy, commercialization of agriculture, rural-urban linkages, declining land to man ratio, landlessness, and so on. Unni (1998) pointed out that rural infrastructure, urbanization and government rural development schemes also play crucial role to promote the rural non-farm activities. Bhalla (1993, 1997) after analysing the district-level Census data, highlighted the importance of proximity to the urban centre. The importance of urbanization has also been emphasized in the study of Shukla (1991, 1992) in Gujarat, Jayraj (1994) in Tamil Nadu and Eapen (1995) in Kerala.

Hazell and Haggblade (1991) highlighted the importance of rural infrastructure in promoting the rural non-farm activities. Good communication can help the rural people to commute to the nearby urban centre on a regular basis for their livelihood. Further, rural products can have a better marketing channel and distribution network due to improved road connectivity (Visaria and Basant, 1994). Jayraj (1994) gave emphasis on the development of rural transport system, whereas Singh (1994) stressed on rural electrification. Expansion of areas under rural electrification can induce setting up of electricity-driven manufacturing units in rural areas. Harris (1991) pointed out that the development of rural infrastructure is one of the important preconditions for strengthening the farm-non-farm linkages. The development of infrastructure in the newly industrialized Taiwan is the evidence of this effect. However, Islam (1997) pointed out that infrastructural development in the form of better transportation and rural electrification could have a negative impact by changing the tastes and preferences of rural households towards urban products like household electrical goods by reducing the demand for rural products.

Empirical studies also identified literacy as another prime-mover. Eapen (1994) in Kerala, Basant (1993) in Gujarat, Jayraj (1994) in Tamil Nadu and Samal (1997a) in Orissa found that rural literacy rate had strong positive correlation with the non-farm activities. Higher level of schooling is found to be strongly associated

with non-farm activities, especially those such as regular salaried employment. Educational attainments not only open direct employment opportunities to high-return non-farm activities, but also contribute indirectly through 'spill-over effect' of knowledge.

Public expenditure on rural development and the different public developmental schemes also play important role to promote the rural non-farm sector. Sen (1997), Ghosh (1995) and Unni (1998) found a positive correlation between public expenditure on rural development and the non-farm activities. Case studies in Orissa (Samal, 1997b) and Kerala (Eapen, 1994) also support this view.

NON-FARM EMPLOYMENT, POVERTY AND INEQUALITY

Another important issue that has been raised in the empirical literature in the recent times is whether rural occupational diversification, through the generation of non-farm income, can reduce rural poverty as well as inequality. On the basis of his household level survey data, Lanjouw (2001) observed that the rural non-agricultural sector had immense potential to alleviate poverty in Ecuador. Poverty declines as the share of income from non-agricultural sources rises. The non-agricultural employment and earnings are positively associated with better education and access to infrastructure. Poverty could be expected to fall substantially with expansion in the non-farm sectors of construction, transport, commerce and services. Lanjouw also analyzed a recent household survey dataset for Ecuador to assess the impact of the non-agricultural rural economy in reducing poverty. In this context, his main finding is that the greatest fall in poverty could be expected from expanding employment opportunities in transport, commerce-related activities and services such as administration and the hotel and restaurant and trade. However, most of the poor, in the developing countries, have limited access to more remunerative non-farm activities due to poor asset base, lack of skills and education. Moreover, the poor are often forced to be engaged in low-return non-farm activities in the face of income uncertainty from their traditional sources resulting in further deterioration of their poverty status arising out of some unforeseen calamities.

As regards the inequality impact of the non-farm sector, the mere reduction in the incidence and intensity of poverty does not ensure that such rural non-farm activities have equalizing effect on the rural economy. There are two conflicting points which are worth-mentioning here. According to some researchers, the expansion of the non-farm activities have an equalizing effect on rural incomes as the poor households become capable of employing their resources to a greater extent and thereby increasing their net income through their participation in the non-farm activities. On the other hand, some researchers argue that diversification towards the non-farm activities has an inequality-enhancing effect on rural income. The reason is that the richer households with better asset-base and educational status have greater access to highly remunerative non-farm activities. As the poor face entry barrier to participate in the high-return activities due to some socio-economic constraints, they are bound to be engaged in the low-return non-farm activities driven by their abject poverty. Therefore, the coexistence of high-return and low-return non-farm activities should have greater implication in the context of inequality. While Bagachwa and Stewart (1992) found that landless and poor were getting a higher percentage of their income from non-farm occupations suggesting a favourable influence from the viewpoint of poverty reduction, others like Lanjouw and Stern (1998) found that in the North Indian village of Palanpur non-agricultural employment opportunities had inequality increasing effect.

Reardon et al. (1998) identified a number of conditions for the development of the RNFE to be more equality enhancing, which include proximity to urban markets, physical and market infrastructure, resource endowments and the distribution of productive resources within rural areas. Piesse and Thirtle (2001) observed that access to markets increased the poverty reduction potential of the RNFE in Zimbabwe. Deininger and Olinte (2001), studying data from Colombia, observed that the relationship between diversification and wealth/income is a U-shaped curve. This suggests that there are two types of diversification: a low-return refuge from poverty, and a high-return innovative diversification based on high levels of asset endowment and human capital and a well-developed rural infrastructure, including access to credit markets.

SUMMING UP

Our analysis on existing literature provides extensive ideas regarding the on-going researches on the developmental role of the RNFS and also explores the heterogeneity of the sector which helps to identify those areas of the sector which has developmental impact on all sections of the people in the developing countries. We see that the rural non-farm sector was first recognized widely during 1970s on the background of the failure of urban industrialization-led growth strategy in terms of employment generation and rural poverty alleviation.

We have also reviewed the development experience of some Asian, African and Latin American countries to facilitate our comparative developmental analysis which would help us in framing the suitable policies in Indian perspective. The success story of the TVEs in China would help us to find out the limitations and faults of the Indian policy-maker in framing the rural developmental policies. In fact, China has experienced more rapid growth of rural non-farm employment than India during the nineties as China's TVEs have become internationally competitive than India's rural non-farm enterprises. This is due to fewer price and quota protections for the non-farm sectors in China.

We have identified a large number of factors likely to be responsible for the expansion of the non-farm activities. However, it varies from time to time, region to region. Those factors are broadly classified into two categories: demand-pull and distress-push. However, while some of those factors are generated from the agricultural sector, some others are non-agricultural in nature. We also have noticed in our literature survey a 'vicious cycle' operating on the rural manufacturing sector. Lack of education, together with lack of technical skills, provides little incentive for rural firms to invest in technology, leading to low level of labour productivity in the rural manufacturing sector. Thus, a high level of illiteracy in rural India seems to have hampered the growth of the modern rural non-farm sector.

It has been observed that most of the existing studies have concentrated on analyzing the causes for the growth of the non-farm sector at an aggregate or regional (state/ district) level. The causal factors identified are, therefore, factors emanating either from the agricultural sector or outside it at the regional level, such as levels and growth of various indicators. Moreover, such studies tend to treat the non-farm sector as a homogeneous group of economic activities which are all affected similarly (positively or negatively) by any one factor. Some attempts to disaggregate this by regions (i.e., developed and backward) and by industry groups have been made. However, within such disaggregation, the non-farm sector is treated as homogeneous. The non-farm sector, however, consists of a heterogeneous set of activities which are best classified in terms of capital use, productivity and production relations rather than product categories. The rural non-farm manufacturing activities range from household and village production on a very small scale, producing very simple, low-quality products, to small modern factories using mechanical horsepower, sometimes using imported technology, and producing modern higher quality products.

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