

On the Dynamics of and Development in the Rural Sector*The Rural Non-Farm Economy*

Readings during the second half of this semester broadened my perspective regarding the dynamics involved with engines of growth that drive rural economic activity in developing countries. I have long subscribed to an association of rural areas solely with agriculture and was surprised by the extent of economic power held by the rural non-farm economy (RNFE), which represents up to 50 percent of rural income in developing countries (Haggblade and Hazell 2007, 381). Moreover, I have long believed that supporting micro and small enterprises (MSEs), which in number make up the majority of the RNFE, was invariably the only way to achieve rural economic growth. In turn, I was surprised that in a stagnant economy, a primary engine of growth is agriculture (386). Indeed, as Mead and Liedholm (1998) note, in a stagnant economy providing capital through microcredit or other means to MSEs should be seen only as a way to alleviate poverty conditions, not foster economic growth (70).

Agricultural Development

I was struck by the potential of crop pest eradication as an important way to achieve large-scale agricultural development, as it is hard to imagine that small creatures such as pests can play such a central role. The fact that pest control is critical to both large and small farmers is a key variable that led to the successful implementation of the agricultural development programs in Brazil studied by Tendler (1993). She noted that, fearing contagion from pests in small farmers' crops, large farmers supported efforts to include the former in pest control programs (1569). Such efforts in the state of Sergipe to control the weevil included state agricultural development agencies sending "brigades" of small farmers to distribute pesticides as well as providing the pesticides and new seedlings at subsidized prices (1569-70). Further, state agencies and politicians were interested in the effort to fight pests given the fact that pests can literally eat away economic growth.

Just as pests do not discriminate between large and small farmers, they also do not discriminate between one country and another. This reality presents an important opportunity for cross-country agricultural development. For example, Eicher (2003) heralds the effort by the CILSS, a regional development institute established by international donors, to control the cassava mealy bug in Sahelian countries as a significant success for development policy in Africa (30). Indeed, developing pest resistant crops or pesticides is one illustration of how cross-country research collaboration can have positive results with significant economies of scale in agricultural development. Thus, one of Eicher's (2003) main points is that African governments and international donor agencies should support regional research initiatives; this is not a development strategy I had previously considered.

As related to the role of government in agricultural development, Gotsch (1977) led me to realize that the perceptions government has of the agricultural sector can have tangible effects on its development. In the Punjab region of India and Pakistan, the government believed that farmers needed tractors if they cultivated 25-30 acres and 50 acres of land, respectively (189). Both governments determined the size of agricultural machinery imported into their respective region. Thus, for example, the Pakistani government's perception of a larger land-holding farmer led them to import highly immobile tubewells, while the Indian government's view of farmers led them to import mobile and less expensive tubewells. Ultimately, Gotsch estimates that difference in the imported technology contributed significantly to the higher agricultural production in the India area of the Punjab region.

On Government-Business Relations and Business Associations

The interaction between government and business is more complex than I had previously imagined. In relation to the concept of reciprocity between government and business, Schneider

(1998) posits that there are three main components: performance standards, monitoring and sanctions (105). Schneider illuminates the challenge governments can face in implementing sanctions on businesses to which they have publically provided support. For example, in Brazil the government disregarded the environmental standard non-compliance of firms in the subsidized computer industry, in part for fear of losing its ongoing political support. Tendler (2002) uncovered a similar phenomenon in the Brazilian state of Pernambuco, where government regulators turned a blind eye to, for example, tax evasion by small firms in an effort to maintain their political support.

The above examples reflect situations where business can take advantage of political conditions to circumvent regulations. On the other hand, Doner and Schneider (2000) present interesting cases in which businesses were an asset to government by serving as regulation enforcers. For example, in response to Mexico's 1987 economic downturn, government, business and labor established, among other regulations, price controls, which the retailers' business association monitored and enforced (204-205). As such, the Mexican government did not have to expend human and financial resources to conduct these activities. In a similar example of positive collaboration between government and business associations, a local industrial business association in Jaraguá, Brazil represented local producers of counterfeit garments facing decreased demand for their product to negotiate an agreement with government agencies that registered the firms and provided them assistance in developing their own brands (Almeida 2010, 21). As part of the agreement the government agencies established a yearly trade fair to connect the firms with new clients and to promote their new brands. Fajzylber (2007) calls for increasing the benefits of regulatory compliance as a means to formalize firms and therefore increase their

productivity (176). This is precisely what the agreement accomplished with support from the business association.

Additionally, I had also not considered the varying conditions under which business associations are successfully established. I was particularly struck by the importance of a shared and collective identity amongst members of business associations. Cammett (2005) studied why under nearly identical macro-economic conditions, including trade liberalization policies, a textile business association formed in Morocco, but not in Tunisia. Cammett concluded that in Morocco, among other factors, many textile entrepreneurs came from modest backgrounds and had limited social networks. In turn they developed a new collective class identity that bonded them together under a banner of being “self-made men”, in contrast to the country’s “fat-cat” elite. Importantly, however, Coslovsky’s (2010) research regarding the collaboration between Brazil Nut (BN) producers in Bolivia signals that class identity is not always the most important factor in establishing a successful business association. The Bolivian producers of BN are a heterogeneous group with significant racial animosity, given that some are of European descent and others of indigenous ancestry. Yet, facing newly instituted European Union quality standards for BN they were able to put aside their racial tension and collaboratively establish a business association that facilitated their ability to overtake Brazil as the biggest exporter of BN.

On Foreign Direct Investment

Hanson (2001) analyzes a question I have oft asked myself: “should countries promote foreign direct investment (FDI)?” In short, according to Hanson, if a recipient country’s objective for attracting FDI is to raise general welfare and economic growth, then the answer is more than likely “no.” For example, empirical evidence suggests that multinational firms do not typically produce positive productivity spillovers to domestic industries, one of the conditions he

highlights as central to FDI being beneficial to recipient countries. In tune with this finding, the car production factory established by Ford in Rio Grande do Sul primarily utilized parts from non-Brazilian firms. Analyzed from an economic linkages (Hirschman 1989) perspective, it is possible, however, that the factory could eventually stimulate a form of backward economic linkage in that Brazilian firms could begin producing more of the parts required by Ford.

Additionally, I am accustomed to thinking about FDI only as the first world investing in the developing world. In turn, I was surprised by Tewari's (2006) examples of Indian textile and apparel firms investing in countries such as Italy to increase their distribution chain, and also to gather information regarding consumer demand to inform their product design (2340). It was a good reminder of the dynamic nature of the globalized economy.

On Labor Conditions

Unions

Previously, I was agnostic to the role of unions in increasing labor conditions and compliance with labor standards. Readings this semester led me to value the contribution unions can have in this regard. I was struck by Elliot and Freeman's (2003) stipulation that supporting local unions is one of the most effective means by which to ensure lasting improvements in corporate labor standard compliance (50). Damiami's (2003) study of the non-traditional export crops (NTEC) sector in Petrolina and Juazeiro, Brazil provides a clear example of how unions can be critical in monitoring labor standard compliance. In this case, local unions identified labor abuses and alerted labor regulators. Labor regulators appreciated such actions, as it enabled them to focus their efforts on areas identified by the union and increased their efficiency of operations. Similarly, the New Trade Union Initiative (NTUI) in India collaborated with the multinational Carrefour to establish standard compliance monitoring by local unions which ultimately increased the rate of monitoring and profits (Tewari 2010).

However, it is important not to overly romanticize unions. As Stiglitz (2001) notes: “excessively strong unions can through collective action ‘hold up’ the rest of the economy...of particular concern are those instances in which...unions attempt to suppress competition” (16). A clear example of this occurs in Mexico where, though to a lesser extent today, the country’s largest unions have historically colluded with the government to maintain labor law processes. One example is the onerous documentation submission requirements to the government for union registration, which severely limit the establishment of independent unions (Bansusán, 2004).¹

Lastly, I was struck by how significantly local social structure can impact union relationships with employers. For example, the extent of civil society organizations in Turin and Milan, Italy were a key determinant in how automobile companies restructured their production systems and interacted with their unions following the country’s economic downturn in the late 1970s (Locke 1995). Thanks in large part to a vibrant civil society in Milan, Alfa Romeo was able to negotiate with its labor union in a constructive public environment. Ultimately this resulted in increased profits and productivity at the plant, as well as the majority of laid-off workers being rehired by the early 1990s. Meanwhile, as the hegemonic sociopolitical power in Turin, Fiat decreased its workforce, increased mechanization, and established an outright antagonistic relationship with its union, and ultimately the local population, to the point where the union lost most of its power.

International Institutions

I had previously assumed that the International Labor Organization (ILO) played a significant role in the international dialogue regarding development practices. As such, I was surprised by Standing’s (2008) article highlighting important instances in which the ILO shied away from entering into public discussions regarding international labor policy and development.

¹ Bansusán, Graciela. 2004. “A New Scenario for Mexican Trade Unions.” In *Dilemmas of Political Change in Mexico*, edited by Kevin J. Middlebrook. London.

The most striking example is the ILO not publicizing research in the 1980s and 90s that evidenced the adverse effects of enhancing the flexibility of labor market strategies for fear of upsetting key governments advocating neo-liberal policies.

While I am aware that the World Bank and the International Monetary Fund generally have a negative disposition toward labor standards, I was shocked that the World Bank would publicize a report noting evidence that labor standards have “no beneficial impact but should be seen as possible impediments to investment because they increase the cost of doing business” (quoted in Levinson 2001, 17). The fact that the report likely went through an extensive internal review before being published seems to signal that this belief is more widespread within the institution than I would have previously imagined.

A Loss of Localized Decision Making

Rodrik (1997) opened my eyes to negative effects globalization could have on a country’s society that I had not previously considered. He posits that globalization could be weakening society’s ability to resolve conflicts. For example, as Jorge Castañeda (quoted in Rodrik 1997, 70-71) notes, many Mexicans are now identifying primarily with the global economy and seem less affected by their country’s economic prospects. In turn, they are less likely to enter healthy and necessary policy debates regarding Mexico’s future. This bifurcation of society struck me because I assumed that the conditions closest to people are those that serve as their strongest motivators for economic, political and social decision making.

On Small Firms

Before reading Brown et. al. (1990) and Edmund (2004), I would have likely argued that the best approach to private sector economic development in the United States is through investing in small business; especially because I believed them to be primary sources of job

creation. Both authors alerted me to the fact that it is critical to take into account that new employment created by small firms is due, in part to, statistical data interpretation. For example, most medium to large businesses would have been counted as small businesses at the point of establishment because most do not have 100 or more employees when they open (Brown et. al 1990, 24).

On U.S. University Administrators

It seems that administrators as a whole have become indispensable to United States universities, such that they are protected from losing their jobs during economic downturns. For example, Brown et. al. (2010) demonstrate that when universities lose money in their endowment, faculty and service staff are cut, but administrators remain unaffected (25). This dynamic may be similar to that described by Dobbin and Sutton (1998)² in which firms hired what came to be known as human resources (HR) personnel to protect themselves from uncertainty created by vague government changes to legal statutes, such as the Equal Employment Opportunity law. HR professionals secured their jobs and increased their budget line-items in part by re-branding themselves as economic agents capable of saving the firm from, for example, being sued and losing money. In the case of university administrators, the 1980 government de-funding of universities and the ability to sell research led to universities hiring an army of administrators to, for example, protect themselves from lawsuits over intellectual property rights (Samuelson 2010). I wonder how university administrators view themselves today, 30 years later. Have they re-branded themselves like the HR professionals did?

² Dobbin, F. and Sutton. (1998) The Strength of a Weak State The Rights Revolution and the Rise of Human Resources Management Divisions. *The American Journal of Sociology*, 104(2): 441-476

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