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RURAL INDUSTRIALIZATION IN DEVELOPING COUNTRIES: SOME POLICY ISSUES ^{1/}

by

S. V. Sethuraman*

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* Technology and Employment Branch, Employment and Development Department, International Labour Office, Geneva.

During the fifties and early sixties it was believed that industrialisation held the key to economic growth and development in less developed countries. It did not take too long to realise that industrialisation per se could not deliver the goods; development of agriculture, which provided employment and a means of livelihood to a vast majority of the labour force, was therefore recognised as essential. Further, it was soon discovered that industrialisation, notwithstanding the implied structural transformation of the economy, could not involve the masses, directly or indirectly, in the development process; in other words, the industrialisation process tended to by-pass the people, particularly those in rural areas who were supposed to benefit through expanded employment and income opportunities. This in turn focused attention on rural development in general as a means of achieving both growth and equity objectives. While the new agricultural technology combining high yielding varieties of grains and fertilisers provided some opportunities for growth in income and employment in rural areas of many developing countries during the late sixties and early seventies, it

is becoming increasingly apparent that rural non-farm activities must also play a crucial role in raising the incomes and levels of living of the rural people. This realisation is not only due to the inelastic supply of land and the inability of agriculture to absorb much of the labour force increases, but also to the inability of the urban-based industrial sector to absorb much labour for a variety of reasons including the high capital intensity in production.

Among the rural non-farm activities, the most important is of course the rural industry. To promote rural industrialisation through transplantation of hitherto urban-based industries in rural areas will be a serious mistake insofar as they fail to absorb the rural labour force and involve them in the development process. If widespread participation of the people and generation of employment and income opportunities in the rural areas are the criteria, then it is obvious that the nature and content of a rural industrialisation programme will have to be completely different from those of urban-based industrialisation programmes of the past.

Any industrialisation programme for the rural areas must recognise the following features of the rural sector. First, the labour force in the rural areas typically has fewer years of schooling compared to the urban areas; in fact a substantial part of the rural labour force is illiterate. Whatever skills they possess have been acquired

through an informal training system; and the skills they possess are relatively simple. These features are in marked contrast to those of urban areas where the labour force has comparatively higher levels of schooling and skills; technocrats with technical know-how are relatively easy to find. Another feature of the rural sector is that the bulk of the labour force is also very poor and hence do not possess the minimum necessary seed capital to establish enterprises on their own on a viable scale. Unlike the urban sector, the rural sector lacks the necessary linkages with the markets and with the technology, credit, training and extension services institutions. The success of any rural industrialisation programme will thus depend on the extent to which it recognises these factors.

The factors described above imply that the rural industries proposed must necessarily be based on simple, though more advanced than the traditional, technologies and simple skills. It must also be on small scale for the simple reason that the organisational and managerial skills required for large scale operation are generally not available in the rural sector. In view of the absence of appropriate linkages, such industries must have as little dependence as possible on the rest of the economy or the necessary linkages must be created.

The last point above implies that rural industrialisation must largely depend on what is available within the rural sector. For example, it must largely depend on the

resources that are locally available rather than on imported or urban-based raw materials. Likewise it must depend on such technologies and capital equipment which call for very little external input in the form of maintenance and repair services; in other words, it should be possible to provide such supporting services locally. In terms of forward linkages, the market for their products must be mainly local, from within the rural sector, unless appropriate market linkages are established through suitable infrastructural, transport and institutional facilities. Once a threshold level of industrial development has been attained in rural areas, it will of course be possible to gradually relax these constraints and integrate the rural industrialisation activities with the rest of the economy.

What are the activities which satisfy the above criteria? First, there are the activities which have a backward linkage to agriculture and related activities. These include provision of inputs for the production of agricultural and related products, e.g., farm implements and tools, irrigation equipment, construction material for irrigation works, transport equipment for farming, fishing nets and boats for fishing, tools and implements for forestry, plantations, etc. and other supporting services. The second category includes activities having a forward linkage from agriculture e.g., processing of agricultural, forestry and related products like grain milling and grinding, oil crushing, sugar manufacturing,

fish preservation, preservation of fruits and vegetables, manufacture of dairy products, bakery products and so on. The third category includes manufacture of a variety of household consumer goods demanded in the rural areas e.g., textile weaving, manufacture of clothing, furniture, footwear, utensils, lamps, soap, matches, and the like. The fourth category comprises production of non-farm durable goods, notably for construction related investment e.g., manufacture of bricks, tiles, and flooring materials, carpentry, blacksmithing, manufacture and repair of transport equipment and so on. The fifth and final category includes production of items based on labour-intensive traditional technology primarily for the tourist market or the export sector, e.g. a variety of handicrafts based on bamboo, wood, metal and leather, embroidery and other work of artistic value. These activities can alternatively be classified as those dependent on local raw materials, local human resources including skills, and local markets for finished products.

What is the scope for promoting these activities? Obviously it is limited by the extent of the market which is in turn determined by the purchasing power of the rural masses, with the exception of those activities which aim at the tourist market. Nevertheless, the scope for promoting these activities would seem to be substantial for the following reasons. First, technological change in agriculture would seem to have opened up new opportunities both in the provision of inputs for agriculture and in the

processing of agricultural output. Second, autonomous expenditures on rural development would seem to generate considerable demand for goods and services, particularly in activities linked to agriculture and construction. Third, a growing tourist market for handicrafts and the like would seem to generate new opportunities in rural areas.

As against the above, a variety of counterbalancing forces or trends, unfortunately, are in operation. The first and foremost are the changes in consumer tastes and preferences; the changes are such that the new pattern of demand cannot be fully satisfied with the existing pattern of production of non-farm commodities in rural areas. ^{What is worse} /is that the rural non-farm sector is unable to respond fully to such changes in demand pattern either because its participants lack the technical know-how or because they lack the capital, skills and raw materials needed to produce the new goods and services in demand. To cite only a few examples: milled rice versus hand pounded rice; mill made textiles versus handloom textiles; machine made footwear versus hand made footwear and so on. In other words, the demand base for the existing traditional commodities would seem to be in a constant state of erosion, without increasing the capacity of the rural producers to produce the new goods and services in demand. Second, an important force, related to the above, is the emergence of the urban-based capital-intensive industrial sector which seems to have made considerable inroads into the rural

sector not only by supplying the new goods and services in demand in rural areas but also by contributing to the changes in tastes and preferences noted earlier. This force has in fact been so strong as to threaten the future of the rural small industrial enterprises. It is no wonder that the rural small industrial enterprises are unable to compete with the large urban-based industrial enterprises even if the former are willing to acquire the technical know-how and skills to produce the new commodities in demand. For example, in Sri Lanka, washing soap is manufactured by a multinational even though it can be manufactured efficiently through labour-intensive methods using local raw materials, namely coconut oil. Other similar examples include matches, household utensils, textiles, footwear, agricultural implements, construction materials and so on. The forces underlying this phenomenon are not difficult to understand; large industrial enterprises have a clear edge over the small rural enterprises with regard to economies of scale, linkages and access to a variety of markets including imported raw materials, etc. This raises a major policy issue as far as rural industrialisation is concerned. Are the national governments of developing countries willing to impose curbs on the urban based large industrial enterprises and also to provide the necessary help and assistance to the small scale rural industries to enable them to acquire the technical know-how, skills, credit, etc. in order to produce those "non-traditional" commodities? And if so, how can such a policy

be implemented? And to what extent is implementation feasible?¹

The third important trend originates from the changing market forces; for example, growing shortages in key raw materials have tended to increase the relative prices of traditionally demanded goods and services based on such raw materials. As a result, there has been some shift away from such traditionally demanded goods and services towards those based on modern substitutes and produced by the modern sector at much less cost. Examples of this include growing shortage of leather, wood, metals including brass, aluminium, iron and so on. While no one can blame such substitution, or even justify it on efficiency grounds, it does raise a problem for rural small industries, insofar as such modern substitutes for traditional raw materials call for new and stronger linkages with the modern sector, new skills and production techniques and so on. In many cases such substitution has made obsolete the existing skills in rural areas.

Any rural industrialisation programme must recognise these subtle factors if it should prove to be viable and sustainable in the long run. What this means is that the rural industrial enterprises must be equipped to produce

¹If China has succeeded in its rural industrialisation programme it is primarily because of insulating the demand pattern and allowing it to change only to the extent that the local producers are able to respond.

non-traditional items for which the demand is growing in rural areas which in turn implies not only the provision of a package of various kinds of assistance but also creating a policy environment favourable to the rural producers. The emphasis on the production of non-traditional items also implies laying the foundation for production of goods and services that are demanded by the urban or the export sector. The comparative advantage of the rural sector in this regard lies in its access to certain indigenous resources, such as rubber and precious stones in the case of Sri Lanka, and labour in general. But to promote the production of non-traditional items in rural areas also places a heavy burden on the discovery and diffusion of appropriate technologies. Thus, for any rural industrialisation programme to succeed, it is not only necessary to inject technical know-how, new skills, new linkages, new policy environment, etc. but also to create appropriate institutions for generating and diffusing the technologies needed. On top of these is of course the task of liberating the rural small industries from various institutional constraints which restrict their income earning opportunities one way or another. Hence the appropriate forms of organisation of rural small industries also deserve closer scrutiny. Finally, there is also the problem of competition from large industrial enterprises for products that are developed specifically for small rural producers. For example, the Department of Small Industries in Sri Lanka developed a few products for the

tourist market to be manufactured by rural small enterprises exclusively; but it took only a few months for large commercial enterprises to copy this product and flood the market once the market for such products was proved. How are we then going to protect the interests of rural small industries?

Towards a Strategy for Rural Industrialisation

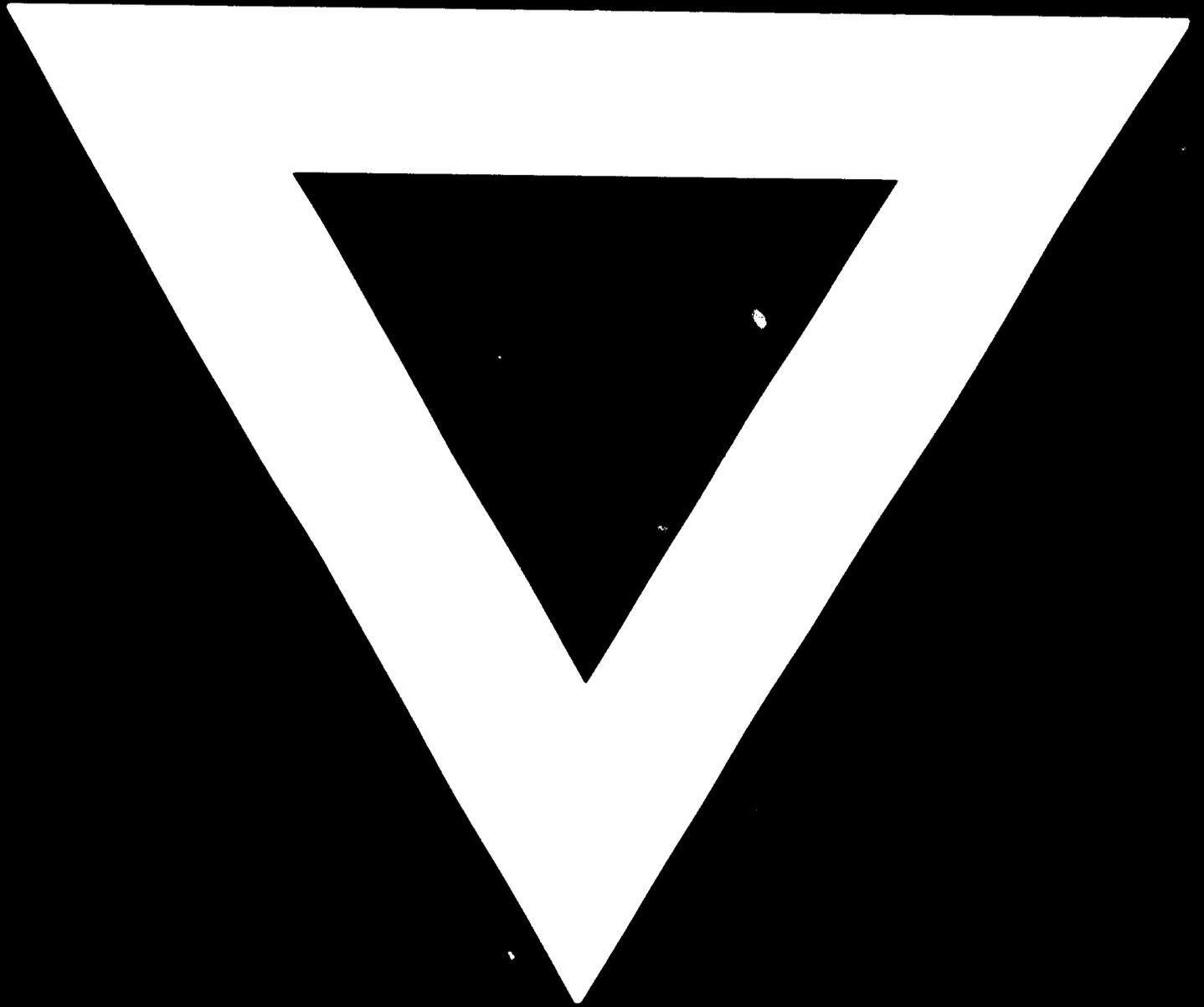
It follows from the above that the first task in developing a strategy for rural industrialisation is to identify the emerging pattern of demand for non-farm goods and services in rural areas and compare it with the traditional pattern of supply. The second step will be to trace the origin of such changes in demand pattern; and assess the extent to which such changes in demand are actually met by rural producers themselves and by the urban based industrial sector (or imports). The third step will be to identify the constraints which inhibit the rural industrial enterprises from fully responding to the changing demand pattern. In particular, it will be necessary to examine the role of backward and forward linkages, the access to new skills, technical know-how and new tools and equipment and raw materials, and the role of policy environment in promoting rural industrialisation. In other words, it will be necessary to identify the factors which currently prevent or deter the rural small industries from diversifying their products.

Parallel to the above, it will also be necessary to examine the extent to which the rural industrial sector can, through use of indigenous raw materials and human resources, meet the changes in demand occurring outside the rural areas. For example, this will include production of labour-intensive commodities for exports and labour-intensive intermediate products for industries. Of course, it will also be necessary to identify the pre-conditions such as linkages required for integrating the rural industries with the rest of the economy.

In such a strategy, development and diffusion of "appropriate" technologies, tools and equipment and skill development will have to play a crucial role in addition to the provision of necessary inputs, credit, and infrastructure. The above in turn implies the creation of an appropriate institutional framework for developing and diffusing relevant technologies and imparting the skills required. From the implementation point of view, it would also seem necessary to examine the role of villages versus small towns with regard to the location of rural industries as well as the role cooperatives or equivalent forms of organisation of rural enterprises.

One of the limitations of this paper is that it deals with the question of rural industrialisation in rather general terms and hence what is said is only a set of basic elements of a rural industrial development strategy. Needless to say more specific elements will have to be added in order to develop a strategy for a given country situation.

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