The Role of Rural Industries in Under-Developed Areas

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Politicians, social scientists and others concerned with the future of democratic institutions in under-developed areas agree that the basic requirement is an improvement in general living standards. The suggestion of technical and financial assistance to such areas advanced by President Truman of the United States in his Point Four program has such an objective in view. Promotion of small rural industrial units processing local raw materials with simple equipment, together with improvement of agricultural techniques, represents one method of increasing production, and hence of raising living standards, directly and speedily.¹ The present article, based on the authors’ personal experience, describes certain procedures that should be observed in the development of new and the extension of established small rural industries, and examines the condition and prospects of such industries in under-developed areas, with particular reference to Asia.

A country that has abundant labor but little uninvested capital must be particularly careful to employ its limited funds in such a way as to obtain maximum productivity and profit. In small industries the capital cost per unit of production is generally low. Thus, the productivity of the most efficient hand loom per unit of capital invested is five to ten times higher than that of a power loom. Moreover, it is generally easier to raise capital for many small industrial units than for a few large ones. Where capital has traditionally been invested mostly in land, people are reluctant to risk investment in remote manufacturing enterprises though they may be induced to join a local industrial cooperative.² The amount of unemployed local wealth available for such purposes is unknown, but the fact that Asia has long been an importer of bullion suggests a large sum. Thus, contrary to the view expressed by certain American capitalists, a nation need not await a proper economic “climate” to attract large-scale foreign investment, but should put available capital to immediate use.

Capital investment in large industries is uneconomic unless utilized by a qualified and properly organized staff. Inefficient use of equipment due to improper management is common in backward areas. Although the labor supply in such countries as India, Indonesia and China is vast, it is unskilled and wholly unprepared for the
requirements of industrialization. To make skilled technicians of laborers who are unfamiliar with anything more complex than a hand tool demands a large investment in training. As an industrial unit becomes larger and more complicated, there is a corresponding increase in the amount and degree of skills required. Yet a labor force that would be useless in modern industry might be ideally suited to operate the simple equipment of a rural plant. Where the traditional unit of production has been the family, recruitment of able administrators for large organizations is extremely difficult. If, however, the unit of operation is not much larger than the traditional size, managers are easier to obtain and low efficiency becomes less of a problem.

The potential labor force in the average under-developed country lies in the rural areas. In India, where perhaps 75 per cent of the population lives in small villages, unemployment and under-employment have been estimated at 25 per cent of the total labor force. Any improvement in agricultural practices may be expected to increase rather than decrease this latter figure. During the harvest season much of the urban labor force returns home to help in the fields. The productivity sacrificed by this practice is not so serious for rural industries, which have less to lose if their equipment lies idle during a few months of the year; such industries, in fact, are excellent instruments for relieving seasonal rural unemployment. Moreover, the return of technically-trained workers to their home villages may provide the skills required for the management of local industries.

Even when capital is available, acquisition of equipment for large industries often presents difficulties. In China, the Agricultural Industry Service preferred to design small-industries equipment that could be manufactured locally from mostly local materials. Frequently the villagers themselves are able, with little or no aid, to manufacture improved equipment. For more complex rural industries the facilities of market-town machine shops are available. A few parts may have to be brought from elsewhere in the country, but very little will be needed from abroad.

Transportation is almost universally slow and expensive in under-developed countries, and large-scale industries frequently are doubly handicapped thereby. Since they must first collect their raw materials from a wide area and then distribute the manufactured products to scattered markets, large coastal factories often prefer foreign to domestic outlets. Many rural industries can operate profitably in competition with larger establishments because of the advantage, in the form of lower transportation costs, which their location affords them.

From the sociological point of view, it is unwise to weaken the traditional ties of a society until substitutes have been provided. The partial industrialization of some areas has created overcrowded slums and accompanying problems. Such conditions will be unavoidable while a limitless reservoir of destitute, under-employed farm labor exists. Large-scale industries will not for many decades, if ever, be able to absorb this surplus. (In India large industries employ only one per cent of the total labor force.) Only through the provision of new opportunities for local employment can the situation be alleviated. Here again, rural industries afford a practicable solution.

Against the foregoing considerations, which favor the establishment of rural industries, must be balanced one very important adverse consideration – the unavoidably low efficiency of small-scale operations. Although the unit cost of labor may be little, the man power required for some small industries often makes the product prohibitively expensive. In central China, for example, a sulfuric-acid plant producing a half-ton daily required 50 man-days of labor per ton, or perhaps 50 times that