

Rural Entrepreneurship in India: Globalization and Its Impacts

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Introduction

The need for and growth of rural industries has become essential in a country like India because of the following reasons:

1. Rural industries generate large-scale employment opportunities in the rural sector as most of the rural industries are labour intensive.
2. Rural industries are capable of checking rural urban migration by developing more and more rural industries.
3. Rural industries/entrepreneurship help to improve the per capital income of rural people thereby reduces the gaps and disparities in income of rural and urban people.
4. Rural entrepreneurship controls concentration of industry in cities and thereby promotes balanced regional growth in the economy.
5. Rural entrepreneurship facilitates the development of roads, street lighting, drinking water etc. in the rural sector due to their accessibility to the main market.
6. Rural entrepreneurship can reduce poverty, growth of slums, pollution in cities and ignorance of inhabitants.
7. Rural entrepreneurship creates an avenue for rural educated youth to promote it as a career.

According to UNIDO, a staggering 75 per cent of the world's poor live in rural areas. And yet, resources and policies continue to be biased in favour of urban development. An imbalance in development is the consequence, with detrimental effects on both rural and urban people. Hence, reducing urban-rural disparities and gender inequalities is a crucial element for any poverty reduction strategy. Mobilizing the potential productivity of rural people and particularly of women is indispensable to achieve the resilient economic growth that will pull people above the poverty line.

Most of the rural population depends, directly and indirectly, on small-scale food crop agriculture, fishery, pastoral animal husbandry or rural wage labour associated with plantations and ranches, and ancillary activities linked to rural townships. Many rural families need to diversify their sources of income and employment in view of increasingly smaller parcels of land, low agricultural productivity, volatile weather conditions and soil erosion. The rural non-farm economy plays an important role for wealth creation and well-being across countries.

Even with their weak integration into economic life, the rural entrepreneur cannot escape the tides of change lapping on the shores of their national economies and their

agricultures. The forces of globalization, commercialization and liberalization are strong and intrusive. They affect the rural entrepreneurship in many ways. However, relatively little research has been conducted on these effects. The following section of the paper explains the conditions of the rural entrepreneurship in the changing environment, together with the overall effect of globalization. Next, the specific effect of globalization on the rural entrepreneurship will be discussed. The concluding section explains the reasons why the often-stated theoretical assumption of a positive relationship between globalization and development of rural entrepreneurship is not well supported.

Globalization and the rural entrepreneurship

1) Rural entrepreneurship in changing environment

The changing global environment raises questions about the ability of traditional, small-scale businesses in rural areas to share the potential benefits offered by the changing environment. The rapid (though declining) population growth, coupled with even faster urbanization, creates increasing demands. In India, urban populations in general grow about twice as fast as the overall total, and by 2020 they may exceed the size of rural populations. Such a major demographic trend challenges the capacities of some traditional small-scale businesses to cope with the increasing demands. In addition, the pressures of rural population growth, slow rate of technological progress, Climate changes as well as extreme weather and natural disasters create further uncertainty, stress and vulnerability among the entrepreneur. There have been considerable shifts in demand for agricultural goods. Demand for meat is increasing at a considerable rate, which also results in increased demands for animal feed. Whilst these shifts create some new possibilities for rural entrepreneurs, they also raise questions regarding the welfare of those who cannot adapt fast enough.

2) Globalization

'Globalization' refers to the growing interdependence of the world's economies, particularly the huge increase in capital movements and the rapid growth of world trade. Countries of the world are becoming interdependent on each other, one way or another. Production is becoming increasingly internationalized, with the rapid expansion of multinational corporations. The decrease in informational and communication costs due to information technology revolution has fostered this increased interdependence. These forces, in conjunction with the policies of international financial institutions, have influenced national governments' economic policy formation.

3) Globalization: a threat or a promise

There are two schools of thought regarding globalization, as is evident from a comparison of the following two statements: "Globalization offers developing countries the opportunities to create wealth through export-led growth, to expand international trade in

goods and services, and to gain access to new ideas, technologies and institutional designs.” (Solimano, 1999) and “Globalization means decreasing national control and increasing control over the economy by outside players, most significantly foreign banks. It also means putting agriculture in the hands of modern technology owned and controlled by large multinational corporations whose primary interest is to generate profits for themselves, and not the welfare of the people, or something as social-oriented as food security.” (Tandon, 1999) The existence of such wildly differing assessments of globalization is not a new phenomenon. Some economic arguments imply that trade liberation should be favorable to the small-scale businesses in developing countries. Since these countries generally have an abundance of unskilled labour relative to other factors of production and relative to developed countries, free trade should increase global demand for exports from developing countries. However, the reality seems otherwise and must therefore be explained differently.

Effect of globalization on rural entrepreneurship in India

Since globalization is a macro-concept and rural entrepreneurship is a micro-concept, occurring in very limited area, it is very difficult to establish causal linkages, or to quantify the specific effects of globalization on rural entrepreneurship. However, it is possible to identify a range of different channels through which various aspects of globalization can be expected to change the welfare of rural entrepreneurship in India.

1) Productivity and efficiency effect

Globalization is often said to result in higher productivity, due to the access to global markets, abilities to specialize, and to take advantages of economies of scale and scope. Exposure to the global competition can result in high levels of productivity and efficiency. However, it is less crucial for large economies like India. Again, the potential gains to rural entrepreneur are also large, because globalization enhances countries' abilities to exploit comparative advantages arising from differing natural and ecological conditions. At the level of national policy, these arguments seem to favor globalization. Still, it is very easy to see how the rural *entrepreneur* could still lose out. This is true in most case due to the lack of affordable facilities in rural areas. There are many other factors which place rural entrepreneurs at a disadvantage. Most of them, lack access to the technologies and market information that would enable them to comply with quality specifications and effectively respond to emerging opportunities. They rarely have access to credit and the other financial services necessary to compete in modern world. Many face high transportation and input costs that further reduce their ability to compete. Additionally, there are some whose cultures place greater value on the maintenance of traditional ways of life, rather than on material success in a competitive world. Apart from these disadvantages, there is wider question of whether the economic and institutional infrastructures, and the structure of policies, are favourable for small enterprises to

succeed in international competition. In short, globalization presents real dangers to the rural entrepreneur, to set against the possible advantages for the wider economy.

2) Economic growth effect

As already noted, the argument in favour of globalization is the positive link between globalization and rural entrepreneurship in India. Because potential benefits include improved access to foreign technology and managerial expertise. There have been varied views concerning the connection between trade openness and rural entrepreneurship growth, and this has given rise to a large body of empirical literature, suggesting positive relationship between trade openness and rural entrepreneurship growth. Edwards (1998) concludes that greater openness accelerates economic growth, and that large departures from free trade dampen it. The evidence suggests that liberalizing countries outperform those who failed liberalization attempts (Michaely et al., 1991). In contrast, Helleiner (1986) suggested that a certain level of national development is necessary before the objective of export-led growth can be realized.

Emergence of WTO and the series of deliberations under Uruguay round have changed the world economic order. Indian Government has shelved the earlier protectionist policies and opened up the economy to the world market. Undoubtedly, this has helped the Indian economy to recoup its strength with the flow of international capital and technology resulting in a robust economic position. The economy is moving steadily with more than 6 per cent DGP growth rate for the last two decades or so. However, the new economic order has posed severe challenges to the agricultural and rural sectors of the economy. Overall, it indicates that openness promotes faster growth. Still, the question remains as to what this might do for the rural enterprises, particularly as little FDI flows into agriculture, least of all small-scale agriculture. The effect of globalization on rural enterprises depends upon the changes in GDP and changes in income distribution. The evidence suggests that the rural entrepreneur overall are substantially included as beneficiaries from economic growth. However, the extent of inclusion varies internationally. As discussed earlier, free trade and openness results in faster growth. Growth might be expected to specifically benefit the rural *entrepreneur* to the extent that the agricultural sector is included in the economic expansion. In fact, there is little evidence that trade expansion in India has actually taken this form.

3) Technological effect

Transfer of technology is one of the prominent features of globalization and one of the major reasons for predicting improved growth. Many formerly small rural entrepreneurs saw major improvements in their businesses, but the improvements were in a very limited area and to a very limited number of entrepreneur. The focus today is on the potentials and dangers of biotechnology. In principle, the benefits here too may be large. The benefits may be from raised productivity, reduced risks from drought and pests, as well as lower

food prices. Biotechnology research has been most relevant to the problems of high-income countries. The benefits tend to be specific to particular environments, conditions or markets. A small number of multinational corporations are also carrying out much of the research. There has been a general focus upon the problems of rural entrepreneurs in rich countries, with little attention being paid to developing countries' like India's basic food crops and the problems of their small farmers.

4) Distributional effect

It is not possible to gauge the overall effect of globalization on the level of inequality; the effect on women entrepreneur in rural area is less ambiguous. Many rural women entrepreneurs are hampered from benefiting from the changes arising from globalization. They have less access than men to education and training, less time to devote to productive activities, less command over important resources such as land, credit and capital. In some developing countries, the sexual division of labour precludes women from income derived from cash crops. In addition, they also have less incentive to respond to economic signals, since they are likely to have less control over any income.

5) Transformational and insecurity effect

Rural entrepreneurship is not always directly related to income. It can also refer to an intense level of insecurity. Many times those who have managed to improve their position are pressed back down again by natural disasters, inflation and other shocks. Some aspects of globalization increase such problems. Globalization is generally associated with accelerated pace of change in economic life and increased competitive pressures. This requires a speedy adaptation, which may simply be outside the range of those with few modern skills or other assets. As indicated earlier, globalization is linked to increased specialization, but this, for all its advantages, increases risks for rural entrepreneurs by pushing them to 'play all their cards'. These factors are further compounded by the transformational and insecurity effect due to volatile environment. Greater financial interdependence amongst national economies, resulting from globalization, has the effect of transferring or spreading shocks from one nation to another. This can be seen from the financial crisis in the last year (2008) which affected the world, leading to a global slowdown. The enormous cross-border movements of highly mobile financial capital and the difficulties of regulating this have resulted in the tendency for financial shocks to spreading around the world. Many of these shocks coming from the rest of the world hit the urban sector hardest. Still, there are a number of channels through which the effect is transferred to the rural enterprises. Despite this, there are situations where the development in the agriculture sector, stimulated by globalization, has been a potent way of reducing insecurity.

6) Policy

Government of India has, in a sense, discriminated against agriculture and those enterprises that depend upon it. This 'discrimination' has typically taken the form of overvalued exchange rates, state trading monopolies for domestic and external marketing of agricultural commodities. Additionally, the revenues from commodity exports have been used for the growth of civil services and urban development, rather than reinvestment in agriculture.

Conclusion

Having surveyed a range of different channels through which the forces of change from globalization of the wider economy affect the welfare of rural Entrepreneurship, it is clear that there are many credits and debits. There are potential benefits, for example from the rapidly expanding market for exports. In addition, there are benefits from more productive resources, improved access to technology, and related policy improvements. Against these, there are very real dangers that the rural entrepreneur will be left behind. They may not have access to knowledge and other necessary assets for success in an increasing competitive world. At this point, we might look back at the theoretical presumption that trade liberalization will be favourable for the rural enterprises, especially in India as we have an abundance of unskilled labour relative to other factors of production. Freer trade should increase global demand for exports, resulting in increasing entrepreneurial activities. However, the reality is much more complicated. In India, agricultural trade liberalization has so far been achieved only to a very limited extent. A variety of factors prevent the rural entrepreneur in India from responding as well as they might to market opportunities and intensified competition: poor information, weak institutions, poor infrastructure, and inadequate control over assets. Heightened instability and uncertainty prevent general economic progress from being translated fully into improvement in the welfare of the entrepreneurship in rural area.

It is quite clear that rural entrepreneurship cannot be developed without significant training. Therefore, instead of just schemes (financial and developmental) as the carrot for entrepreneurship development an intensive training needs to be provided to the youth in rural India. What's required is to create a devoted team to take up rural entrepreneurship training as per integrated rural development program. To manage agricultural sector and non-enclave projects in rural areas, rural entrepreneurs need to apply entirely different management and administrative concepts. Otherwise we shall be only creating islands of apparent prosperity in the ocean of rural poverty. Rural entrepreneurship is the answer to removal of rural poverty in India. Therefore, there should be more stress on integrated rural development programs. The problem is that most of the rural youth do not think of entrepreneurship as the career option. Therefore, the rural youth need to be motivated to take up entrepreneurship as a career, with training and sustaining support systems providing all necessary assistance.

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