Over the past several decades, it has become widely accepted that the rural nonfarm economy (RNFE) is a large and crucial part of any developing country’s overall economy. These activities provide livelihoods for many millions of individuals worldwide, and policy makers have increasingly focused on means of promoting them. While there has been a great deal of research over the years into the nature and potential of the RNFE, there have been few efforts to enumerate the many threads in this literature and even fewer efforts to weave these together. This book takes on this immense task. The result is an exceptional resource for any researcher or policy maker interested in economic development.

The first section of the book provides an overview of the RNFE. The editors’ introductory chapter reminds the reader that the RNFE is vast, it is remarkably heterogeneous, and since many activities are informal it is also challenging to gather credible data. In the second chapter, Steven Haggblade presents the best review of this vast literature I have seen. He describes four distinct literatures. One is focused on agricultural growth linkages, another concentrates on rural nonfarm employment, a third takes household livelihoods as the starting point, and a fourth delves into the causes and effects of the spatial distribution of activities. While these threads overlap, they are also distinct. Because of the amount of research that makes up each of these areas, it is not unlikely that a researcher working in a particular area would be unaware of advances in another. This summary of the literature eventually may prove to be one of the most important chapters in this volume. The final chapter in this section is Peter Lanjouw’s chapter on the potential contribution to poverty reduction of the RNFE. He concludes that, while these activities could help
reduce poverty, the poor are typically shut out of the best opportunities. Still, the RNFE can help insulate families during especially difficult times.

Part 2 of the book addresses RNFE linkages and dynamics. Haggblade, Peter Hazell, and Thomas Reardon develop a six-part typology that describes much of the sector. This typology frames much of the remainder of the book and suggests a policy focus on identifying growth engines that may power the RNFE and on exploring institutional changes that may make the poorest individuals more likely to benefit from its development. On the basis of decades of data collection and analysis, Carl Liedholm discusses the lessons learned about microenterprise dynamics, the effects on them of the policy environment, and the performance of the agricultural sector and of large rural firms. Chapter 6 takes up an important but sometimes ignored issue: the decisions by rural households to diversify into rural nonfarm activities. Reardon, Berdegué, Barrett, and Stamoulis find that the poor are the most likely to diversify and that rural nonfarm income typically far exceeds wage income. Particularly interesting is the evidence that remittances are a smaller source of rural income than previously thought. The linkages between agriculture and the RNFE are the subject of chapter 7. Haggblade, Hazell, and Dorosh find that consumption linkages dominate all others, so agricultural growth policies will have the largest impact if they target farmers who shop in rural areas. In addition, the authors argue that rural infrastructure development will strengthen all sorts of linkages. Mitch Renkow explores spatial models of the RNFE. In general, distance of firms from urban centers is inversely related to the density of rural nonfarm activity and to the size of rural nonfarm firms. He notes that, given the advent of inexpensive global positioning system receivers, there is likely to be an explosion of research on the economic geography of the RNFE. The final two chapters in this section discuss structural changes in the RNFE. The first of these focuses on two new features of the RNFE—the diffusion of the modern supermarket and the spread of large-scale food manufacturing and processing firms into rural areas. Reardon points out that globalization has caused a dramatic evolution of the milieu in which the RNFE exists. Chapter 10 considers the evidence from East Asia, where structural changes in the RNFE have advanced the farthest. Keijiro Otsuka divides these changes into two phases. The first involved a relatively isolated RNFE with traditional technologies and a focus on the local rural market. This phase eventually gives way to a RNFE that has a greater focus on supplying the demands of urban and export markets.

Part 3 of the book includes chapters that address policies and programs that affect the RNFE. Ahmed, Haggblade, Hazell, Meyer, and Reardon argue that, typically, any growth in the RNFE results from forces internal to that
sector rather than from any intentional policy. Increasingly, it will be large private firms that dominate the rural nonfarm policy environment, with governments having a decreasing direct influence. Chapters 12 and 13 discuss policy lessons that have been learned over the past several decades. Haggblade, Mead, and Meyer conclude that, of the several strategies that have been pursued to promote the RNFE, changes in the policy environment are the most powerful. The authors also recommend attention to minimizing per-beneficiary costs. One particularly effective way of accomplishing this is the analysis of subsectors and consequent discovery of targeted interventions to promote growth opportunities in the RNFE. Because the experiences of China and India over the past 50 years regarding the RNFE have been distinctive, chapter 13 focuses particular attention to these countries. Since the 1950s, both countries have experienced rapid growth in rural standards of living, and both have seen dramatic structural transformation in their respective RNFEs. The paths each country followed in these pursuits differ, with China (eventually) moving toward greater openness and high levels of FDI and India perhaps doing a better job in establishing and protecting property rights and the rights of laborers. In chapter 14, Haggblade, Reardon, and Hyman discuss the two-edged sword that is technology. Technological advance can create new opportunities and drive rural nonfarm growth. However, it can also allow large firms to wipe out legions of smaller, more traditional firms. Haggblade delves into greater detail regarding subsector analysis in chapter 15. Careful analysis of subsector supply chains offers a powerful diagnostic tool to help identify and eliminate bottlenecks constraining RNFE growth.

Part 4 attempts to synthesize the lessons of the book. In chapter 16 the editors list a number of myths about the RNFE. Especially helpful are their ideas about the likely directions of future research. These include new frontiers in understanding spatial dimensions and data collection that tracks individual firms over time. Chapter 17 presents a three-pronged approach to promoting pro-poor growth in the RNFE. These are identifying the engines of rural growth in particular countries, conducting subsector analyses to discover strategic interventions, and paying greater attention to flexible institutional arrangements for implementation.

Overall, this collection of papers is an important new contribution to scholarship on the RNFE in developing countries. The book is a must both for researchers interested in this area and for policy makers.