

## **1.1 INTRODUCTION**

The idea of development cannot be achieved without developing rural areas of any economy. The need of developing rural areas is not only important as it provides livelihood to majority of population, but it also generates growth and development of the civilization to sustain and achieve human goals for better existence. India has become one of the fastest growing economies in the world. But increasing rural urban divide shows that India's rapid economic growth has not benefited to all. The 68.84 (Census, 2011) percent population of India is still inhibited in rural parts and predominantly relies on agriculture. Rural areas in India are facing the problems of malnutrition, illiteracy, unemployment and lack of basic infrastructure. The fruit of growth cannot be shared equally till the problems faced by rural people are not considered as national issue. Rural development is a process of improvement in quality of life of rural people whereas rural transformation which involves rural development has been a part of a broader process of transformation of whole national economy which cannot happen in isolation. Rural development is formed by the interdependence between agriculture, rural non-agriculture, manufacturing and services sector. It has also been argued that rural transformation is necessary for structural transformation. Development in urban and rural areas are interconnected and influenced by rural transformation and structural transformation. It is generally linked with agricultural development. But according to International Fund for Agricultural development (IFAD), there exist difference between different process of rural development as discussed below.

### **1.1.1 Agriculture Development**

Agriculture development refers to the refinement and up gradation of agricultural services, agricultural incentives, technologies and the recourses which forms the bases of agriculture such as irrigation, land, rural infrastructure and human capital. It is concerned to ameliorating the life quality as well as economic well-being of herders, agriculture workers and farmers along with taking into account the exploitation of land, natural recourses such as forestry, fishery and livestock etc.

### **1.1.2 Rural Development**

Rural development includes human development and social & environmental development in contrast to just economic ones. It is a practice of creating the opportunities and well-being for rural human resource by improving education, health and other social services along with following a multi sector approach to promote agriculture, recreation, tourism, extracting minerals and niche manufacturing. It is defined as a route of change in the features of rural societies.

### **1.1.3 Rural Transformation**

An upward trend in agricultural productivity, marketable surplus, increase in commercialization, diversification of production patterns and livelihoods makes integral part of rural transformation. It leads to overall growth of rural areas in more better and sustainable approach. It also encompasses expansion in non-farm employment and entrepreneurial opportunities. Rural transformation also favours improved rural exposure with access to different services and infrastructure. It also has broad capacity and access to influence relevant policy processes.

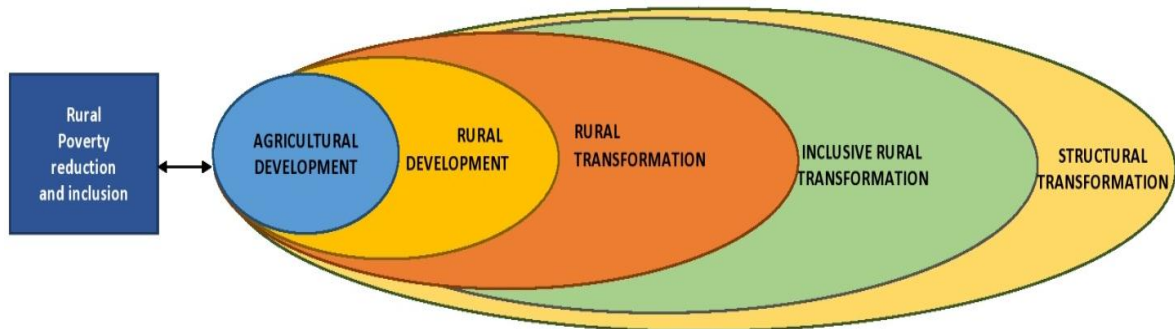
### **1.1.4 Inclusive Rural Transformation**

Inclusive rural transformation ascertains that everyone has a right to exercise their economic, social and political rights without any exclusion. It supports the principle of inclusion where everyone can build up their abilities and get benefit of the different opportunities existing in their environment with their respective fields. Inclusive rural transformation is an inescapable need in order to upgrade the economic well-being of landless workers, small farmers, victims of disaster, women and youth.

### **1.1.5 Structural Transformation**

Structural transformation takes place with the transformation in the composition of the economy from a predominant agriculture to industry and services. The main features of structural transformation are urbanization and growing rural-urban migration and raising

involvement in international trade. It also recognizes a demographic shift from high to low birth rates. It leads to social, cultural, political and environmental pressure in state.



Source: Rural Development Report 2016, IFAD.

Thus, looking into the significance of rural transformation in the overall development of rural people, the present study focused on rural transformation though urbanization. By meaning, “rural transformation is a process of wide-ranging societal change where rural societies diversify their economies and reduce their dependence on agriculture; become dependent on isolated places to trade and to acquire goods, services, and ideas; move from dispersed villages to towns and small and medium cities; and become culturally more similar to large urban agglomerations (Berdegúé, et al. 2014).”

It is evident as economy grows the share of non-agriculture sector in total income and employment of rural households rises; this process if not out of distress, is referred as rural transformation. This transformation process has always been an important issue in inter related discussions of socio, economic and political aspects of development, especially for developing world economies.

There are many ways to attain the rural transformation, but rural nonfarm sector (RNFS) has come forward as one of the solution for rural development and transformation. “In rural labor market, major structural transformation has been observed with labor movement from agriculture to non-agricultural activities” (Reddy et al., 2014). Several national and international studies have shown that rural nonfarm employment is a significant component of rural transformation (Lanjouw, 1999; Fabella, 1986; Hussain,

2004; Haggblade et al. 2002; Chadha, 1986). Non-farm sector works as a tool in increasing the income and employment of rural people by providing off farm opportunities and also reduces the rural urban divide. The definition and the factors responsible for rural nonfarm have been given below:

## **1.2 DEFINITION OF RURAL NON-FARM SECTOR**

The term 'rural nonfarm sector' comprises all economic activities in rural areas except agriculture, livestock, fishing and hunting. This sector consist "all non-agricultural activities including household and non-household manufacturing, electricity, processing, repair, construction, mining and quarrying, transport and trade and commerce and other services in villages and rural towns." These enterprises vary in size from household owned account enterprises to factories.

### **1.2.1 Importance of Rural Non-Farm Sector**

The rural non-farm sector has been given importance by the economists, socialist and other policymakers due to its following reasons.

- Rural non-farm sector leads to more holistic and inclusive development of rural communities by providing many opportunities in terms of economic diversification out of agriculture and allied sector in rural areas.
- Expansion of non-farm sector provides livelihood security and raises the living standard of rural households.
- The labour productivity and return on investment is higher in nonfarm sector in relation to the pure agriculture sector. Risk has also been considered relatively low in nonfarm sector.
- The RNFS can reduce the migration to cities by providing employment to rural people within their own villages.
- When the reliance on agriculture starts declining in rural areas, the gap between rural and urban also reduces and self-reliance increases which penetrates in rural societies in terms of social and economic exposure.
- Strong linkages between agriculture and industrial sector make RNFS an important sector.

RNFS which is more profitable in terms of income and employment opportunities than agriculture sector, helps in coming out of rural economies from the basic notion of 'Traditional Economies' and helps in moving towards the aim of equality to the entire economy.

### **1.2.2 Pull and Push Factors in Rural Non- Farm Employment**

There are several pull and push factors which determines the growth of Rural Non- Farm Employment (RNFE) in any economy. The pull factors are mainly demand pull factors which pull the labour from agriculture to additional profitable non-agricultural activities. These pull factors of RNFE are modernization of agriculture; higher returns to off farm activities, urbanization, higher literacy, low risk in nonfarm activities in relation to farming, higher wages, source of cash to rural household, economic opportunities and urban life preference. On the other hand, some distress factors have pushed the rural households to work in nonfarm sector as an addition to income and employment. The distress factors of RNFE are poverty, disguised unemployment, natural calamities, population growth, limited access of quality land, decreasing returns of agriculture, unpredictability of agriculture sector, decline of natural resource base and less financial markets (Davis & Pearce, 2001).

### **1.2.3 Various Determinants of Rural Transformation**

The basic idea of rural transformation lies in increasing the income and employment of rural people. The debate of finding the determinants of rural transformation is divided between two groups of studies; some studies found that growth in agricultural sector is the main driving force of rural transformation while other studies observed that the prime factor of rural transformation is outside the agriculture which further leads to growth in RNFE. Agriculture has been found as one of the important driver for rural transformation (Mellor, 1976; Nachane *et al.* 1989). According to the studies, rise in agriculture income can lead to consumption and production linkages with non-farm sector, which can further enhance the household income. On the other hand some studies didn't find any relationship between agriculture growth and RNFE (Basant, 1994; Singh, 1994).

Several studies found that urban areas create opportunities for rural people which lead to rural transformation (Papola, 1992; Bhalla, 1997; Unni, 1998). Proximity of urban area for rural livelihood diversification has been seen as important indicator. Rural areas generally faces technology deficit. But technology can increase rural transformation through higher productivity in farm and nonfarm sector. India has also witnessed the outcome of technology by high yield variety seeds at the time of green revolution. Hazell and Haggblade (1991) have emphasized on rural physical and social infrastructure for growth in rural nonfarm sector. On the other side some studies have focused on rural roads, electricity and transport as prime movers of RNFE (Harris, 1991; Jayaraj, 1994; Singh 1994). Education also plays important role in creating nonfarm activities for rural households. Education increases entrepreneurial and managerial skills which are required for many business activities (Basant, 1993; Eapen, 1994). Unni (1998) have considered urbanization, infrastructure and government policies as factors of RNFE. Development of rural industrial sector has also strong linkages with rural non-farm sector. Rural industries acts as the consumers of agricultural produce (Papola, 1994). After globalization, the rural tourism sector has achieved a good growth. This sector has created tremendous opportunities for the rural people. The areas where rural tourism is high, have achieved growth in nonfarm employment (Campanhola, 1991; Wu, 2018). Similarly, multiple determinants like communication, rural credit facilities, etc. influences the rural nonfarm activities and heterogeneity within the rural non-farm activities.

### **1.3 URBANIZATION INDUCED RURAL TRANSFORMATION**

Two important drivers of rural transformation which are widely recognized are agriculture and urbanization (Eapen 2001). Each of the above process of rural transformation has its own set of pulls and pressure (Fisher & Mahajan 1996). Agriculture-induced rural transformation prevailed in the large part of India during the green revolution period. Many developing countries depend upon agriculture sector to control poverty in rural areas but for a large proportion of household, non-farm income accounts a significant part of income in rural areas (Reardon, 1997). It has also been witnessed that an approach for raising rural income which focuses only on raising agricultural productivity, even if successful, may, prove inadequate (Chinn, 1979).

The development experiences of recent decades suggest that agriculture has limited potential of transforming rural sector in India. There is also evidence of weakening of agriculture-induced rural transformation in the country (Bhalla, 2005; Jha, 2011). Urbanization induced growth of economy is evident in the post trade liberalization years and the service-centric growth which contributes in Indian GDP has also centered on urban centers.

#### **1.4 RURAL URBAN LINKAGES**

The study of rural-urban linkages in the backdrop of increasing non-farm employment is an important and complicated challenge for policy makers in the country. “Rural nonfarm employment not only depends on agriculture sector as many local and regional linkages are also associated with rural and urban nonfarm activities (Reardon, 1997; Lanjouw & Lanjouw 2001; Jonasson & Helfand, 2010).” Urbanization induced growth of economy is apparent in the post trade liberalization years. The growth of industries and services in urban centers are linked with the adjoining rural area. In some of the East Asian countries network of large and small manufacturing enterprises has transformed rural sector with a significant positive implications for rural livelihoods.

Globally, rural urban linkages have been analyzed by Mason (1984), Li & Yuan (1995), Cicilia (1998), Fay & Opal (1999) and Cililia (2004). Many authors have examined the effect of urbanization on rural livelihood such as Ibrahim (1970), Khan (1996), Khan (2001), Woldehanna (2010). Ray (1994), Jonasson & Halfand (2010), Xie (2010) have examined the effect of rural nonfarm employment on rural sector. In national and regional studies, Dev (1986), Islam (1997), Ranjan (1999) and Kundu (2003) have studied the different indicators of rural transformation in India and found strong linkages between rural and urban area. On the other hand Cali & Carlo (2009), Kaul & Ram (2010), Shekhar (2000), Rao & Joshi (2009) Jha (2011) and Reddy *et. al.* have also observed the inter-linkages between urban and rural areas. In this background, it is important to identify the linkages of large manufacturing enterprises with medium and small sized enterprises in urban and rural areas of India. Therefore, without parallel and

harmonious development of rural towns, towns and higher order urban areas, sustainability of rural areas cannot be achieved.

Activities based on backward and forward inter-linkages with urban centre are more likely to encourage regional development and benefit to all. Many nonfarm economic activities often revolve around local urban centers which provide market for both i.e. agricultural and non-agricultural produces. On the other hand, studying rural urban linkages is important as it gives the basis for advancement in both urban and rural livelihood.

The nonfarm activities are undertaken by enterprises which vary in size from household own-account enterprises (OAEs) to factories. In the rural areas, workers are being pushed into the non-farm sector and pulled by the positive rural non-farm opportunities. Urban areas develop the marketplace for rural enterprises and promote non –farm activities in secondary and tertiary sectors in the adjoining rural areas to meet up the local and non-local demand. On the other hand, rural enterprises can also get advantage from economies of scale resulting in reduced costs and rise in efficiency. A well designed policy of rural non-farm development can avoid migration of rural people to urban industries and commercial centers. The urbanization induced rural transformation originates from the fact that the growth of urban centre encourages consumer goods industries in its vicinity; these industries slowly gravitate towards the adjoining rural areas on account of low factor prices.

Various economic theories emphasized the strong connection/interdependency between the two sectors i.e. agriculture and industrial sector and found that a strong and healthy connectivity between the two sectors will enhance the development of overall sectors. Studies have noticed that “urbanization or proximity to urban centers has important influence on non-farm sector growth” (Jayraj, 1989; Unni, 1991; Eapen, 1994) in rural areas, which is strongly connected with rural development. Linkages of rural areas with rural towns, towns and urban cities increase rural development and vice versa. The linkages between rural and urban can be seen in many ways. These have been classified in terms of backward and forward linkages.



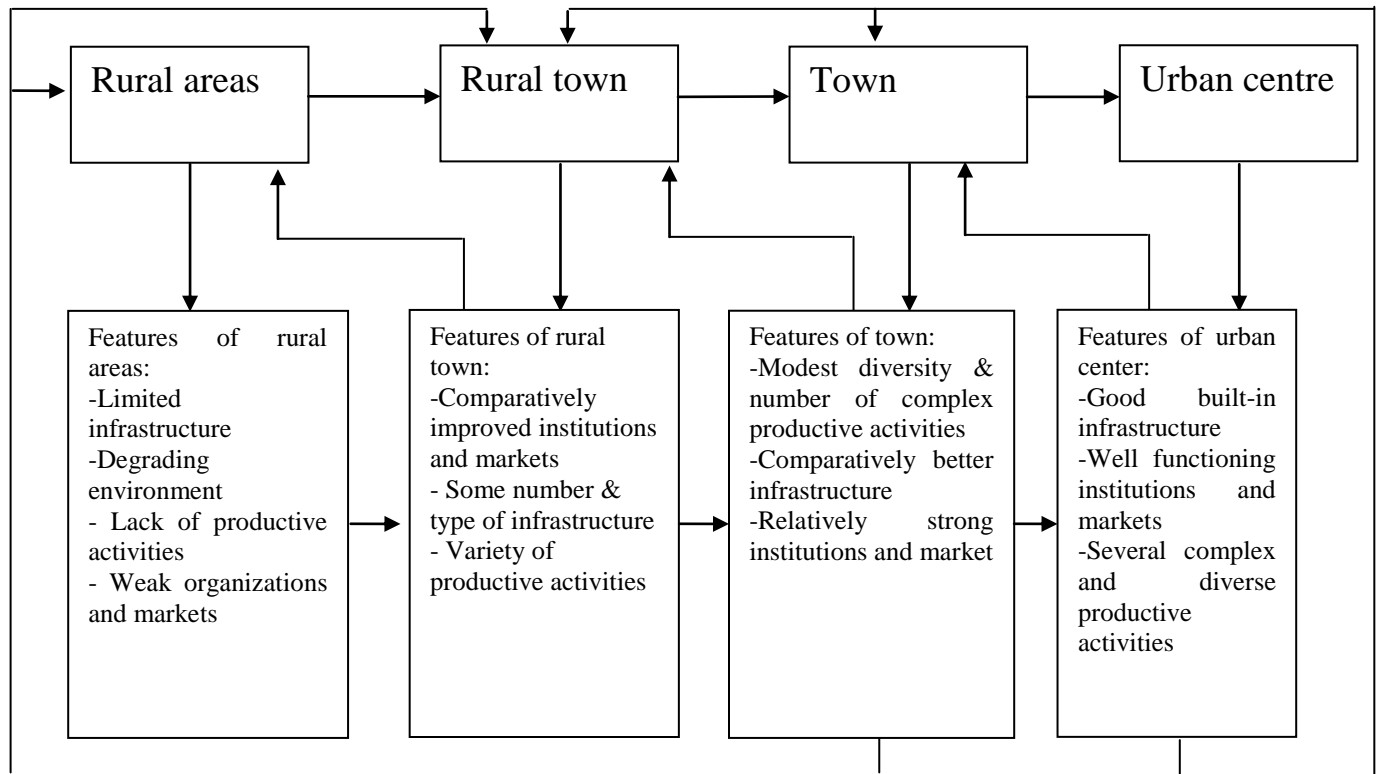


Fig. 1.1: Graphical presentation of facilities and amenities available in different type of habitats

Source: Tewodros Tadesse, The contribution of town functions to the development of rural areas: Empirical analysis for Ethiopia, pp.14.

The forward linkages are in terms of flow of output of agriculture and non- agriculture products for the consumption of urban areas. The backward linkages can be linked in terms of flow of inputs, information & credit, technology and management skills. But, the structure of towns are also responsible for these linkages and their multiplier effect (Douglass, 1998) as combined effect of strong backward and forward linkage can be a vehicle for good agriculture production and productivity. Even investment in electricity, transportation, irrigation, communication, information and agricultural research is essential to strengthen these linkages (Binswanger & Townsend, 2000; Tacoli, 2000) because, these amenities are essential for the interaction between farm and nonfarm activities across different sectors and geographical areas (Sadoulet and De janvry, 1995; Ravallion, 2009). In this favor along with the growth in agriculture sector, non-agriculture sector, rural industrial sector, rural tourism sector and different government policies for rural development, urbanization is also an influencing factor as it is one of the

most important components which has effect on increasing the productivity of the production factors such as in agriculture and allied sector, human resources and infrastructure etc.

Towns near to rural areas can reduce the gap between urban and rural and play a major role in facilitating rural development (Tacoli, 2002; Von braun 2008). Studies have found out that there are evidences of urbanization induced rural transformation because urban centers can help in regional rural development with reduction in poverty. These centers also enhance rural productivity by a range of intermediary inputs like machinery and fertilizers that are associated with the urban technology. The towns can also be considered as local centers where rural people establishes a network with a variety of economic activities to increase their livelihood approaches and creates environment for strengthening rural urban linkage (Tadesse, 2012). The growth of industries and services in urban centers is linked with the adjoining rural area and these urban areas generate employment in rural areas by backward and forward linkages (Chauhan, 2011).

The case of India, West Pakistan, Taiwan, Japan and United States shows that agricultural productivity can also be improved by investing in non-agricultural inputs (Johnston & Mellor 1961; Mellor 1966; Johnston & Kilby 1975). In this scenario, the rural non-farm activities are expanding and diversifying and young people see better opportunities in rural nonfarm economy; in this context research in the field of small towns are also important (Denis E., 2012). It is also observed that income and productivity from non-farm enterprises are higher in widely spread hinterland compare to concentration of few towns (Chauhan, 2012). In some East Asian countries network of large and small manufacturing enterprises in both rural and urban areas have transformed rural sector with a significant positive implications for rural livelihoods. Studies found that nonfarm activities are important for the poor, landless labors and small farmers' because they get half or more of their income from non-agricultural activities. In terms of gender, women are also found active participants, particularly in food process and household manufacturing activities. In this backdrop it is essential to realize the implications of such industrialization for livelihood of rural people in the country. The rural-urban linkages are also important for reducing the poverty and strong linkages in

the same can also enhance the living conditions and employment opportunities in both rural and urban areas.

Increase in urbanization from 11 per cent (1901) to 31 per cent (census 2011) shows that urbanization in India is increasing with a faster rate and spreading in rural hinterland as well. This increase will be responsible for the structural changes in Indian economy in coming years. Data suggests that by 2050, 64.1 per cent and 85.9 percent population of the developing and developed world will be urbanized respectively (The Economist). Most developed countries in the worlds are the ones that are highly urbanized although there are several problems also associated with the urbanization. India is also an example of rapid urban growth as 31.16 per cent (Census, 2011) of people are residing in urban areas and this percentage is growing day by day as people are coming to the cities for different kind of opportunities.

In this progression, Haryana state has also contributed in the growth of nation's development as big cities like Gurgaon, Faridabad, Panchkula are the part of Haryana state. These districts have been a boon for the development of the state as well as for the whole country and known for the non-agricultural activities. Urbanization in Haryana has been increased from 28.9 per cent in 2001 to 34.7 percent in 2011 and plays an important role in growth due to its proximity with other developed states and due to this growth, income and employment of the people has also been increased. But, there exist variations among the districts and because of that the fruit of growth cannot be shared by everyone. Hence, in this background, it is significant to find out the impact of urbanization on rural development of India and Haryana as well with the linkages between the same. The study also attempts to find out the implications of urbanization for the people in Haryana.

## **1.5 STATEMENT OF THE PROBLEM**

Rural economy in India accounts for higher population/labour compare to urban areas with different skills. Agricultural sector has been the major income source of rural people of India for their livelihood and plays a significant role in providing food to the rural people as well as whole Nation. It also generates employment opportunities and raw material for the industries. But, the fall in the share of agriculture in the last two decades

has been very sharp; now it accounts for less than 15 percent of the gross domestic product of country yet more than half of people are still dependent on agriculture. A large proportion of marginal and small farms are not viable; they are looking for avenues to sustain their livelihood. Lack of facilities in rural areas and access of the same in adjoin urban areas attract the people to invest in different farm and non-farm activities due to continuous increase in demand of food and non-food item. Though, non-agriculture sectors are growing at a considerable pace, but the growth is concentrated around urban centers. These issues are introducing different socio-economic problems for urban areas in form of increase pressure due to migration in India and Haryana as well. The importance of urbanization for rural development can be seen with the introduction of PURA model and smart cities model of the government of India. The model suggests that the proper development of infrastructure in rural areas and strong urban connections can improve rural incomes and employment. On the other hand, it is also important to investigate that how rural towns, towns and giant urban areas can help in providing different functions to rural households and contribute to rural development. There is merely any literature found which empirically investigates the determinants of rural transformation in India and views the association of urbanization with rural industrialization in Indian economy especially with the economy of the Haryana state. So, in this backdrop, it is important to study how urbanization encourages agriculture, industries and services for rural sector in India and influences livelihood of rural people. It is an important question to investigate; the present study is an attempt to look into the same.

## **1.6 OBJECTIVES AND RESEARCH QUESTIONS**

The general objective of this thesis is to examine the role of urbanization in the rural transformation of India and Haryana. The focus lies on the empirical investigation of the effect of urbanization, linkages of urbanization with rural areas on income and employment of rural people in the backdrop of nonfarm employment and industrialization. It also focuses on the influence of urban areas on the livelihood of rural people of Haryana. In view of this, the following objectives are designed to contribute to the general objective of the study. The core theme of each of the specific objectives is:

1. To ascertain the determinants of rural transformation in India.
2. To workout association of urbanization, industrialization, rural-industrialization and livelihoods of rural people in Haryana.
3. To assess effects of urbanization on employment, wages and livelihood of rural people in Haryana.

Given the specific objectives, some of the research issues that the present study attempts to address are:

1. What are the important determinants of rural transformation in India?
2. How strong is the urbanization-induced rural transformation?
3. How urbanization induced rural transformation works?
4. What are the implications of urbanization induced Rural Transformation (RT)?

### **1.7 SIGNIFICANCE OF THE STUDY**

India has witnessed lop sided growth of economy in the last few decades; the lop-sidedness is on account of unbalanced growth of different industries and others sectors of economy. The urban centric growth has created many economic, socio-political and environmental problems in many urban areas of the country due to heavy migration to the cities. This needs to be taken care as carrying capacity of the nature is reducing day by day particularly in these areas. The urban centric growth of economy will continue in the current politico-economic situation in the country. But, the policies that support positive rural urban linkages can, therefore, help in promoting local economic growth and reduce rural- urban poverty (Hang Xuan Thanh, 2005). It can also reduce the burden of urban areas as people will migrate less to the urban areas, if there are strong rural and urban linkages. The present study will help us in understanding the process of spread of urban-centric growth in rural vicinity. The study attempts to show the effect of such growth on different industries of rural sector with documenting effect of the above growth on rural people and can be beneficial for reducing the extra burden from urban areas. This will ascertain enabling conditions for urbanization induced rural transformation in the country.

## **1.8 CHAPTER SCHEME OF THE STUDY**

This research work has been structured in following five chapters.

### **Chapter 1: Introduction**

Chapter one deals with the introduction of the basic concept of the study. It shows that how urbanization has created opportunities for the rural people in and outside India with the help of some national and international references. The same chapter also includes statement of the problem which shows the reasons behind the need of pursuing the research in the same field in present time. The next part of the chapter deals with the objectives and research questions, shows that the study has been aimed to fulfill three basic objectives. The next part of the study has been devoted to the significance of the study which shows the overall importance of the research/concept. In last, chapter ends with the chapter scheme of the study which shows the overall organization of the study in different chapters.

### **Chapter 2: Review of Literature**

This chapter presents a brief review of related literature. In this chapter, researcher has tried to do the thorough review of previous literatures. This chapter is divided under different sections including introduction of chapter, literature review based on the theories of rural transformation, literature review based on international context, literature review based on national context and literature review based on regional context. At the end conclusion of the same has been explained with a complete summary of the review of literature in the end.

### **Chapter 3: Research Methodology**

This chapter deals with the methodology required to fulfil the objectives of the study. The present chapter deals under different sections which include introduction of the chapter, data and data sources, analytical tools and sampling design. The description of variables, period of data and different analysis technique for different objectives have also been given in detail under this chapter.

#### **Chapter 4: Results and Discussion**

This chapter is divided in four main sections to achieve the given three objectives including introduction. The chapter deals with complete objective wise analysis including determinants of rural transformation, present status of each determinant, their association with rural transformation and results of present study under three main sections.

#### **Chapter 5: Summary and Conclusions**

This chapter deals with the summary and conclusions of the study under different sections including introduction of the same chapter. In this chapter, major findings of all three objectives along with conclusions have been discussed. Further, this chapter explains the possible suggestions and scope for future research. Finally the limitations of the study are discussed in last section.

Last of all, the study presents the bibliography and other relevant material related to thesis.