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## **THE POLITICS OF THE INFORMAL SECTOR IN ASIA**

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# THE POLITICS OF INFORMAL SECTOR

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## The Politics of Informal Sector in Asia

### Summary

The informal sector (IS) is not a new phenomenon: its emergence was noted as early as 1963; and since then much research has been conducted about the role of IS in developing countries. The emphasis of this research, however, has been on the economic aspects of IS; as yet, we know very little about its politics. And the scanty research on the topic is, with one or two exceptions, based on the Latin American countries' experience.

This report takes into account these limitations by drawing on articles and books on Asian cities which refer to IS politics even in the passing. Such references constitute a considerable amount of information and suggest that IS, particularly in the urban areas, is a growing political force in many Asian countries; and the nature of its politics is shaped by some characteristics that are unique to the process of urbanization, industrialization and political modernization in these countries.

The report is divided into three parts. The first part provides background material on I/S in Asia. We begin by discussing some popular myths about the IS, then provide estimates of its magnitude, and list its unique characteristics in Asia. The second part focuses on the political aspects of IS. We identify the various elements which influence the nature of its politics, describe the ideology of its participants, and analyze the factors which facilitate and/or hinder political mobilization by the participants.

The third part of the report highlights the IS's political relationship with three dominant social institutions -- namely, the government, political parties and organized formal-sector labor. The purpose is to identify the kind of politics which would make governments remove regulations which currently hinder IS activities, and institutionalize in a permanent way the IS's influence on policy making.

### Part I: Definition, Magnitude and Significance of IS

There has been an ongoing debate among development planners for the last twenty years about analytically verifiable definition of IS. Though this debate has so far failed to generate such a definition, it has produced some useful findings, including the following:

- (i) The dualistic description of the economy, comprising two separate segments -- i.e., formal and informal sectors, with diametrically opposite attributes, is not correct. The formal and informal sectors are neither disconnected nor distinctly different in all their characteristics.
- (ii) The IS is not a stepping stone, a holding ground, for recent migrants to the city; on the contrary, many of them start with odd jobs in the formal sector and shift to the IS after they have saved some capital.

- (iii) The incomes of IS participants are not uniformly low; some of them earn more than the average income of formal-sector workers.
- (iv) The IS is heterogeneous in composition, with participants in petty trade, repair, light manufacturing, transportation services, house building and so on. The commonality among these diverse activities is that they are not legally established and, hence, are not subject to state regulations and taxation.
- (v) The percentage of urban labor force in developing countries who earn a living through IS activities ranges from 20 to 70 percent, the average being close to half or more. The majority of this group is self-employed and provide various types of services for urban consumers.
- (vi) Contrary to the theories of 'political modernization', the IS has begun to influence the nature of urban and national politics in many developing countries.

### Characteristics of Asia's Informal Sector

It is difficult to generalize about the nature of IS in Asia because of large variations in demographic, economic, social and political characteristics among the countries that make up this region. One way to get around the problem is to cluster the countries based on similar characteristics with regard to two key trends -- that of, urbanization and industrialization which strongly influence the IS's size. Such a clustering produces four types of countries, ranging from Taiwan and Korea at one end, with high rates of urbanization and industrialization, to India and Pakistan at the other end, with markedly low rates of both. In between are countries such as Malaysia and Philippines with relatively high rates of urbanization and industrialization and Thailand and Sri Lanka with relatively low rates.

The rates of urbanization and industrialization are not the only factors which influence the IS's size; the population size of a country and the level of spatial concentration of its population are important factors too. That is why India, Indonesia, Bangladesh and Pakistan with low rates of urbanization and industrialization but high population size and high rates of urban primacy have large urban IS.

In terms of occupational composition of urban IS, the Asian countries are similar to other developing countries: majority of IS is involved in trade; between 15 to 20 percent provide various services; manufacturing accounted for a low figure, varying between 5 to 15 percent; and between 7 to 10 percent is involved in transportation. Construction absorbs between 1 to 5 percent of IS labor.

Other factors that distinguish Asia's IS are: a high rate of circular migration (between rural and urban areas) among the participants; their heterogeneous composition in terms of religious affiliations and ethnic identity; and large scale participation by women in IS activities.

## Part II: Politics of Asia's Informal Sector

The published literature on Asia's IS politics is scanty compared to the extensive literature on the sector's economic characteristics and performances. The plausible reasons for this are: one, the IS has not been politicized in Asia to the extent it has been in Latin America. Second, in some Asian countries, like Hong Kong, South Korea, Taiwan and Thailand, where labor laws and business regulations are not stringent, the difference between formal and informal labor is hazy. As a result, the political demands of what in other countries would be the IS may be incorporated within the political demands of formal labor. Third, Asia's IS may not be facing as intense competition within the sector as in Latin America. This line of argument is based on the assumption that mobilization of informal businesses results often from the need to restrict the entry of others into the sector, which is more likely when employment possibility in the formal sector decreases.

### Factors Influencing IS Politics

The following four factors must be taken into account while considering the political potential of the IS:

- (i) The extent of urban IS politics is inversely related to the size of rural population. Since a majority of the electorate in Asia is still rural, urban IS groups are not yet politically powerful.
- (ii) That circular migration is prevalent among the urban IS participants reduces the possibilities for political mobilization by them. Temporary migrants, even while living in the city, may care more about rural politics where they usually have some assets.
- (iii) Strong ethnic and religious cleavages among the IS participants can affect both positively and negatively their chances of political mobilization. These factors may either strengthen the solidarity of occupational groups whose members belong to same ethnic or religious groups, or undermine their solidarity in cases of heterogeneous composition.
- (iv) The nature of urban IS politics in any developing country is influenced by the extent to which its urban economy is linked with national and international capital. There are two opposing views whether increasing incorporation of the urban economy in the global market hinder or facilitate political mobilization in the IS. One view is that international and national firms (with international linkages) benefit from low wages in the IS and will oppose any move to increase wages in the sector. The second view assumes that among the newly forming indigenous elite, some may be more opposed than others to politicization of the IS. According to this view, national elites with external connection (in terms of inputs for their businesses and markets for their outputs) may be less opposed to IS politicization than elites who cater primarily to domestic demand and contract out part of the production process to informal businesses.

## **Ideology of Informal Workers**

Beginning with the mid 1960s when political scientists started writing about informal workers, there have been four phases of interpretation of the ideology of informal workers.

At first informal workers were portrayed as a 'marginal group' -- both politically and economically. To be politically marginal meant that the informal workers were on the periphery of mainstream politics; unlike organized formal labor, which was courted by all political parties, informal workers were not seen as a political constituency with a coherent and well-defined interest. Instead, they were thought to be in a transitory stage, moving from being 'peasants in the city' to becoming a part of the working class.

The second interpretation emerged when researchers observed that increasing numbers of informal workers were unable to make the transition due to lack of formal sector jobs. This was creating a sense of despair and frustration, the researchers argued, and many predicted that the informal workers were potential troublemakers who would eventually disrupt the formal political process with violent protests.

By the beginning of the 1970s the political assessment of informal workers had taken a third turn. A new crop of researchers not only dismissed the claim of their predecessors that informal workers were politically marginal, they also portrayed these workers as basically conservative in their political and social aspirations. As Peattie (1979) described it, the informal workers "looked upward at a system of enormous inequality but one which presented itself as a ladder, rather than as sharply bounded social strata".

In the 1980s, as urban informal workers were seen to reverse their political support from authoritarian regimes to pro-democracy movement, yet another reinterpretation of their ideology emerged: Instead of their earlier image of either 'leftists' or 'rightists', they were now viewed to be contextual in their approach, meaning that they were seen to be assessing each political event in its specific context with a shrewd eye to protect and further their own interest. This led them to support leftist political parties at one time and the army rule at another time. Their political ideology is flexible and pragmatic enough to justify such wide fluctuations in their political behavior.

### **Organizational Potential of the Informal Sector:**

The central element in the mobilization of informal workers is their commonality of interests and identity. In some cases the basis of commonality may be natural--meaning that it is due to certain characteristics of the informal workers which provide them a sense of collective identity of a cultural, economic or social nature. In other cases, the commonality may be created as a result of a situation which adversely affects the interests of a wide range of informal workers. Those type of factors -- both 'natural' and 'socially created' -- are grouped under the title: Axes of Commonality. Some of these factors may temporarily create a sense of unity among informal

workers; others may have a relatively more permanent effect. Also, the very factor that creates commonality among the informal workers in one context, may split them apart in another context. There are, of course, some factors which are inherently divisive in nature in all contexts. These factors are titled as Axes of Disaccord.

#### Axes of Commonality:

- (i) Location and Proximity: Informal sector participants who work or reside in the same area are more likely to be organized than those who are spatially scattered. Why so? For one, physical proximity creates the conditions for shared experiences which can be a cohesive factor. Second, residential proximity can affect the outcome of voting if political representation is territorially based. Third, it is easier for the political leaders to reach large numbers of people if they are spatially concentrated than otherwise.
- (ii) Trade: Informal sector entrepreneurs with same business interests and constraints are known to have mobilized more frequently than others. Although these entrepreneurs may also compete with each other for the same customers, particularly if they operate in the same locality, they have to deal with the same suppliers and middlemen, and are affected similarly by certain regulations and macro-policies. One factor that has significantly strengthened the cohesiveness of occupational groups, particularly in Asia, is the ethnic, caste or religious homogeneity of their members. Such factors are, however, not always facilitator of mobilization. At times when large scale mobilization involving various occupational groups may be required to press for collective demands, these same factors may undermine the emergence of a truly cohesive interest group.
- (iii) Gender Roles: Gender can be an unifying force when socially determined gender roles restrict the access to economic opportunities. The steady growth of women's organizations, particularly of home-based producers, is a result of such restrictions which have inadvertently created a sense of solidarity among the women. Among the other factors which has had a catalytic role in bringing poor women together are (a) international donor agencies which have channelled large sums of money into 'women's projects', and (b) poor women's organizations are less threatening to Third World governments than poor men's organizations.

#### Axes of Disaccord

- (i) Competition for Market Share: Though the published literature describes informal businesses as cooperating with each other in order to survive in a marketplace dominated by big, formal sector firms, informal businesses also compete with each other, often in quite fierce ways. The competition among informal businesses is most

severe in the domain of retail activities because unlike production, commerce has inherent potential for monopoly of desirable commodities and even more so of desirable locations. This potential can create severe competition among informal businesses and adversely affect the possibility of their political mobilization as a single interest group.

(ii) Ethnicity, Race and Religious Identity: Informal businesses, of necessity, are deeply embedded in a set of relationships with family workers, relatives and friends who provide all kinds of business related services. These relatives and friends who belong to the same ethnic and religious groups, however, may not all belong to the informal sector: some of them - particularly those who have been in the city for a long time - may be quite well established in the formal sector; others may be earning a living in both the formal and informal sectors; and still others may be in transition, searching for a way to find an economic foothold in the city while working part-time for a relative. Though the business as well as social relationships among these individuals are often exploitative, these relationships cannot be used for mobilization because religious/ethnic identities provide a bonding among the group members which is more important to them than their immediate economic interests.

(iii) Government Policy of Selective Assistance: Government policies to assist the informal sector have been generally constrained by Third World governments' fiscal problems which led to selective assistance to only a few members in few selected occupations who looked most promising and were most articulate in their demands. Though well intentioned, these efforts created a small organized group of informal businesses who were not interested in furthering the interest of all informal sector participants; instead, they became protective of their interests and tried to restrict the entry of others to their group.

### Part III: The Informal Sector and Dominant Social Institutions

What kind of political relationships with the government, political parties and organized formal labor are most beneficial for the IS? The published literature typically assumes that the more autonomy the IS has from these dominant institutions, the better it is for the sector. How this autonomy is to be established and yet, at the same time, enhance the IS's ability to influence policy environment remains unanswered to this day.

#### Informal Sector and the Government

Since the IS does not contribute to government's revenue through sales and income taxes, and adversely affects the government's legitimacy by demonstrating the limits of regulation, it is commonly believed that the IS and the government are antagonistic to each other. Yet, the evidence indicates

that Third World governments' policies towards the IS have not been wholly negative: from outright repression of IS activities during the 1960s, Third World governments have lately devised various policies to support the IS.

This turnaround in government's support can be attributed to a number of factors. First, governments have come to realize that IS plays a positive role in the urban economy by providing cheap goods and services which, in turn, reduces the pressure for higher wages in private and public firms. Second, beginning with the recession of the 1970s, governments have become increasingly aware of the limits of the formal sector's capacity to absorb labor and, consequently now recognize the role of the IS as a 'safety net' for the unemployed. Third, assistance to the IS may be less costly and more effective a strategy of social control than outright repression of these activities, particularly at a time of stiff fiscal austerity. Fourth, donor agencies have played a catalytic role by channeling large amounts of aid for the IS.

### Three Myths About Government-~~Informal~~ Sector Dynamics

- (i) The Myth of Homogeneity: Much like the IS, governments are not homogeneous: they comprise a network of various institutions with their own internal dynamics, separate agendas and, often, conflicting interests. The approach towards the IS may vary widely from one government agency to another.

The term bureaucrat hides the differentiation among government employees some of whom may be in support of some types of informal businesses while others may be opposed to them. Also, bureaucrats are consumers too, which is why they may be supportive of enterprises that supply basic goods and services at low prices. Similarly, referring to 'elite groups' as inherently antagonistic to the IS obscures the fact that the inclination of urban and rural based elites to support or oppose IS may be different. Rural elites are generally more opposed to policies which favor urban IS than urban elites.

- (ii) The Myth of Government Opposition: Unlike what is commonly believed, Third World governments may prefer to negotiate with organized IS groups, particularly if they are able to articulate a clear set of demands, than to react to a mass of disorganized IS businesses each with different problems.

- (iii) The Myth of Administrative Decentralization: Though it is commonly believed that local authorities are likely to be more receptive to the needs of the IS than the central authorities, in reality, the opposite may be true: policies supporting IS have generally originated at the central level; and conversely, the primary opposition to the implementation of such policies has emerged at the local level.

### Formal and Informal Labor: Foes or Allies?

According to the published literature, formal sector laborers belong

to a 'labor aristocracy' which is very protective of its privileges, and views the growing IS as a potential threat to these privileges. If so, why has the inherent antagonism between the two sets of laborers not exploded into open and direct conflict?

#### Formal and Informal Labor: Commonality of Interests

The formal and informal laborers' interests are not always antithetical, because (i) not all IS laborers are interested in a job in the formal sector (ii) a growing percentage of workers may belong to both sectors (iii) within the same household one member -- usually a male -- may work in the formal sector while another member, generally a female, may be in the IS (iv) formal and informal sector laborers usually live in the same neighborhoods and experience similar problems associated with lack of basic services (v) IS sells cheap goods and services which are bought by a large segment of formal sector laborers, and finally, (vi) though the two sets of laborers belong to different production processes, they often share a common concern about consumption-related expenditures, such as withdrawal of food price subsidies.

#### Organizational linkages between formal and informal sector laborers.

In most developing countries, formal sector laborers, particularly in industrial production and mining, are organized as trade unions. These trade unions are not known to have any institutional link with IS groups. Why so?

First, informal sector workers are rarely well organized into groups with whom trade unions can jointly work. Second, IS groups may be reluctant to join a well established organization of formal sector laborers because of their fear of being 'swallowed up' and 'used' without gaining much for their own members. Yet, without the support of a politically powerful national-level organization, IS groups are unlikely to influence macro-policies. International organizations, such as ILO, has played a useful role in resolving this dilemma.

#### The Informal Sector and Political Parties:

Though political parties are known to have occasionally courted the support of IS groups prior to election, IS interests are not taken into account on a regular basis in the agenda of political parties. Both political parties and IS groups must share the blame for this.

There are three reasons why political parties might have been reluctant to incorporate IS interests. First, traditionally all political parties targetted only industrial laborers as a viable political constituency. Informal sector workers were thought to be in transition from being peasants to eventually becoming a part of the industrial workforce. And being in transition they were thought to be lacking political consciousness. Second, established party leaders may be worried that an influx of IS members may upset their positions within the party. Third, most political parties may not have the organizational resources to incorporate IS laborers, most of whom are disorganized and spatially scattered. And the few parties which have the resources may not feel the need for IS support.

### Informal Sectors' Apprehension About Political Parties:

Informal sector laborers in general do not subscribe to any particular ideology, either of the right or the left; and their political postures are mainly guided by their immediate interests. To be part of a political party may not allow the informal laborers the institutional flexibility required for such 'opportunism'.

That IS should continue to pursue this strategy of non-allegiance has been the position of Non-Governmental Organizations (NGOs), which have played a key role during the last decade in mobilizing IS laborers through various income generating projects. In defending their position, the NGOs argue that the formal political process in most developing countries is corrupt, lacks legitimacy, and is controlled by the elite who are not interested in assisting the IS. As an alternative, NGOs have argued that they are raising the political consciousness of IS laborers by teaching them non-violent ways of opposing regressive policies and for demanding resources. Though there is some truth in what the NGOs claim, there is doubt whether IS can influence the policy environment by staying outside the formal political process.

### Informal Sector Laborer's Political Strategies

Whether IS laborers as a group should join a political party must be a context based decision. If the context is that of a military government, without any prospect for free elections, IS laborers may choose a different strategy than in a democratic country where more than one party may be interested to gain their support. Another contextual factor is the nature of the relationship between the bureaucracy and political parties. In the past, bureaucrats at the local level created the most difficult problems for the IS. And IS laborers are known to have used the endorsement of politicians, without formally joining their parties, to openly disobey government regulations.

Under authoritarian regimes which banned opposition political parties, neighborhood-based and IS groups often provided temporary 'institutional homes' to opposition political party members who used it as a political camouflage. In return, the party members were often instrumental in strengthening the organizational base of these groups and in helping them articulate their demands clearly. Ironically, when the authoritarian regimes collapsed and free elections were held, the party members left these grassroots groups and went back to their political parties, thus diminishing the organizational strength of these groups.

Under democratic regimes, IS groups can benefit by formally joining the political process as power brokers if the competition for votes among the political parties is intense. Such intense competition can however be also damaging to the solidarity of IS groups, breaking them along ethnic and religious lines, with the various subgroups joining competing political parties.

## Introduction

The informal sector is not a new phenomenon in the economies of developing countries: its emergence was noted by Clifford Geertz, an anthropologist, as early as 1963. However, Geertz did not coin the term informal sector; he described a "bazaar economy" comprised primarily of petty traders who were yet to be integrated in the modernized urban economy of Indonesia. Keith Hart (1973), writing a few years later about the urban economy of Ghana, first introduced the term "informal sector" in development planning discourse. Hart described the informal sector as possessing characteristics that were quite unlike those of the formal sector, but he did not consider that to be a problem. He maintained that the informal sector was playing a critical role in providing goods and services in the urban areas of developing countries; and that it was a phenomenon typical of countries in the intermediate stage in the modernization process when formal market institutions were not yet fully developed.

A study conducted by the International Labor Organization in Kenya in 1972 took Hart's interpretation one step further. That study argued that the informal sector was playing a more productive and appropriate role than that of the formal sector in developing countries. In emphasizing this point, the ILO study adopted a contrasting backdrop: for each positive attribute of the informal sector -- and there were at least seven -- a corresponding negative characteristic of the formal sector was mentioned. As Table 1 indicates, this depiction of the informal/formal dichotomy was truly striking at first glance. It made the informal sector appear particularly attractive to development planners, who by then had been greatly disappointed by the lack of labor absorption in the formal economy.

Since the publication of the ILO study, much research has contributed to the refinement of our understanding about the informal sector.<sup>1</sup> However, the emphasis of this research has been primarily on analyzing the informal sector as an economic entity; as yet, we know very little about its politics. This is surprising because much of the economic analysis of

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<sup>1</sup> See HIID (1989) for a detailed bibliography of published material on the informal sector and small enterprises. Also see Bromley (1979), Sethuraman (1981) and Portee et al. (1989) for a comprehensive and detailed account of research on the urban informal sector.

**Table 1: Contrasting Characteristics of the  
Informal and Formal Sectors**

<u>Informal Sector</u>	<u>Formal Sector</u>
Ease of entry to the sector	Restricted entry to the sector
High degree of resourcefulness	Frequent reliance on overseas resources
Family ownership of enterprises	Corporate ownership
Small-scale of operation	Large-scale of operation
Labor intensive and adapted technology	Capital intensive and imported technology
Skills acquired outside the formal school system	Formally acquired skills, often expatriate
Unregulated and competitive markets	Protected markets (through tariffs, quotas and trade licenses)

Source: International Labor Office, Employment, Income and Equality (1972), p.6.

the informal sector has been policy oriented, meaning that a range of policies to support the sector are usually prescribed at the end of each analysis.<sup>2</sup> None of these policies can be implemented without strong political support; however, we know very little about how this political support might be generated. Barring the insights of a handful of articles and one or two books which address this issue in indirect ways, our collective understanding to date about the politics of the informal sector is virtually negligible: neither do we know much about the political dynamics internal to the sector, nor do we understand the politics of its external relationships with the state, established political parties or organized formal-sector labor. However, without an astute understanding of the relationships -- both internal and external -- we cannot predict which types of policies are likely to be implemented or what kind of bargaining between the different groups may be feasible for mobilizing political support for particular policies.

Some development planners may disagree with this rather pessimistic assessment of the state of our knowledge, and point out that considerable research has already been conducted on the politics of urban squatters.<sup>3</sup> True, the body of literature describing the various political strategies that squatters and governments use in dealing with each other is quite rich; however, one cannot equate the politics of the squatters with the politics of the informal sector. First, not all squatters earn their living in the informal sector: as much as 60 percent of them may be regular wage earners (Nelson, 1979). Second, the politics of squatters always emerge around territorial issues, such as demand for the provision of water, electricity or other utilities to their geographic areas. The politics of the informal sector, on the other hand, is often based on non-territorial demands. For example, informal-sector trade groups, whose members usually live in different parts of the city, may organize to demand better access to inputs for their trade. This is not to say that informal-sector politics never emerges around territorial issues: hawkers, who comprise a large part of the

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<sup>2</sup> See Sanyal (1988) for an overview of the various economic policies which have been recommended for facilitating the growth of the informal sector.

<sup>3</sup> See Nelson (1979), Gilbert and Ward (1988), and Collier (1976) for a review of research findings on this particular topic.

informal sector, frequently organize to resist eviction from the areas where they sell their products. However, the nature of politics based on such territorial demands is different from that of the squatters, who have more clout because they can influence the outcome of elections based on territorial representation.

The few research articles that do focus on the politics of the informal sector are, with one or two exceptions, based on the experience of Latin American countries. In part, this may be due to the relatively longer history of urbanization in Latin America which lends itself better to academic research. It may also be, in part, a result of Latin America's political context, dominated till very recently by bureaucratic authoritarian regimes in which political opposition could only be expressed through squatter movements, informal trade groups and other similar organizations. Whatever the reason for this geographical bias in the literature, one must be cautious in generalizing from it about the nature of informal-sector politics in other continents.

In writing this report, we have been quite aware of these limitations; and to transcend these limitations, we searched through various articles and books on Asian cities which refer to informal-sector politics even in the passing. To our surprise, we noted that such references, however casually made, constitute a considerable amount of information about the politics of urban informal sectors in

Asia. We are convinced that the urban informal sector is a growing political force in many Asian cities and that the nature of its politics is shaped by some characteristics that are unique to the process of urbanization, industrialization and political modernization in these countries. For example, though the rate of urbanization in Asian countries has been generally slow compared to that in Latin American countries, in nominal numbers the urban population in some Asian countries is much higher than in Latin American countries. The nature of the economic linkage of the urban population to the rural areas in Asia is also distinctly different: circular and seasonal migration between the urban and rural areas is prevalent in Asia while it is virtually absent in Latin America (Costello, et al., 1987). For some reason we are unable to clearly identify, the participation of women in urban

informal-sector enterprises is also higher in Asia than in Latin America. These factors and other political, economic and cultural characteristics of Asian countries which we discuss at length later in this report make the informal-sector politics in these countries rather different from the politics of comparable groups elsewhere in the world.

The report is divided into three parts. The first part provides general background material on the state of our current knowledge about the informal sector in Asia. We begin by discussing three popular myths about the informal sector, then provide some rough estimates of its magnitude, and finally list the particular characteristics of the sector in Asia.

The second part of the report focusses on political aspects of the informal sector by, first, identifying the various factors which influence the nature of its politics, and second, probing the ideology of the actors in the sector. This is followed by a detailed discussion of the organizational potential of the sector - that is, what factors facilitate and/or hinder political mobilization by the informal-sector participants.

The third part of the report is a more detailed account of the informal sector's political relationships with three dominant social institutions -- namely, the government, political parties and organized formal-sector labor. Underlying the description of these various relationships lies a central concern, which is to identify the kind of politics which would facilitate the sector's access to social resources, help remove the government regulations which currently hinder its economic activities, and legitimize the contribution the sector makes to the industrialization and development.

## **Part I: Definition, Magnitude and Significance of the Informal Sector**

### **The Informal Sector: Myths and Reality**

There has been an ongoing debate for the last fifteen years or so among development planners about the correct definition of the phenomenon we refer to as the informal sector (Peattie, 1987). We have learned much from this debate, though there is still no consensus about an analytically verifiable definition of the phenomenon (Richardson, 1984). Ironically, the lack of consensus is the result of our growing knowledge about the urban economies of poor countries where the informal sector is known to provide livelihood for a majority of the working people. Research conducted during the last fifteen years seems to suggest that the initial dualistic description of the urban economy, comprising two separate segments with diametrically opposite attributes, may not be correct. The two segments of the urban economy are neither disconnected nor distinctly different in all of their characteristics. For example, small and family-based firms, which used to be considered as belonging only to the informal sector, also exist within the formal economy; what is more, in recent years they seem to be growing in number in the formal economy (Piore and Sabel, 1984). Likewise, small firms which appear at first to be operating within the informal and unregulated economy may in fact be serving as sub-contractors for large firms which are well embedded in the formal economy (Scott, 1979). This sort of evidence raises many questions about the simplistic and dualistic interpretation of the informal sector, as proposed by the ILO in 1972 (see Table 1).

The ambiguity about the analytically valid definition of the informal sector arises from some other key findings as well. For example, it used to be commonly believed that the informal sector was merely a stepping stone, a holding ground, for recent migrants to the city who earned very low incomes in the informal sector till they found jobs in the formal sector (Harris and Todaro, 1970). We used to believe that the average income of these workers in transition was lower than even the average income of small farmers (Sabot, 1977). Recent research has, however, made us question these initial assumptions. We have

come to know that recent migrants do not always find a foothold in the informal sector; in fact, many of them start with odd jobs in the formal sector and later shift to informal-sector businesses after they are able to save some capital (Mazumder, 1981). The incomes of informal-sector participants are also not uniformly low; some of them earn more than the average income of formal-sector workers (Mazumder, Ibid.). Also, many of the relatively well-off informal-sector firms are connected to formal export/import businesses (Bradford, 1982).

Thus, the notion that the informal sector caters only to domestic, low-income markets is not correct. And, as a corollary to that, it is also not correct to assume that the informal sector is comprised mainly of petty traders. Evidence from Asia, Africa and Latin America indicates that the informal sector is heterogeneous, with participants not only in petty trading but also in repair, light manufacturing, transportation services, house building, and other such activities that contribute significantly to the functioning of the urban economy (Sethuraman, 1981).

What are we to make of these new findings? Do they help us formulate a more accurate and analytically verifiable definition of the informal sector? It seems from our literature survey that the researchers who contributed these new findings were hopeful, at first, that their findings would lead to a redefinition of the informal sector which would be more refined than the ILO's first definition. Some of them redefined the informal sector based on the characteristics of the enterprises; others focussed on the characteristics of the workers. Some even attempted to include the characteristics of both, creating hybrid definitions that claimed validity under all conditions (Richardson, 1984). None of these definitions, however, could withstand analytical scrutiny: sooner or later they all fell apart as new evidence showing similarity in characteristics between the formal and the informal sectors was introduced.

### Magnitude and Significance of the Informal Sector

There is a growing recognition in the field of development planning that the search for

an analytically verifiable definition of the informal sector may be futile: that the more we strive for the correct definition, the more entrapped we become in a "conceptual swamp" that renders us unable to formulate any policy to encourage employment and income generation outside the formal sector (Peattie, 1987). This acknowledgment is not only a more pragmatic approach but, one could argue, a more sophisticated approach towards theory building; because what the informal sector is can only become clear to us as we try to intervene in the economy, with our currently ambiguous knowledge of the sector. To put it another way, this approach relies on a two-way relationship between theory and practice - what in academic jargon is popularly known as praxis, which assumes that intervention on the basis of less than a sound theory can generate learning, which can then be used to refine the existing theory.

What are the key elements of our less than sound theory of the informal sector? What is it that we know about the informal sector without being able to formulate a sound definition? First, we know that even if we choose to use the term "sector," implying some kind of commonality among the nature of activities, we are dealing with a heterogeneous set of economic activities involving a heterogeneous set of actors. The key commonality among these diverse activities is that they are not legally established and are not subject to state regulations. This is not to say that they are illegal operations which are in violation of legal norms, such as felonies and crimes. Informal activities are "extra-legal" in the sense that they do not operate against the state-imposed laws, but rather in their interstices.

Second, we know that informal activities as a source of employment and income constitute a significant part of the urban economy of developing countries (Sethuraman, 1975). We also know that the percentage of the urban labor force who earn a living through these kinds of activities has been rising in most developing countries (Portes et al., 1989). As Table 2 indicates, the share of the urban labor force in developing countries engaged in the informal sector ranges anywhere from 20 to 70 percent, the average being close to half

**Table 2: Estimated Share of Urban Labor Force  
in the Informal Sector in Selected Developing Countries**

AREA	YEAR	PERCENT
<u>Asia</u>		
Calcutta (India)	1971	40/50
Ahmadabad (India)	1971	47
Jakarta (Indonesia)	1976	45
Colombo (Sri Lanka)	1971	19
Urban areas in West Malaysia (Malaysia)	1970	35
Singapore	1970	23
Urban areas (Thailand)	1976	26
Urban areas (Pakistan)	1972	69
<u>Africa</u>		
Abidjan (Ivory Coast)	1970	31
Lagos (Nigeria)	1976	50
Kuman (Ghana)	1974	60/70
Nairobi (Kenya)	1972	44
Urban areas (Senegal)	1976	50
Urban areas (Tunisia)	1977	34
<u>Latin America</u>		
Cordoba (Argentina)	1976	38
Sao Paulo (Brazil)	1976	43
Urban Areas (Brazil)	1970	30
Urban Areas (Chile)	1968	39
Bogota (Colombia)	1970	43
Santa Domingo (Dominican Republic)	1973	50
Guayaquil (Equador)	1970	48
Quito (Equador)	1970	48
San Salvador (El Salvador)	1974	41
Mexico City	1970	27
Asuncion (Paraguay)	1973	57
Caracas (Venezuela)	1974	40
Kingston (Jamaica)	1974	33

Source: Sathuraman (1981), p. 214.

or more. The majority of this labor force is self-employed<sup>4</sup>, and of the self-employed between 20 and 50 percent provide various types of services for the urban population.

Third, we know that the increasing size of the informal sector has begun to influence the nature of urban and national politics in many developing countries (Sandbrook, 1982). This was not predicted by any political scientist when the developing countries started on a course of economic and political modernization some thirty years back. It was widely believed at that time that political modernization, of the western kind, involving established political parties and organized formal-sector labor, would go hand in hand with economic modernization by industrialization. In this grand scheme, no one referred to the role of the informal sector, and to the extent its presence was noticed, the informal sector used to be viewed as a transitory phenomenon that would disappear in the course of economic and political modernization. In other words, informal-sector participants were seen as working class in formation. That they might have interests different from those of organized formal-sector labor was not considered a possibility. True, this understanding of the politics of labor had changed somewhat by the early 1970s when organized formal labor began to be referred to as the "labor aristocracy" with a distinct interest of its own (Farron, 1965); but even then no one foresaw the increasingly important role informal-sector participants would eventually play in the urban and national politics of developing countries.

### Characteristics of Asia's Informal Sector

It is very difficult to generalize about the nature of the urban informal sector in Asia because of large variations in demographic, economic, social and political characteristics among the countries that make up this region. This is true even if we exclude the non-market economies, such as China, North Korea, Burma and Viet Nam, which are not the focus of this report. One way to get around the problem is to cluster the Asian countries based on similar characteristics. For our purposes, the key demographic and economic

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<sup>4</sup> A study conducted by the ILO indicated that the proportion of informal units with one person was 74 percent in Freetown, 50 percent in Lagos, 67 percent in Kano, 85 percent in Colombo, 90 percent in Jakarta, 58 percent in trade and 25 percent in Service Sectors of Manila, 40 percent in Cordoba and 46 percent in Campines (Sethuraman, 1981:192).

Table 3: Selected Data on Demographic and Economic Factors of Asian Market Economies

Countries	Population in 1982 Millions	Avg. Annual Pop. Growth Rate (1970-82)	Urban Population as Percentage of Total Population		Average Annual Urban Growth Rate		Population of Labor Force in:					
			1960	1982	1960-70	1970-82	Agriculture		Industry		Services	
							1960	1980	1960	1980	1960	1980
<b>Type I</b>												
Hong Kong	5.2	2.4	89	91	3.1	2.4	8	3	52	57	40	40
Singapore	2.5	1.5	100	100	2.4	1.5	8	2	23	39	69	59
Taiwan	18.4	1.9	36	68	3.7	3.2	56	20	11	33	33	47
Korea Rep.	39.3	1.7	28	61	6.2	5.0	66	34	9	29	25	37
<b>Type II</b>												
Malaysia	14.5	2.5	25	30	3.5	3.4	63	50	12	16	25	34
Philippines	50.7	2.7	25	38	4.2	3.8	61	46	15	17	24	37
<b>Type III</b>												
Thailand	48.5	2.4	12	17	4.7	4.3	84	76	4	9	12	15
Sri Lanka	15.2	1.7	18	24	4.4	2.5	56	54	13	14	31	32
<b>Type IV</b>												
Bangladesh	92.9	2.6	5	12	4.7	6.0	87	74	3	11	10	15
India	717.0	2.3	18	24	3.5	3.9	73	71	11	13	16	16
Indonesia	152.6	2.3	15	22	3.7	4.5	75	58	8	12	17	30
Pakistan	87.1	3.0	18	29	4.5	4.3	61	57	18	20	21	23

Source: Armstrong, W. and McGee, T.G. (1985), p. 90.

characteristics would be levels of urbanization and industrialization, as these two factors strongly influence the size of the urban informal sector. As Table 3 indicates, clustering of the Asian market economies around these two factors results in four distinctly different types of countries, ranging from countries such as Taiwan and Korea at one end, with high rates of urbanization and industrialization, to India and Pakistan at the other end, with markedly low rates of both. In between are countries such as Malaysia and Philippines with relatively high rates of urbanization and industrialization and Thailand and Sri Lanka with relatively low rates.

Of course, the rates of urbanization and industrialization are not the only factors which influence the size of the urban informal sector. The population size of a country and the level of spatial concentration of its urban population -- i.e., whether they are concentrated in one or two very large cities, as in Manila or Jakarta -- are important factors too. That is why countries with low rates of urbanization and industrialization but high population size and high rates of urban primacy may have large numbers of people earning a living in the urban informal sector. This is particularly true in the case of Asia with India, Indonesia, Bangladesh and Pakistan, where nearly 100 million people are estimated to be in the urban informal sector (Mathur and Moser, 1984).

In terms of sectoral composition of urban informal labor, the Asian countries are very similar to other developing countries. As in those countries, urban informal labor in Asian countries tends to be concentrated primarily in the service sector. According to Sen (1973), the share of informal labor in the service sector varied from 37 percent in Japan to 86 percent in Thailand. The corresponding figures for manufacturing are 11 percent for Japan and 48 percent for Thailand. Between these extremes, the percentage of informal labor in the service sector in Malaysia, Philippines, and South Korea in 1975 was reported to be 55, 66 and 78 respectively.

A closer look at individual Asian cities provides some additional insights into the sectoral composition of urban informal labor. A study conducted by the ILO in 1981 provides detailed data about Colombo, Jakarta and Manila. Although we have summarized

**Table 4: The Structure of Urban Informal Sector  
in Colombo, Manila and Jakarta**

**Percentage Distribution of Urban Informal Labor**

	<b>Trade</b>	<b>Services</b>	<b>Manufacturing</b>	<b>Transport</b>	<b>Construction</b>
<b>Colombo*</b>	63	20	5	8	1
<b>Manila</b>	71	15	12	(combined 2 percent)	
<b>Jakarta</b>	(combined 70 percent)		23	7	2

Source: Marga Institute, Colombo, "Informal Sector Without Migration: The Case of Colombo": Hazel Moir, "Occupational Mobility and the Informal Sector in Jakarta"; G.M. Jurado et al., "The Manila Informal Sector: In Transition?" in Sethuraman (1981).

\* The remaining 3 percent are involved in urban agriculture and fishing (Marga Institute, 1981: 102).

the data in Table 4, it may be useful to highlight the major findings<sup>5</sup>.

- (i) Majority of urban informal labor force is involved in trade (including sale of prepared food).
- (ii) Between 15 and 20 percent provide various services.
- (iii) Manufacturing accounted for a low figure of under 5 percent in Colombo to 23 percent in Jakarta.
- (iv) Between 7 and 10 percent of urban informal sector labor is involved in transportation.
- (v) Construction absorbs between 1 and 3 percent of informal-sector labor.

Of what use are these findings for gaining an understanding of the politics of the informal sector? For one, the findings reveal a pattern of economic differentiation which also creates political differentiation of interests among the different groups within the informal sector. Second, the nature of economic activity -- whether it is based at home, as it is usually for manufacturing or food preparation, or away from home, as in trading -- influences the nature of issues around which political demands are made. Third, even within a similar type of activity, say trading, there may be further differentiation of sub-activities, each of which requires a different type of input with different problems of access for acquiring these inputs. This is evident from a recent study by Salih et al. (1985) which provides a detailed differentiation of informal-sector activities in Penang State in Malaysia. According to this study the informal economy in Penang could be subdivided into as many as twelve sets of activities each requiring a different set of inputs (See Table 5). The political mobilization of these varied groups of workers under one banner is probably an impossible task, unless an issue of common concern can be identified. We will return to this point later in the report.

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These findings are not accurate estimates; at best, they are indications of the rough order of magnitude. The primary reason for this word of caution is that the measurement of informal sector in different cities is fraught with various methodological problems, including the varying definition of formal/informal in different institutional and legal contexts, the difficulty of gathering a statistically significant sample when the phenomenon of informal sector is not precisely defined, and so on.

**Table 5: The Informal Sector in Penang, Malaysia**

<u>Sub-Sectors</u>	<u>Number of Firms</u>	<u>Percentage of Sector</u>
Food, beverages and tobacco	38	18.1
Tin and steel	38	18.1
Paper and cardboard	35	16.7
Charcoal and wood	31	14.8
Agriculture and animal husbandry	22	10.5
Textiles and garments	20	9.5
Footwear and plastics	13	6.2
Sales and advertising	5	2.4
Storage, transport and construction	4	1.9
Vehicle parts	2	1.0
Electronics and electrical	2	1.0
<b>Total</b>	<b>210</b>	<b>100.0</b>

Source: Salih et al. (1985). Referred to by McGee et al. (1989), p. 272.

## PART II: Politics of Asia's Informal Sector

If it is difficult to generalize about the economic characteristics of Asia's informal sector because these countries are economically rather heterogeneous, it is even more difficult to generalize about the political characteristics of their informal sector. This is not simply because political characteristics are harder to define precisely, but because they result from the interactions of economic, demographic, as well as ethnic and religious factors influenced by the specific nature of the political system in each country. Since there are large variations among the Asian countries in both set of factors -- i.e., economic and social -- the composite picture of the region incorporating both factors does not lend itself to conceptually neat categorizations.

Perhaps that is one reason why the published material on Asia's informal-sector politics is so scanty compared to the growing body of literature on the sector's economic characteristics and performance. Of course, one could argue that the lack of published material on Asia's informal-sector politics may be due to the fact that the sector has not been politicized in Asia -- at least, not to the extent it has been in Latin American countries. There is some truth to that argument. As O'Donnell (1973), Collier (1979) and others have demonstrated, politicization of squatters, trade groups and other grassroots groups in Latin America is a direct result of lack of access of urban poor to electoral political participation under authoritarian regimes.

There may be other reasons. For one, in some Asian countries, like Hong Kong, South Korea, Taiwan and Thailand where labor laws and business regulations are relatively less stringent, the difference between formal and informal labor is hazy. As a result, the political demands of what in other countries would be the informal sector may be incorporated within the political demands of formal labor (Harrod, 1987). Second, Asia's informal businesses may not be facing as intense competition within the sector as informal businesses in Latin America. This line of argument is based on the assumption that mobilization of informal businesses results often from the need to restrict the entry of

others into the sector, which is more likely when employment possibilities in the formal sector decrease (Peattie, 1979). Since, on average, formal-sector employment in Asian countries has grown at a much faster rate than in Latin American countries during the last decade (actually, in some Latin American countries facing debt crisis formal-sector employment has declined even in nominal terms), informal businesses in Asia might not have felt the need to mobilize as strongly as their counterparts in Latin America.

Whatever may be the reason, evidence of the politicization of the informal sector in Asia is rather limited, and restricted to a few studies of primarily hawkers associations. For example, McGee and Young (1977) in a comparative study of hawkers in six South East Asian cities mentioned that in three of them the hawkers are organized into associations. Nelson (1979) in a study of urban politics in developing countries reported that in Kuala Lumpur there are strong hawkers associations, and that these associations emerged after the widespread riots by the urban poor in the late 1960s. Nelson (ibid) also mentioned a strong hawkers association in Malacca, Malaysia.

The evidence from India, though also scanty, provides relatively more detailed accounts of political mobilization by informal labor. Sarin (1979) in a study of hawkers and market vendors in Chandigarh describes the political strategies these groups employ in circumventing government regulations. Sarin documents how informal-sector groups use the power of political patronage to counteract bureaucratic regulations. Sebstad (1982) also provides a rather detailed account of an organization of women petty traders and home based workers in Ahmedabad. This organization, called the Self Employed Women's Association (SEWA), has gradually expanded its organizational base to six other major cities in India. It has also received significant international attention as a model of political mobilization by women informal laborers.

Working Women's Forum (WWF), started in Madras, India, is another organization which appears to have successfully mobilized women petty traders. Nojonen (1987) provides a detailed account of its economic activities, including various credit schemes for its members. These credit schemes depend to a large extent on low-interest loans from nationalized banks

which are required by law to provide such loans to small businesses managed by the urban poor. Though Napeon (Ibid) does not document the political role WWF might have played in influencing government policy, it is plausible that political pressure from groups such as WWF played a critical role in altering credit policies of nationalized banks.

### **Factors Influencing Asia's Informal-Sector Politics**

Are there unique factors which influence the particular nature of Asia's urban informal-sector politics? We have already raised a word of caution about generalizing from the varied social, political and economic patterns in Asia. Nevertheless, our review of the published literature on Asia suggests that the following three factors must be taken into account while considering the kinds of questions which are central to this study.

- (i) The extent and intensity of urban informal-sector politics in Asia is inversely related to the size of its rural population. Since a majority of the electorate in Asia is still rural, urban informal-sector groups are not yet likely to be politically very powerful. A study by Costello et al. (1987) of urban/rural linkages adds another dimension to the political calculus by pointing out that significant numbers of Asia's urban poor are not permanent migrants to the city; rather, there is extensive circular migration between urban and rural areas, and also between urban areas of different sizes. Boses' (1978) study of migrants in Calcutta also supports this trend. The political outcome of circular migration for the urban informal sector is likely to be negative because temporary migrants are not likely to be involved deeply with urban political candidates. Further, temporary migrants, even while living in the city, may actually care more about rural politics because whatever little assets they have may still be in the rural areas.
- (ii) The nature of urban informal-sector politics in Asia is likely to be influenced by the strong ethnic and religious cleavages which characterize many Asian countries. The ethnic and religious factors can work both ways, either strengthening the solidarity of trade groups whose members belong to same ethnic or religious groups, or undermining

their solidarity in cases of heterogeneous ethnic and religious composition. Nelson (1979), however, argues that, at some point, if heterogeneity reaches the level where a trade group is totally fragmented into multiple, small ethnic clusters, ethnicity may become a non-issue. In other words, more fragmentation on ethnic lines may at times lead to greater solidarity among the group members, who may perceive their interest as a class.

The scanty of literature on tradegroups in Asia suggests that ethnic cleavages, rather than class solidarity, form the dominant pattern in Asia. McGee and Young's study to which we referred earlier mentioned that in Kuala Lumpur hawkers are organized along strictly ethnic (Malay and Chinese) lines. The evidence from Sri Lanka is similar: it indicates that Colombo's informal sector is dominated by Tamils, and that Sinhalese only control two or three types of informal-sector activities (Marga Institute, 1981). Keyes (1974) in a study of scavengers in Manila also noted the dominance of one ethnic group. In India the pattern is similar. For example, though the Self Employed Women's Association (SEWA) comprises both Hindu and Muslim members, there have been major strains in recent years between these two groups of members.

- (iii) Some have argued that the nature of urban informal-sector politics in any developing country is shaped by the extent to which its urban economy is connected to national and international capital (Armstrong and McGee, 1985; Portes and Walton, 1980). According to this argument, the nature of informal-sector politics in Asia is likely to be different from that in Latin America because the Asian countries were incorporated into the world economy much later than the Latin American countries, and they began to play an important role in the international system only after their independence since 1945.

The central assumption underlying this argument is that the nature of incorporation of any country in the global economy affects the class composition of that country, depending on which groups are in control of the national economy at the time of incorporation. Armstrong and McGee (ibid) argue that prior to 1945 most Asian

countries had only a mercantilist relationship with the colonial countries and that led to "truncated class structures in which alien communities played significant roles in trade while political power remained with colonial elites and 'tamed' Asian traditional elites" (p. 88). It is only after independence in 1945 that Asian countries have attracted increasing amount of international investment, often in conjunction with national state capital.

What are the political implications of this new trend for the urban informal sector? Will increasing incorporation in the global economy hinder or facilitate political mobilization of the urban informal sector? There are two sharply opposing views on this question. One view is that international and national firms (with international linkages) benefit from low wages in the informal sector and will always oppose any move on the part of informal labor to raise wages (Portes and Walton, 1980; Wallerstein, 1984). According to this view, state policy is strongly influenced by national and international capital's interest, and hence will never be truly sympathetic to the interests of the informal sector.

The second view is more complex in the sense that it assumes that among the newly forming indigenous elite, some may be more concerned than others about politicization of the informal sector (Rueschemeyer and Evans, 1985). According to this view, national elites with external connections (in terms of inputs for their businesses and market for their outputs) may be less concerned about politicization of the informal sector than elites who cater primarily to domestic demand and usually contract out part of the production process to informal businesses. But, this dualistic approach towards understanding of the elite's interest may require some modification. As the experience of SEWA in India indicates, national elites with domestic market orientation may at times support the demands of informal businesses who supply parts for their product, particularly if the demands are made to government and are of such nature as to enhance the quality of the final product.

### Ideology of Informal Workers

There has been almost a hundred and eighty degree turn in our understanding of the ideology of informal workers. In the mid 1960s when urban sociologists and political scientists started writing about urban informal workers, they were initially portrayed as a "marginal group" -- both politically and economically. To be politically marginal meant that the informal workers were on the periphery of mainstream politics; unlike organized formal labor, which was courted by all political parties, urban informal workers were not seen as a political constituency with a coherent and well-defined interest. Instead, they were thought to be in a transitory stage, moving from being "peasants in the city" to becoming a part of the urban working class. And the transition process was believed to be brief so as not to provide them a distinct political identity during that period.

Peter Gutkind (1968) was the first to note that the transition process was not functioning the way it was supposed to. Drawing his empirical evidence from Africa, Gutkind pointed out that an increasing number of informal workers were unable to make the transition for various reasons<sup>6</sup>, and that was creating a sense of despair and frustration which, Gutkind predicted, would eventually lead them to disrupt the formal political process with violent protests. This notion -- that the informal workers were potential trouble-makers without any reverence for established political norms -- was compounded by the popular press in developing countries, which depicted urban slums and illegal shanty towns as being created by the informal workers. The slums were thought to be the breeding grounds for a "culture of poverty" (as Lewis, 1959, had discovered in Mexico) which discouraged the informal sector from working hard in pursuit of legitimate social aspirations and instead tied them forever to lives of ignorance, illegal activities and various other social evils.

Some authors, writing after Gutkind, predicted that the growing number of urban informal workers if politically 'conscientized' could become a viable force in fostering

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<sup>6</sup> Gutkind (1968) argued that lack of labor absorption in the formal economy was a result of wrong government policies influenced by elite interests which led to capital intensive production enclaves in African cities.

socialist revolutions, particularly if they joined hands with the rural poor (Frank, 1981; Walton, 1979). This line of argument assumed that the urban informal workers were inherently politically progressive in their orientation: that they preferred changes in the established political-economic systems which would equalize the access of all citizens to political representation and economic opportunities. This assumption was rarely tested, though: the proponents of this view simply took it for granted that of necessity the poor must be supportive of progressive changes, and that all that was required to spur them to action was political conscientization and mobilization which would liberate them of their "false consciousness".

By the beginning of the 1970s the political assessment of urban informal workers had taken a very different turn, largely due to extensive field work by Peattie (1968), Perlman (1976) and others (Cohen and David, 1973). This new crop of researchers not only dismissed the claim of their predecessors that the urban informal workers were politically and economically marginal, they also portrayed these workers as basically conservative in their political and social aspirations. The evidence provided for this new interpretation was drawn mainly from Latin American countries, many of which had by then changed politically from being pluralist democracies to authoritarian regimes headed by the military. The researchers pointed out that the urban informal workers were in general supportive of these authoritarian regimes and were appreciative of the way the new regimes enforced law and order, which in turn facilitated business operation of even their very small enterprises.

The ideology of urban informal workers, according to this new interpretation, was distinctly conservative. The same workers who a decade ago were assumed to be the natural forbearers of social change were now seen as proponents of political stability. Their social aspirations were also thought to be shaped by conventional social values. As Peattie (1979) described it, the informal workers "looked upward at a system of enormous inequality but one which presented itself as a ladder, rather than as sharply bounded social strata" (p. 7).

By the end of the 1970s our understanding of informal workers' ideology had taken yet another turn; in part because new evidence from Latin American countries indicated that

urban informal workers were playing a significant role in the democratization movement which had begun to challenge a decade of authoritarian rule in most Latin American countries. What inspired the urban informal workers to join the pro-democracy movement was, however, not the desire for democracy; they were primarily opposed to the fiscal austerity measures that were being imposed by governments in virtually every Latin American country. The austerity measures, which curtailed price subsidies of food, transportation and urban services and reduced government spending on social programs such as housing, education and so on, had adversely affected the urban informal workers. Consequently, these workers had joined hands with various other social and political groups in denouncing the same authoritarian regimes they had supported only a few years back.

This reversal of political support on the part of urban informal workers provided a new insight about their ideology: instead of their earlier image as either "leftists" or "rightists", they were now viewed to be contextual in their approach, meaning that they were seen to be assessing each event in its specific context with a shrewd eye to protect and further their own interest. This led them to support leftist political parties at one time and the army rule at another time. Their political ideology was flexible and pragmatic enough to justify such wide fluctuations in their political behavior.

The leaders of urban informal-sector workers often justified this rather opportunistic approach as necessary at a time when no political parties could be trusted. They argued that they were distrustful of other dominant political and social institutions too. Government was often the principal target of their cynicism; but their criticisms extended to other institutions as well, including labor unions of formal workers and even organizations of big businesses. The criticism of these established institutions belonging both to the market and the state drew its ideological strength from both the right and the left conventional ideologies, but mixed them in a creative concoction which some, like De Soto (1986), claimed provided a distinctly unique "third way" to economic development. The "third way" was neither to be state guided development of the old kind, nor was it to be led by large-scale monopolistic and oligopolistic private firms. Instead, it was to be based on

the "creative impulse" and efficiency of thousands of small firms unregulated by the state, uncontrolled by political parties, and unexploited by big businesses.

The central theme in this ideology of "the third way" is autonomy -- principally, from the state but also from dominant market and political institutions. If only urban informal businesses could autonomously pursue their goals, the new ideology claims, then economic growth and industrialization would flourish, as it did during the eighteenth and nineteenth centuries in England and other parts of Europe.

### **Organizational Potential of Informal Workers**

If the informal workers are to be truly effective in charting a "third way" to development, as De Soto (ibid) hopes, they must organize as a group to influence policy decisions. There have been some indications lately that indeed informal workers in developing countries are organizing and, as a result, have been effective in changing governments' policy from that of outright repression of these workers to supporting their micro-enterprises with subsidized credit (Ashe and Cosslett, 1989). But, there is evidence also that some informal workers' organizations, set up with financial support from international agencies, have fallen apart after a brief life of only two to three years (McKee, 1989). Hence, it is important to understand under what conditions informal workers are able to come together, despite their heterogeneity in terms of ethnicity, religious affiliations and so on, and conversely, what pulls them apart even after they have been successfully mobilized.

The central element in the mobilization of informal workers is their commonality of interests and identity. In some cases the basis of commonality may be natural -- meaning that it is due to certain characteristics of the informal workers which provide them a sense of collective identity of a cultural, economic or social nature (Portes and Borcoz, 1988). In other cases, the commonality may be created as a result of a situation which adversely affects the interests of a wide range of informal workers -- for example, a law that provides power to the local police to arrest citizens without a warrant, or a steep rise in basic food

prices may bring together disparate elements within the informal sector to fight a common battle. (Walton, 1989). We have identified these types of factors -- both 'natural' and 'socially created' -- as various axes of commonality required for organizational purposes. As we explain below, some of these axes of commonality may temporarily create a sense of unity among informal workers; others may have a relatively more permanent effect. Also, the very factors that create commonality among the informal workers or entities in one context, may split them apart in another context. There are, of course, some factors which are inherently divisive in nature in all contexts. We have labelled these divisive factors as axes of disaccord.

### Axes of Commonality

#### **(a) Location and Proximity:**

Informal-sector entrepreneurs who work or reside in the same area are more likely to be organized than those who are spatially scattered. The growing number of neighborhood-based organizations in Asia and elsewhere can be attributed to this direct relationship between physical proximity and political mobilization (Friedmann and Salguero, 1988). Sarin (1979) has documented how in Chandigarh, India, informal businesses of various kinds mobilized as one organization to oppose their eviction from an area which the city authorities wanted to use for other purposes. Similarly, in Ahmedabad, India, petty traders and street vendors in the central business district got together to fight police harassment and won a major concession that they could not be barred from selling on the streets in that area unless the local authorities arranged for an equally attractive alternative location for their businesses (Sebstad, 1982).

Why is physical proximity conducive to political mobilization? For one, physical proximity creates the conditions for shared experiences which can be a cohesive factor. This is particularly true in the low-income residential areas where a majority of the informal-sector workers reside. In most developing countries, these areas usually lack basic services and their residents often organize as groups to press for the delivery of the

lacking services (Cheema, 1987). Though many of these groups disband once they attain their immediate objectives, there are instances where such groups have consolidated themselves over time and have lent their support to informal-sector groups, particularly those comprised of home-based producers (Risseuw, 1987).

The second advantage of physical proximity, particularly with regards to residence, is that it can significantly affect the outcome of voting if political representation is territorially based. This may serve as an incentive for an apparently diverse group of informal-sector businesses to join together in supporting one candidate who is likely to be sympathetic to their needs and aspirations.

Third, physical proximity facilitates political mobilization because it is easier for the political leaders to reach large numbers of people if they are spatially concentrated than otherwise. That is why informal-sector businesses in urban areas are generally much more organized than in the rural areas; and within the urban areas, businesses that cluster together spatially are more frequently organized than others.

**(b) Trade:**

Informal-sector entrepreneurs with similar business interests and constraints are known to have mobilized more frequently than others. Although these entrepreneurs may also compete with each other for the same customers, particularly if they operate in the same area, they often have to deal with the same suppliers and middlemen, and are affected similarly by certain regulations and macro-policies (Harrod, 1987; Grindle et al., 1987). Thus, informal-sector entrepreneurs in the same occupation have organized themselves as trade groups or consumer cooperatives in order to either pay less for their inputs or receive better prices for their outputs.

One factor that has significantly strengthened the cohesiveness of the trade groups, particularly in Asia, is the ethnic, caste, or religious homogeneity of their members. The homogeneity is the result of a long tradition in Asia whereby certain economic activities are performed only by certain ethnic or caste groups. For example, in India only the lowest

caste groups are involved in leathermaking, janitorial work or scavenging. Similarly, in Malaysia, the Chinese are predominant in retail businesses. Such clustering of socio-economic groups, particularly of minority populations, can provide strong bonding among the group members which is conducive to political mobilization.

To be sure, cultural factors such as caste, race or religion are not always facilitators of mobilization. At times when large scale mobilization involving various trade groups may be required to press for collective demands, these same factors may undermine the emergence of a truly cohesive interest group. This is not likely to happen in countries with strong socio-cultural hierarchies, as in India.

**(c) Gender Roles:**

The emergence of a growing number of poor women's organizations in Asia, Latin America and Africa indicates that gender can be an unifying force, particularly when socially determined gender roles restrict the access of women to economic opportunities (Overholt, et al., 1985). The type of restrictions which adversely affect women's participation in informal businesses are many. For example, purdah norms in Bangladesh forbid women to be seen by males outside the family, confining them to home-based production (Abdullah and Zeidenstein, 1981). This work usually yields a very low rate of return for the women, who have to depend on middlemen who are known to take as much as 50 percent of the women's profit (Singh & Kelles-Viitanen, 1987). Women are also restricted by their domestic responsibilities, which take time away from business-related activities. Moreover, the fact that women engaged in home based production are usually perceived as housewives instead of as workers restricts their access to institutional credits for expanding their businesses. Much has already been written about these restrictions; the point to emphasize for our purposes is that these restrictions inadvertently create a sense of solidarity among women which is necessary for political mobilization (Bhatt, 1989).

The steady growth of poor women's organizations in developing countries since the mid 1970s is, however, not just the result of a growing sense of solidarity among the women.

Starting with the United Nation's declaration of the 1970s as the decade of women, bilateral and multi-lateral aid institutions have channelled thousands of dollars into various types of "women's projects," which has had a catalytic role in bringing poor women together. But, of more relevance to our purposes may be the fact that poor women's organizations are generally more tolerated than poor men's organizations by most Third World governments. Women's organizations are perceived by governments to be less threatening. This fact was very consciously taken into account by many of the organizers of women's groups, particularly in countries with authoritarian regimes (Piven and Cloward, 1979).

### Axes of Disaccord

#### **(a) Competition for Market Share:**

There is a distinct bias in the published literature on informal businesses towards portraying them as small enterprises that cooperate with each other in order to survive in a marketplace dominated by large private and public firms. The fact that small enterprises compete with each other, often in quite fierce ways, has been noted by only a few researchers (Peattie, 1982; Tokman, 1978). The competition among informal enterprises is most severe in the domain of retail businesses, as Peattie (ibid) noted, because unlike production, commerce has inherent potential for monopoly of desirable commodities and even more so of desirable locations. This potential can create severe competition among informal businesses and adversely affect the possibility of their political mobilization as a single interest group.

The current economic conditions in most developing countries suggest that the competitive pressure among informal businesses is likely to increase. The rate of labor absorption in the formal economy has gone down, thereby pushing the new entrants to the labor market to find income earning opportunities in the informal sector. Most of these new entrants lack the necessary capital and technical skills to start small productive units, so they must either work for informal businesses at very low wages or start small retail businesses, which typically rely on middlemen for procuring their goods from wholesalers.

An increasing influx of new labor market entrants in these sort of activities is likely to generate intense competition among them and lower the profit at the margin for the new businesses (Sanyal, 1988). There is evidence of this trend in some developing countries (Bromley, 1978).

**(b) Ethnicity, Race and Religious Identity:**

Though we mentioned this factor earlier, it is important enough to be highlighted as a major cause of disaccord among informal businesses, particularly in Asia. Informal entrepreneurs of necessity are deeply embedded in a set of relationships with family workers, relatives and friends who provide all kinds of business-related services, ranging from sub-contracting offers to provision of space for businesses to emergency loans. These relatives and friends who belong to the same race and ethnic or religious groups, however, may not all belong to the informal sector: some of them -- particularly those who have been in the city for a long time -- may be quite well established in the formal sector; others may be earning a living in both the formal and informal sectors; and still others may be in transition, searching for a way to find an economic foothold in the city while working part-time for a relative.

Though the business as well as social relationships among these individuals are often quite exploitative, contrary to what Lomnitz (1977) and others have described as a mutually supportive system, these relationships cannot be used for mobilization of the exploited individuals. That is not because the exploited individuals do not understand that they are being exploited; they are quite aware of the "structural inequalities", even if they are not formally educated to understand such realities (Castells, 1988). They do not mobilize to protect their interests because "interest" is not the only source of action (despite what most neo-classical economists believe). The action of these individuals is shaped by a concept larger than that of interest: it is the total meaning of their lives, which is shaped not only by their economic hardships but also by cultural factors, such as religious and ethnic identities. These identities provide a social bonding among the group members which may

be more important to them than their class interests.

**(c) Government Policy of Selective Assistance:**

Since 1974 when the International Labor Office (ILO) first advised the Kenyan government to take a positive approach to the informal sector, some Third World governments have implemented a few policies to facilitate income and employment generation within the informal sector (Kilby, 1985; Stearns, 1985). These policies were generally constrained by Third World governments' fiscal problems, which led to selective assistance to only a few informal-sector groups who looked most promising and were probably the most articulate in their demands. International donor agencies pursued a similar approach, concentrating their efforts on a few selected groups most likely to create an impressive "demonstration effect".

Though well intentioned, these efforts at selective assistance might have inadvertently undermined the possibilities of large-scale mobilization by informal-sector participants. As Burgess (1979) argued, these efforts created a few small organized groups of informal businesses who were not interested in furthering the interest of all informal sector participants; instead, they became protective of their groups' interests and tried to restrict the entry of other informal-sector participants to these groups. This created resentment among the majority of the informal sector participants, who argued that the beneficiaries of government programs had been coopted.

### **Part III: The Informal Sector and Dominant Social Institutions**

What is the nature of the political relationship between informal businesses and dominant social institutions, such as the government, organized political parties, and trade unions of organized formal labor? Since we are interested in assisting informal businesses, we need to better understand these relationships so as to identify the conditions under which these relationships are most beneficial for informal businesses. Unfortunately, there is virtually no empirically based research done on this crucial question. The published literature on informal businesses typically assumes that the more autonomy they have from government, political parties and formal trade unions, the better it is for them. The emphasis on autonomy from dominant social institutions as a precondition for success of informal businesses has, however, never been subjected to the logic of institutional analysis. No one has yet empirically probed the question of what kind of institutional arrangements of informal businesses, among themselves and in relationships to government, political parties and organized formal labor, will be necessary for such businesses to be able to remain autonomous and yet alter the market arrangements and the policy environment more to their advantage. True, some have highlighted the roles that non-governmental organizations (NGOs) and private voluntary organizations (PVOs) play in the process, but even these researchers assume without any empirical analysis that the relative autonomy of NGOs and PVOs from the dominant social institutions is a precondition of their success. How this autonomy is to be established and yet, at the same time, financial and political resources are to be mobilized remains unanswered to this day.

What follows are some issues we must understand in order to assist informal businesses in striking a balance between achieving autonomy from and cooperation with three dominant social institutions -- namely, government (both central and local governments), organized political parties and trade unions of organized labor. The discussion is somewhat sketchy and lacks supporting empirical evidence for reasons we have already mentioned; however it raises a range of questions which can serve as a rich research agenda about the

politics of informal businesses.

### **Informal Businesses and the Government**

Since informal businesses are outside the domain of laws and regulations enacted by governments, it is commonly believed that these businesses and the government are antagonistic to each other. By being outside the reach of the government, informal businesses do not directly contribute to government's revenue generation efforts through collection of sales and income taxes. Moreover, they adversely affect the legitimacy of the government by demonstrating the limits of laws and regulations.

Yet, the evidence from developing countries indicates that their governments' policies towards informal businesses have not been wholly negative: from outright repression of these activities during the 1960s and even part of the 1970s, Third World governments have lately devised various policies to facilitate income and employment generation by these type of businesses.

The recent turnaround in governments' support for informal businesses may be due to a number of factors. First, governments may have come to realize that though informal businesses do not contribute directly to government revenue, they play a positive role by providing cheap goods and services, which, in turn, reduces the pressure for higher wages in private and public firms. In other words, informal businesses may indirectly contribute to accumulation by private and public firms in the formal sector (Paul, 1988). Second, and a related factor, may be that informal businesses in some instances may hold absolute power over the supply of some basic goods and use that power to shift government's policies in their favor. For example, Waterbury (1970) reports from Oaxaca, Mexico, how the city's street vendors held an absolute monopoly on food distribution and used that power to their advantage in negotiating a favorable response from the city authorities to their claims.

Third, beginning with the recession of the 1970s, Third World governments might have become increasingly aware of the limits of the formal sector's capacity to absorb the labor force and consequently recognized the critical role of the informal sector as a "safety net"

for the unemployed (Ward, 1989). Lacking the financial resources to provide welfare payments, Third World governments might have become appreciative of the "alternative" income-earning opportunities in the informal sector -- opportunities without which the legitimacy of the government would have been seriously jeopardized.

The fourth factor is related to the third one and has to do with the government's need for effective social control during economic hard times. Assistance to the informal sector might have seemed to be less costly and more effective a strategy of social control than outright repression of activities within the sector (Eckstein, 1988). Finally, international donor agencies played a catalytic role by channelling large amounts of aid for informal businesses. In some cases, the aid was contingent upon a shift in government policy towards a more favourable treatment of informal businesses. Though it is still an open question whether such shifts in government policies are permanent, or will be reversed as soon as external aid is curtailed, it seems international agencies have been successful in generating a policy debate about informal businesses in most developing countries (Drabek, 1987).

### **Three Myths About Government-Informal Businesses Dynamics**

#### **(a) The Myth of Homogeneity**

To better understand the nature of political dynamics between Third World governments and informal businesses we must begin by questioning the commonly held perceptions about both governments and informal businesses -- that they are homogeneous institutions with a clearly defined set of interests. Earlier in the report we described the heterogeneous nature of informal businesses. It is important that we recognize that governments too are not homogeneous: they comprise a network of various institutions with their own internal dynamics, separate agendas and, often, conflicting interests. The picture becomes even murkier when we include the larger political process in any country in which governmental institutions and bureaucratic behavior are influenced by politicians, powerful private business interests as well as "poor people's movements". A conceptual framework capable

of capturing the nuances of this multifaceted process is essential, if we are to propose how to alter the policy environment in favor of small, informal businesses.

One way to understand the nuances of policy formulation is to look for differentiation in what is commonly believed to be a homogeneous entity. For example, the term bureaucrats hides the differentiation among government employees some of whom may be in support of some types of informal businesses while others may be opposed to them. We must realize that bureaucrats are consumers too, which is why they may be supportive of enterprises that supply basic goods and services at low prices (Banck, 1986). Similarly, referring to "elite groups" may obscure the fact that there are urban and rural based elites whose inclinations to support or oppose informal businesses may be quite different. The published literature tends to indicate, in a very rudimentary way though, that rural elites are more opposed to policies which favor urban informal enterprises than urban elites.

Among the urban elite there may be further differentiation: the owners of large private firms which cater solely to domestic demands may be opposed to pro-informal-sector policies while exporters may be generally supportive of the same policies (Lomnitz and Perez-Lizaur, 1985). Or, it may be the other way around: formal private-sector firms catering to domestic demand may support policies which will formalize the informal enterprises and make them less competitive, while externally oriented firms relying on cheap subcontracting arrangements with informal enterprises may be reluctant to support their formalization. These sorts of differentiation are not predictable based on any theory; they take particular forms in each particular political and economic context.

#### **(b) The Myth of Government Opposition**

There is a myth that Third World governments in general are opposed to organization of informal-sector participants because such organizations would challenge the governments' primary interest in social control. The sketchy evidence from field research, however, indicates the opposite: that governments may prefer to negotiate with organized informal-sector groups, particularly if they are able to articulate a clear set of demands, than to react

to a mass of disorganized small businesses each with different problems (Sanyal, 1989).

This is not to say that governments are not interested in social control. In fact, governments may prefer to deal with organizations than to devise ways to control individual businesses. So, there is a paradox to be appreciated: informal businesses cannot negotiate better terms for themselves unless they are organized, but that very act also makes them more susceptible to cooptation and control.

### **(c) The Myth of Administrative Decentralization**

It is commonly believed by the proponents of informal businesses that the more decentralized the nature of public administration, the better it is for informal businesses. The implicit assumption underlying this position is that local authorities are likely to be more receptive to the needs and demands of informal businesses than the central authorities. However, the available evidence indicates that, in reality, the opposite may be true: that policies and legislation supporting informal businesses have generally originated at the central level; and conversely, the primary opposition to the implementation of such policies has emerged at the local level (Jhabwala, 1984).

In the case of Self Employed Women's Association (SEWA) in India, for example, the members, who are mostly petty traders and home-based producers, used to be harassed most by the local policemen till the traders became organized. They also faced various other problems -- ranging from paying unusually high interest rates on loans to losing large percentages of their profits to middlemen -- which were mostly concentrated at the local level. Moreover, it was not the local government which first provided a helping hand to SEWA; on the contrary, the local government often made it difficult to implement and enforce pro-informal-business laws enacted by the central government in New Delhi (Sabstad, 1982).

What explains this apparent paradox? First, we often tend to ignore the fact that local governments are not necessarily any less controlled by elite interests than central governments. In fact, the control by local elite of local decisions may be more difficult to

counteract than the elite control at the central level, which is usually riddled with intra-elite rivalries. Second, local formal-sector businesses are generally more threatened by competition from local informal businesses because they sell similar goods and services. Third, local politicians representing old power hierarchies based on caste, religion or ethnic groupings are generally hurt more by the emergence of new forms of organizations, such as those involving squatters or informal businesses. Finally, since informal businesses by definition are businesses that operate outside the legal and regulatory framework, their visibility at the local level threatens the legitimacy of the local state more than that of the central state. And, as a corollary to that, local governments do not benefit as much as the central government from institutionalizing informal businesses. Increase in tax revenues, as a result of formalization, usually is captured by the central government while the local government is required to pay for the infrastructure and services which are usually demanded by the formalized informal businesses.

#### **Formal and Informal Labor: Foes or Allies?**

According to the published literature on labor markets, formal and informal laborers are two distinctly separate groups with antithetical interests. This argument runs as follows: labor markets in developing countries are characterized by a strongly divided duality, where formal laborers are highly skilled, receive high and stable wages, and are protected by various labor laws, while informal workers are unskilled, earn low and unstable wages and do not receive any of the benefits of labor legislation (Sethuraman, 1976). This duality is attributed to a number of factors, including the political power of the organized formal labor force, which is referred to in the literature as the "labor aristocracy" (Arrighi, 1970).

The labor aristocracy, according to the published literature, is very protective of its privileges, and views the growing number of informal laborers as a potential threat to these privileges. The logic of this argument, currently popular with neo-classical economists, was ironically first developed by Karl Marx. Marx (1970) argued that informal laborers

constituted the "reserve army" of the factory owners who used them to discipline their laborers. The key assumption underlying Marx's argument was that there was an oversupply of labor and the informal workers were basically redundant to the industrial production system. But, these redundant workers could be used temporarily by the factory owners, if the formally employed workers demanded higher wages. In this scheme of things, the interests of formal and informal laborers were antithetical: because it was in the interest of the formal laborers to restrict the entry of informal workers to the labor market which could lower their wages; and conversely, informal workers saw their chances of joining the formal labor market restricted by the high wages that organized formal laborers managed to extract from their employers. The employers, Marx argued, would opt for labor-saving production processes as a result of such higher wages.

True, there have been some modifications made to Marx's original analysis. For example, Steel (1977) has argued that the levels of skills required in the two sectors are so different that formal laborers cannot be replaced, even temporarily, by "the reserve army" of informal laborers. Hence, the material condition for antagonism between the two labor sectors does not exist. Others have argued that antagonism between the two sectors of labor can only exist if each sector has full information about the other -- which, in reality, is not the case. Still others have pointed out that organized formal labor has been incorporated by bureaucratic authoritarian regimes in the elite power structure, and hence no longer feels the threat of being undermined by informal workers who remain largely unorganized (Davis, 1990). These kinds of arguments do not question Marx's original assessment that the interests of the two labor sectors are inherently antithetical, but try to explain why the inherent antagonism has not exploded into open and direct conflicts.

#### **Formal and Informal Laborers: Is there a Commonality of Interests?**

That formal and informal laborers' interests are not always antithetical, but may actually be largely overlapping under certain circumstances, is another possible explanation

for the absence of conflict among them. Though there has been very little empirical research specifically on this issue, some general findings about the informal sector, highlighted below, may be useful for our purposes.

First, research has indicated that not all informal-sector participants are interested in a job in the formal sector (Peattie, 1980). Moreover, many formal-sector workers would like to move to the informal sector to start their own enterprises, which they feel would enhance the quality of their lives, but cannot do so because of a shortage of capital (Moir, 1978). These findings undermine the commonly held notion that a formal-sector job is the ultimate objective of all laborers. One explanation for the counter-intuitive finding is that although the average income in the formal sector is generally higher than in the informal sector, some formal-sector workers earn less than the average informal-sector worker, and some informal-sector workers earn more than the average formal-sector worker (Webb, 1974). This explains why all informal-sector workers may not be envious of formal workers, and why all formal sector workers may not feel threatened by the growing number of informal workers.

Second, there is evidence that a growing percentage of workers may belong to both the formal and informal sectors. This trend can be attributed to the austerity measures currently being imposed in most developing countries. Austerity measures usually require wage freezing, while prices of basic commodities often increase in the short run. To counteract the decline in real income, many formal-sector workers may seek an additional source of earning in the informal sector. Though this may increase the competition within the informal sector and resentment on the part of some informal workers, it may also create a pool of workers who are equally interested in the well-being of both sectors.

Third, demographic studies of urban and rural poor households have shown that within the same household one member -- usually, a male -- may work in the formal sector while another member, generally a female, may either work on an informal job or run an informal business (Bhatt, 1988). With this type of intra-household earning arrangement, it is unlikely that laborers in either sector would feel much antagonism towards each other.

Fourth, we noted earlier that low-income formal and informal sector workers usually

live in the same neighborhoods and experience similar problems associated with lack of basic services. This may create a bonding among the workers which is stronger and more tangible to them than their envy for each other's employment status. This is supported by the ever-increasing number of neighborhood-based organizations in all parts of the developing world (Friedmann & Salguero, Ibid.).

Fifth: That a majority of informal sector businesses sell cheap goods and services which are bought by a large segment of formal workers creates yet another commonality of interest among them. It is vital for the health of informal businesses that formal-sector employees continue to buy from them; that means, it is in the interest of informal businesses that formal-sector employees earn a decent and stable income. This symbiotic relationship between formal and informal laborers has been well documented by Richman (1985). Based on her research of an organization of poor women who sold prepared food to factory workers in Bombay, India, Richmann showed how these women provided food on credit when these workers went on strike to demand higher wages. Richman pointed out that the informal workers did not provide food on credit as a gesture of solidarity with the formal workers, but because they were afraid to lose their old customers. The women vendors thought that if they did not provide food on credit, the factory workers would not come back to them after the strike was settled.

Finally, though informal and formal laborers belong to different production processes, they may, however, share some common concern about consumption-related expenditures. To put it another way, both labor sectors can be hurt by an increase in the prices of goods and services they consume, and that can serve as a basis of solidarity among them. This is not to say that the expenditure pattern of both sectors are identical, but rather that there are large segments of laborers in each sector at the lower end of income levels whose expenditure patterns may be quite similar. These laborers may occasionally join hands, as was the case in the recent food riots in Morocco, Tunisia, and some other developing countries (Walton, 1989). Although this sort of alliance is usually short-lived, the frequency with which they have been forming lately makes them an important factor for our purposes.

**Absence of Organizational Linkages Between Formal and Informal Laborers:**  
**Some Tentative Hypotheses**

If there are at least six reasons for collaboration between formal and informal laborers, why is it that there are no institutional linkages between them? Why is there no labor organization whose members constitute laborers from both sectors? In most developing countries, formal-sector laborers, particularly in industrial production and mining, are organized as trade unions. Though these trade unions may occasionally show sympathy for laborers in other subgroups within the formal sector, they are not known to have any relationship with informal workers' groups. Why so?

The most obvious reason is that informal workers are rarely well organized into groups with whom trade unions of formal workers can jointly work. As Peattie (1979) observed, there are some trade groups in Latin America; and in Africa, too, market women are known to be fairly organized (Nelson, 1979). However, even these sorts of groups are not organized in ways which are conducive for an ongoing relationship with large trade unions of formal workers. Typically, trade groups are city based, while formal workers' organizations are national in scope; trade groups are often loosely organized internally while trade unions are required by law to have a well-established internal hierarchy; and trade groups are usually much less financially stable than national trade-unions of industrial workers. Still, under certain conditions these problems may be resolved, at least temporarily. What cannot be resolved, however, is the problem that a vast majority of the informal workers are not even organized into trade groups, and the organizational resources required to bring them together are so large that not even nationally based trade unions of formal workers can afford them.

Informal-sector trade groups also may be reluctant to join an organization of formal workers, particularly if such an organization is already well established. This is contrary to the common perception that small informal trade groups could benefit by being part of a large, financially well established institution. In reality, however, informal trade groups

may be worried that by joining a large organization of formal workers, they will be 'swallowed up' and used by the organization without gaining much for their own members. In other words, informal-sector trade groups may be afraid of losing their autonomy while not gaining any concrete assurance that their agenda will be backed by formal-sector workers. Yet, without the support of a politically powerful, national-level organization, informal sector trade groups will not be able to influence national or even regional development policies.

This dilemma is apparent in the organizational strategies of informal trade groups, such as the Self-Employed Women's Association (SEWA) in India. SEWA is probably the most successful group of informal-sector women in India and had been approached by all the leading labor trade-unions in India to formally join them. In a personal interview, the leader of SEWA indicated that the organization was wary of such mergers because the trade union leadership was dominated by men and each trade union was closely linked with one political party. The SEWA leaders were afraid that if they joined any of the unions, they, as women representing poor women, would be dominated by the male leaders, who would force them to support the political party which sponsored the trade union.

Yet, SEWA truly needed financial and moral support to continue to grow and make an impact on national development policies which affected the well-being of female informal-sector workers. The route SEWA chose was to make temporary alliances with trade unions to push for particular issues of direct interest to them; but more interestingly, they sought financial and moral support from the International Labor Organization (ILO) in Geneva, and asked the ILO to speak with high-level Indian government officials for them.

At ILO meetings in Geneva, SEWA's representatives now sit at the same level with the representatives of the trade unions of formal workers in India. The SEWA leaders feel that this equality of status is a very important prerequisite for an alliance with formal workers on an equal footing.

## The Informal Sector and Political Parties

Since the informal sector in both urban and rural areas is growing in numbers, it is surprising that formal institutional linkages between informal workers and political parties are virtually nonexistent in most developing countries. Informal workers organized as trade groups or as part of neighborhood groups have been used occasionally by political parties during election years; but such contacts, motivated by immediate needs, have not developed into permanent linkages whereby informal-sector interests have been taken into account on a regular basis in the agendas of political parties. (Cohen, 1972). Both political parties and informal-sector groups must share the blame for this lack of institutional linkages with each other.

There are at least three reasons why political parties might have been reluctant to incorporate informal sector interests. The first and most obvious one is that traditionally political parties targetted only industrial laborers as a viable political constituency. Informal workers were thought to be in transition from being peasants to eventually becoming a part of the industrial workforce. And being in this transitory stage they were thought to be lacking political consciousness of the kind which industrial laborers had already developed (Cohen and Michael, 1973). Some political parties, usually on the left, even thought that because the informal workers operated small businesses, they were 'petty bourgeois' in their ideological orientation and hence, were prospective enemies of the industrial laborers.

Though this attitude has changed somewhat during the last decade or so, political parties established in the 1950s and 1960s are still reluctant to open their gates totally to informal workers. This is, in part, because the established party leaders may be worried that an influx of this new type of members may upset the political hierarchy within their parties. Or, they may feel uncertain whether they can really provide a common political platform that will be attractive to both types of laborers. Or, the problem may be simply logistical: Most political parties may not have the organizational resources to deal with

informal laborers, most of whom are disorganized and spatially scattered: And the few parties which have the resources may not feel the need for the informal laborers.

### Informal Laborers' Apprehension About Political Parties

The lack of institutional linkages between informal laborers and political parties may not be due only to the reluctance of political parties, but rather informal laborers themselves may be apprehensive about the benefits of such linkages. As we mentioned earlier, informal laborers in general do not subscribe to any particular ideology, either of the right or the left; and their political postures are mainly guided by their immediate interests. To be part of a political party may not allow the informal laborers the institutional flexibility required for such 'opportunism'.

That informal laborers should continue to pursue this strategy of non-allegiance has been the position of the Non-Governmental Organizations (NGOs), which have played a key role during the last decade in mobilizing informal laborers through various income-generating projects (Mann, C., et al., 1989). In defending their position, the NGOs usually argue that political parties in developing countries are controlled by elite groups who are not interested in assisting informal laborers. Some NGOs go one step further: they argue that the formal political process in developing countries -- particularly, the ones with authoritarian governments -- is totally corrupt and has no legitimacy. By participating in such a process informal laborers will only strengthen illegitimate regimes which are interested only in coopting informal laborers. As an alternative, NGOs have argued that they are raising the political consciousness of informal workers by teaching them non-violent ways of opposing the government and other "vested interests", who are to be blamed for the current problems of informal workers (Sanyal, 1988).

To be sure, there is some truth in what the NGOs claim; however, one wonders whether informal laborers can influence the policy environment by staying outside the formal political process. One may also wonder to what extent the NGOs' position on this issue is

affected by their desire to retain control over informal workers who participate in their projects. Are the NGOs' worried that they will become redundant if political parties are able to integrate the informal laborers within their organizational structures? The NGOs are likely to answer these questions by pointing out that in the politically unstable conditions which characterize most developing countries, informal laborers have nothing to gain and yet something to lose by joining political parties, even the ones in power. Because once these parties lose their power, either because of a military coup or changing alliances among the governing elite, the new regime is likely to repress informal laborers more severely than if these laborers had not joined the ex-ruling party.

### Informal Laborers's Political Strategies

Whether informal laborers as a group should join a political party must be a context-based decision, it seems from the limited evidence we are able to collect. If the context is that of a military government, without any prospect for free elections, informal laborers may choose a very different strategy than in a democratic country where more than one political party may be interested to gain their support. Another contextual factor is the nature of the relationship between the government bureaucracy and political parties. In the past, government bureaucracies -- particularly, at the local level -- created the most difficult problem for the informal laborers by using the issue of 'law and order' to restrict their access to space, markets, credit and other resources. Under those circumstances, informal laborers are known to have used the endorsement of politicians, without formally joining their parties, to openly disobey government regulations (Sarin, 1979). This sort of strategy requires a shrewd understanding of the relationship between bureaucrats and politicians - both, when they are in power and as opponents of the ruling party. Though it is less likely that politicians in power will endorse informal laborers' move to disobey laws and regulations, they may, at times, use the demands of informal laborers to discipline bureaucrats who work for them. For example, in the Philippines, the Minister of Housing

and Urban Development is known to have dismissed a bureaucrat who was responsible for administering a program of subsidized credit for the urban poor, after low-income neighborhood groups complained about corruption. Such complaints make it possible for politicians in power to firmly establish their authority over the bureaucrats, particularly if they are suspicious of the bureaucrats' loyalty to them (Laquian, 1969).

Let us return to the question of what political role informal-sector groups should be playing under authoritarian regimes if, as the NGOs advise, they are not to formally join the ruling regime. It is interesting to examine the Latin American experience of the last decade. When authoritarian regimes banned opposition political parties, the party members chose to operate through neighborhood-based or trade-based groups which provided a sort of political camouflage for them. In return, the party members were often instrumental in strengthening the organizational base of these groups and in helping them articulate their demands more clearly. Ironically, when the authoritarian regimes collapsed and free elections were held, the party members left the trade groups and went back to their political parties, thus diminishing the organizational strength of the trade groups. In other words, democratization hurt the interests of trade groups instead of bolstering them (Drake, 1988).

Under democratic regimes, it appears that informal-sector trade groups can benefit by formally joining the political process as power brokers if the competition for votes among the political parties is intense. But there are dangers too, in playing the role of a power broker. Nelson (1979) argues that since the informal labor force comprises different ethnic and religious groups, under a condition of intense inter-party competition for votes the solidarity of informal laborers may be undermined, with the various subgroups joining different political parties. Nelson (Ibid) also argues that if informal laborers as a group do join one political party, they may not still be legalized and formalized and given access to resources. Because the politicians know that it is the vulnerability of informal laborers which makes them seek political support, they are not likely to be eager to reduce informal laborers' vulnerability. In other words, it is in the interest of the politicians that informal laborers remain informal and hence dependent on them.

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