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# TO WHAT EXTENT CAN THE INFORMAL ECONOMY CONCEPT ADEQUATELY EXPLAIN THE DYNAMISM OF THE NON-FORMAL SECTOR IN DEVELOPING COUNTRIES?

## ABSTRACT

The informal economy exists in both developing and developed nations, though it is most often associated as an engine of economic dynamism in developing countries. The concept is generally defined as the sum of economic income generating activities outside of the formal economy, which are registered, tax paying and legal. Since the 1970s when the term first entered academic discourse, the informal economy conceptually evolved through several distinct phases starting with neoliberal, then to reformist and next structuralist ideology before the term outgrew its usefulness in the 1990s and turned into the 'social network' concept to understand why and how people operate outside of the formal economy. This paper argues that the discourse of the informal economy remains inadequate and ill-defined to deal with developing countries' policy dilemma on mainstreaming the informal economy.

*Key Words: informal economy, social network, neoliberal, reformist, structuralist, dynamism*

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## INTRODUCTION

The informal economy exists in both developing and developed nations, though it is most often associated as an engine of economic dynamism in developing countries. The concept is generally defined as the sum of economic income generating activities, excluding those that involve contractual or legally regulated employment or enterprises, which constitute the formal sector (Castells and Portes 1989: 12-13). The common examples from the informal economy include workers operating 'off the books' for cash, such as street vendors, construction workers, and taxi drivers. Often, informal businesses are small and family-run or run by a single entrepreneur. The concept is elusive because meanings mutate while being appropriated by different paradigms, disciplines, interests, and moments in history. Also, in developing countries, there is often no clear distinction between formal and informal sectors - large factories, and state-run enterprises have informal labour forces working beside their formal counterparts (Tokman 2001).

Also, as the world economy changed from the state-led domination of the 1970s to market-led economic forces in the 1990s, and now to an increasingly integrated and globalized world economy, developing countries experienced both formal and informal economic growth, despite doubts about the non-formal sector's existence (see Rakowski 1994b). International Labour Organization (ILO) statistics indicate that the share of the informal economy employment in the non-agricultural workforce ranges from 55% in Latin America to 45 - 85% in different parts of Asia to nearly 80% in Africa and it is growing (Chen, Jhabvala, and Lund 2002).[1] There has overdue debate among scholars to identify sources contributing to economies' informality or economic dynamism. Given this complexity and importance of the informal economy it is important to inquire whether and to what extent the informal economy concept can adequately explain the dynamism of the non-formal sector in developing countries.

This paper argues that the concept of the informal economy remains inadequate and ill-defined to deal with the dynamism of the non-formal sector in developing countries. Since the 1970s when the term first entered academic discourse, the informal economy conceptually evolved through several distinct phases. However, as each conceptualization addressed shortcomings of previous ones, conceptual inadequacies persist.

1 Agricultural employment is excluded because it is largely informal and would skew the results. Original data was taken from Charmes (1998).

The remainder of this paper follows two main sections – a theory section, and a case study section. The theory section reviews three successive conceptualizations of the informal economy and discusses their shortcomings. For case studies, the Mexican milk industry and the Nigerian footwear and garments industry are used to illustrate that even recent theoretical frameworks struggle to fully conceptualize the informal economy.

## THEORETICAL EVOLUTION OF THE INFORMAL ECONOMY CONCEPT

This section reviews the evolution of the informal economy concept in three main phases. In the first phase, the term 'informal economy' was coined and gained scholastic and institutional currency. The second phase outlines three major theoretical perspectives that emerged: neoliberal, reformist, and structuralist. It will shed light on their (ideological) assumptions about the informal economy's characteristics and its role in economic development and address some of their major shortcomings. The third phase discusses the ascent of the social network concept as scholars argued that the informalization concept had outgrown its usefulness.

## THE FIRST PHASE: LABELLING 'THE INFORMAL ECONOMY'

The concept's nascence traces back to the conundrum of surplus labour resulting from industrialization and the advancement of capitalist development in the early 19th century, which Marx (1977) referred to as a 'reserve army'. The language used to describe the growing labour surplus includes: 'marginality', 'abnormally swollen, over distended tertiary sector', and 'bazaar-type' (Moser 1978: 1048). These earlier terminologies connoted the idea that urban labour surpluses would eventually disappear with the rise of industrialization (Roldán 1985, Marx 1977). Neoclassical economists predicted a similar process - an assumption which remained prevalent in the literature during this phase (Lewis 1959, Rostow 1960).[2] The neoclassical economic theory which is based on faith over market power and the 'invisible-hand' to ensure economic efficiency, suggests that overtime the price of goods and services will be same in markets in a country. Marx's division of labour and wage differentiation will tapper away with economic development.

2 Rostow predicts that unemployment increases in the initial stages of development, but ultimately, disappears upon modernization (1960: 4-16).

That means there is one market for all. But that is not the fact as evidences from around the world shows that economic development has not generated adequate quantity and quality of jobs for all (Ocampo and Jomo 2007). In developing countries, increasing job insecurity and weak institutional support push people in alternative employment market – informal economy.

In the early 1970s, Cambridge anthropologist Keith Hart studied the urban labour market phenomenon in Ghana which survived without any formal employment (Hart 1973). This work coined the term 'informal economy', and gave its 'academic name' (Hart 2006). According to Hart, the distinction between formal and informal economies is 'whether or not labour is recruited on a permanent and regular basis for fixed reward' (1973: 68). He discovered that 'informal economic activities possess some autonomous capacity for generating growth in the incomes of the urban (and rural) poor' (ibid: 61). Hart saw it as 'the possibility of a dramatic "bootstrap" operation, lifting the underdeveloped economies through their own indigenous enterprise' (ibid: 89).

Later, the ILO (1972) took on the surplus labour issue and published report on Kenya where the informal economy was treated as a euphemism for poverty and a cushion or buffer for third world unemployment and economic problems (Roldán 1985). Both Hart and the ILO suggested that significant industrialization would build up the formal sector, creating labour demand and income opportunity, thus absorbing the informal economy into the formal one (Hart 1973, ILO 1972).

Further empirical research on the global economic and political dynamics during the 1980s signalled that the informal economy continued to grow, despite predictions otherwise (Moser 1984, Roldán 1985).[3] In the context of global economic crises and restructuring, neoliberal economic ideologies acknowledged the informal economy and encouraged conditionalities on aid to developing countries to promote formal employment by promulgating state deregulation, free-market development, and curbing social expenditure (Portes 1997). By the mid 1980s, it became evident that the informal economy was 'here to stay' (Portes and Sassen-Koob 1987, de Soto 1989), ushering in the next conceptual evolution.

3 For details how the informal economy grows in the context of neoliberal economic policies, see Moser (1984), Portes (1997), Portes and Schauffler (1993) and de Soto (1989).

## THE SECOND PHASE

At the end of the 20th century, as poverty reduction and globalization gained intellectual attention, the informal economy gained new currency. Two main consensuses were reached in the late 1980s with regards to the informal economy's definition and the extent of its importance at national and global levels. The first definition that was agreed upon was that of 'a set of income-generating activities which involve legal goods but the activities themselves lay outside the domain of government regulation' (Castells and Portes 1989: 12) which rectified the early gap in bringing in the income generation dimension. The second consensus considered reconceptualization of the informal economy as a central and dynamic feature of the contemporary markets and economic development (Castells and Portes 1989, Standing and Tokman 1991, de Soto 1989). Three leading perspectives stemmed from the renewed consensus – neoliberal, the ILO reformists, and structuralist – though ideological distinctions remain with regard to the theories about its expansion and the role of the state.

### Neoliberal: Hernando de Soto and the World Bank

The neoliberal perspective, championed by the Peruvian economist Hernando de Soto (1989), argues that informality is a popular economic response to weak governments and states.[4] This argument soon gained popularity among neoliberal economists, policy advisors in the World Bank (WB), and IMF, and non-government organizations (Chen 2004). de Soto saw 'entrepreneurial dynamism' as people's 'spontaneous and creative response to the state's incapability to satisfy impoverished masses' basic needs and to the system which has 'traditionally made them victims of a kind of legal and economic apartheid' (ibid: v-ix). The impediments include bureaucratic red tape, lack of property rights, and difficult accessibility to productive resources like finance and technology (de Soto 1989, 2000, 2001). He proclaimed that the informal economy creates wealth and opportunities like employment, housing, credit, and social support for the poor, which would not otherwise be created by the state, albeit unrecognized and unmeasured, and should be recognized as a genuine alternative path to development (de Soto 1989, 2001). Thus, the informal economy is seen to parallel the formal economy. He suggested neoliberal policies to free the informal economy from the state apparatus (2001: 14).

4 Weak states are those that lack the power to enforce laws and regulations on its citizen.

Critics point out that although the majority of policymakers for developing countries, i.e. the WB and IMF, subscribe to this perspective, they offer neither practical solutions on how to incorporate 'the other path' into mainstream development nor do they have evidence which proves that the informal economy can overcome the problems of a weak government apparatus under market liberalization (de Olarte 2001).

## The ILO Reformist View

In the early 1990s, the ILO subscribed to the view that the growth and dynamism of informal enterprises among the poor was primarily a survival mechanism of labour under market liberalization and not, as suggested by the WB, a result of weak state support. Industrialization failed to absorb surplus labour into the formal economy, forcing alternative economic pursuits (Standing and Tokman 1991).

The ILO perspective made two main contributions to the discourse. The first is that the informal economy is a survival strategy for developing countries' excess labour, which takes informal jobs, essentially equating informality with poverty (Tokman 1982, 1989). It equates market liberalization as a negative force lowering GDP growth rates of regions like Sub-Saharan Africa, Latin America, and the Caribbean. Firms in the formal sector contract by retrenching employees in order to cut down their operating costs (Ranis and Stewart 1999). Retrenched workers then seek alternative employment leading to growth in the informal businesses (Tokman 2001, ILO 2004).

The second contribution is that the informal economy is neither illegal nor legal, but rather a predominantly grey area (Tokman 2001). For example, a home-based shop may legally register, but conform to no other legal obligations, or outsourced home-workers in Latin America (Standing and Tokman 1991). Also sometimes an informal company provides incomplete or inaccurate information to lower the licensing cost, evade tax or high interest rates. The main reason for this grey area's existence is that it seems to offer higher income potential through pre-emptive development for the poor (Tokman 1992).

However, the informal economy's dynamism is seen as dependent on the formal economy development. Therefore, from the policy perspective the government is advised to promote growth of the formal economy and to facilitate the informal economy's integration into the formal economy through modern sector expansion, decent work[5] and

5 See (ILO 2007) for more information on decent work.

income rationing (Tokman 1992, 2001). Nonetheless, this perspective while focusing on poverty reduction, it overlooks the rationale and alternative dynamism of rich companies for entering into the informal sector to avoid taxes and other expenses (Meagher 2005).

## The Structuralist Perspective

The structuralist perspective is sociologically rooted in neo-Marxist and dependency traditions (Rakowski 1994a, 1994b). This approach seeks to describe the informal economy as a unified national and global economic system encompassed by a dense network of relationships between formal and informal enterprises (Portes 1997, Roberts 1991). The dynamism of labour migration to the informal economy, for example, is conceptualized as part of a set of complex consequences of globalization that create diversified and discriminatory benefits for different classes. This will be elaborated more later in the paper.

The structuralist approach made two main contributions to the informal economy discourse. First, the informal economy's function is to support capitalist structure which is supported by globalization to maintain market competitiveness as producers strive to reduce production costs, especially wages, often with government support (Castells and Portes 1989). For example, research on Guatemala (Portes and Schauffler 1993) shows how several US clothing companies provide local contractors with cloth, design patterns and occasionally with loans, but with no social security. These informal contractors use the manual labour of Indian women who sew for wages which are significantly below the market price. Similar case studies on different industrial sectors reveal that subcontracted informal activities are concealed in official formal sector documents (Portes and Schauffler 1993).

A second major contribution by the structuralists is a multiplicity of reasons why the informal economy is growing and crucial for development. The informal economy retains a higher number of workers than the formal one because individuals' utility of income is higher in the informal economy and there is a large market of cheaply produced goods and services (Roberts 1991, Centeno and Portes 2003). Capitalists also employ informal labour to reduce costs when compared to employing formal labour (Castells and Portes 1989: 300-306). With the development of globalization in developing countries, outsourcing in the informal economy creates dynamic sources for informal producers to take advantage of growing demand of their labour (e.g., in the garments, footwear, and toy industries). Like the ILO perspective, structuralists recognize that this dynamic source is not without cost, namely, labour exploitation. Therefore, government intervention is essential to limit the extent of labour exploitation and provide legal protection (Portes 1997, Centeno and Portes 2003).

A critical shortcoming of the approach is the impossibility to translate the complexity of informalization using an all-encompassing definition into quantitative data for econometric analysis (Chen 2004). While it would be useful to quantify the informal economy including subcontracting, labour recruitment, expropriation of production costs and tax evasion (Portes 1997), the complexity of analyses prevents it.

## THE THIRD PHASE: THE SHIFT TO SOCIAL NETWORKS

'… [j]ust as the informal economy concept reached its peak, it was…dropped by its most prominent scholars in favour of the concept of social networks' (Meagher 2004: 7). The Spanish sociologist Manuel Castells defines social networks in the context of the informal economy as:

> *A network is a set of interconnected nodes [such as social ties like kinship, friendship, communal, ethical or religious affiliation and personal contacts]. …Networks are open structures, able to expand without limits… Networks are appropriate instruments for a capitalist economy based on innovation, globalization, and decentralized concentration; for work, workers and firms based on flexibility, and adaptability….*
>
> (Castells 1996: 470-1)

What was the impetus behind the shift? Circa 1994, scholars, like Portes, Roberts, Gereffi and others realized that existing theoretical perspectives failed to conceptualize the internal diversity, dynamism, and regulatory processes of the informal economy (ibid). That means the accessibility to resources like capital, markets, and employment opportunities that happens independently of, and often outside, the regulatory framework of the state, was not critically problematized.

The social networks concept helps to address this shortcoming and attempts to illuminate the ways in which informal activities are internally regulated. Moreover, scholars like Tokman (1992), Cheng and Gereffi (1994) recognized the heterogeneous and blurred relationship of the informal economy within the global economic system and argue that the formal/informal divide had outgrown its usefulness (Portes 1994: 432, Hart 2001:

155). Particularly, the social network concept gained prominence because the prediction that the roles of social relations and the constraints imposed by social institutions, such as gender and religion, will disappear with economic development (Myrdal 1968: 103-106) has proved incorrect, just as the assumption of the informal economy's disappearance proved to be wrong in the 1980s (Harriss-White 2005). In global economic structures, social institutions and relationships function as an alternative form of economic regulation (Castells 1996, Roberts 1994, Meagher 2005).

## Social Networks' Characteristics

During this phase, social networks became the new consensual analytical tool to explain dynamism in developing economies (Meagher 2006). There are three main characteristics of social networks.

First, the social networks approach focuses on issues of trust, flexibility, and social relationships that provide richer insight into the conditions in which state regulations are not needed to regulate economic behaviour (Mingione 1994, Portes 1994, Roberts 1994). Commonly, this concept is referred to as 'social capital'.[6] Most literature treats social capital as a social asset (stock of social, psychological, and emotional assets) that contributes to a flow of benefit to individuals, or to a community through its social networks (Fukuyama 2001, Putnam 2000).

Second, under weak regulatory and institutional frameworks, sometimes social networks can be a vehicle for corruption and opportunism in excuse of economic efficiency behind the shadow of weak state (Powell and Smith-Doerr 2005). Such social networks can produce negative consequences, identified as negative social capital (Powell and Smith-Doerr 2005).

Third, the social network approach has interdisciplinary roots, deeply influenced by the institutional economics and is qualitative by nature, which provides better contextual understanding (Powell and Smith-Doerr 2005). The informal activities are products of social, cultural, economic, and historical forces comprising what Ellickson (1991) calls 'order without law'- referred to more cynically by Sturgress (1997) as 'order for free' (cited in Meagher 2005: 220).

6 The term "social capital" was coined by the American sociologist James Coleman (1988) who associates it with the quality and depth of relationships between members of a family or a particular community.

It is also argued that social network concept is heterogeneous in nature and this is a major theoretical weakness as how to apply and use this concept to analyze empirical evidence from developing countries (Fukuyama 2004). In the later section of this essay, two case studies are presented which tries to encapsulate the difficulties of applying this concept in the real term. Although this is not an extraordinary shortcoming in contemporary interdisciplinary social studies, different approaches to social networks attach new meanings to the concept rather than narrowing it down (Meagher 2004: 17). However, with the flexibility of application, the concept can provide a more 'ideological than analytical' conceptual understanding on the informal economy. The following section is an analysis of two case studies, where the respective authors have treated the informal economy within the context of social networks to explain why and how certain industries in certain regions expands while declines in others. The first case study analysis is from Mexico and the second one is from Nigeria.

## CASE STUDIES

To explore the intellectual challenge of grasping the informal economy's dynamism in developing countries, the next section uses two contrasting case studies. The informal economic factors considered in the two case studies' analyses are different. On one hand, social networks are analyzed as a productive force enabling the success of the informal economy, whereas on the other hand, focusing on socio-political and historical contexts can lead to 'a conflictual terrain where informal network rights and rules of assistance are fought over and where divisions may be both reproduced as well challenged' (Lourenco-Lindell 2002: 245). The objective here is to show the readers that, depending on the angle and focus on the informal economy, social network can perpetuate completely different picture.

This section analyzes two cases studies of non-formal economic dynamism: Cruz et al.'s (2004) work on Mexico's milk industry (2004) and Meagher's work on Nigeria's footwear and garments industry (2006). Brief synopses of the studies are provided to give context to the subsequent analysis. The summaries are used to highlight differences between the authors' application of the social network concept to analyze economic dynamism in the informal economy, while they may share to an extent similar socio-political factors of dynamism.

Cruz et al. (2004: 501) studied small-scale milk producers in Mexico's centre-west, Los Altos de Jalisco and Aguascalientes regions, which are home to 15% of the country's milk producers. The vast majority of producers have less than 30 cows, categorizing them as micro-enterprises (ibid). These producers supply milk to multinational enterprises like Nestle and to the national company Sello Rojo. However, access to the buyers differs across the regions, resulting in distinctly different social networks. Specifically unequal and adversarial ones 'drive people and companies to foster different kinds of clientelism that link individuals through social and class lines' to compensate for any economic setbacks that the relationship may perpetuate (Cruz et al. 2004: 500).

Social power is defined as the capacity to influence the decisions of others (ibid). In this case, the hierarchical social networks, state authorities, and multinationals (Nestle) control over the supply chain affects economic gains of the local milk producers. The two regions social networks have developed to different degrees based on the strength of their social capital, which influences access to productive resources and economic opportunities. This case study examines how small producers from these regions can increase bargaining leverage and power over multinationals by organizing associations and vertically engaging with the state.

The caveat of the next case is that not all social capital is strongly positioned to produce optimal results. Meagher studied informal footwear and garments manufacturing clusters in the town of Aba in south-eastern Nigeria. Expanding on hypotheses that African societies lack social networks because of cultural incapacities, historical disruptions of colonialism, and rapid urbanization (Fukuyama 2004, Granovetter 1995), Meagher adds socially embedded politics realized through state apparatus and influences of globalization to the analysis. Applying these factors, Meagher argues that Nigeria encouraged the formation, not of corporate trading networks, but of 'broad multiplex networks' organized around individual needs rather than common commercial values. The industry developed over a period of thirty years through a common system of market regulation, a unique apprenticeship system, and a source of employment for home-workers outside of the state influence. Meagher also examines the negative side of the social networks by illustrating how actors in the informal economy in the shadow of a weak state and under pressure of globalization can be subject to social liability and a source of exploitation which can result in decline in the manufacturing industry.

## DIFFERENCES IN CASE ANALYSIS

Both case studies highlight exogenous and endogenous sources of economic dynamism. Nigeria and Mexico underwent market liberalization and state restructuring in the 1980s. In both cases, the role of the state in the market was reduced, as was the growth of the informal economy. Also, the market liberalization and the reduced role of the state were treated as exogenous sources for economic dynamism in the informal economy, as the section 2 discusses the underlying theory behind it.

Cruz et al. (2004) describe how milk producers entered the grey zone between formal and non-formal as they started to supply milk to Nestle. Later, the national company Sello Rojo vied to outperform Nestle, thereby increasing demand in the Mexican milk market. As business grew, the producers of Jalisco and Aguascalientes faced multifaceted implications from competition amongst themselves for productive resources like capital, credit, milk cooling technology, and so on to promote production. The Aguascalientes region fared better than Jalisco because of its producers' relationships with the state apparatus, which as Portes et al. argue, informal sectors need not always develop outside state oversight, but possibly with state acquiescence (1989: 27). The difference in strength and embedded power relationships in the regional social networks with the local Mexican governments significantly affected the regions' growth capabilities.

In the Nigerian case, the informality in Aba was not to avoid legality, rather it developed as an alternative regulatory framework to structure productive organization under a predatory state. Market liberalization was key incentive for its growth in this context. As the state is incapable of creating sufficient employment opportunities or even structurally accommodating all economic activities, the footwear and garments industry flourished in the state's shadow, employing over 57,000 people (Meagher 2006: 7). Market liberalization resulted in wider supply channels, distribution, and financing that promoted rapid growth of the sector, which was once dependent on social networks for credit and trade. New informal institutions of credit and long-distance trading systems developed. This linked producers with networks of input and output traders from other communities.

Two endogenous factors are identified in these case studies as sources of dynamism. Firstly, small-sized firms are critical feature of dynamism. In general there is a strong, positive, empirical relationship between firm size and the degree of adherence to government rules and regulations, especially ones involving labour (Portes 1994: 439, Tokman 2001: 47). A small firm size reduces production costs while creating adequate economic livelihoods for impoverished agents and easier mobility. Both cases discussed the small sizes of the respective enterprises, but analyzed it differently. For Cruz et al. (2004), size was a quantitative observation to illustrate differences in power dimensions between regions, with Jalisco having smaller groups and size of producers than Aguascalientes. Concomitantly, Aguascalientes' producers' higher bargaining power with government agencies and Nestle was connected with a larger firm size. Alternatively, Meagher explained small firm size as more of an outcome of labour's relationship with cost and technical knowledge, which are subject to a high degree of specialty. Employment relationships are characterised by home-work rather than factory-work, transitory apprenticeship employment rather than permanent employment, and social labour relations rather formal ones.[7]

Secondly, the forms of social relationships play a critical role in both case studies, though the extent to which they were analyzed shows theoretical deficiencies of the social network concept. Cruz et al.'s (2004) work illustrates that social networks consist of a set of export-oriented, horizontally-integrated, inter-dependent, family-based micro-enterprises. Via social networks, producers and manufacturers acquire information about each other, enabling resources within networks to be utilized more productively. Also, the social networks provide greater control over purchase costs and sale prices by organizing productive associations with other stakeholders. In absence of cooperative efforts, global milk buyers like Nestle are price setters and transfer costs down to producers.[8] However, Aguascalientes producers enjoyed higher leverage on price bargaining than Jalisco producers due to differences in the nature of their social networks. Both regions' producers shared similar socio-economic characteristics, but social capital was stronger in Aguascalientes than Jalisco. While Aguascalientes had strong ties based on kinship, friendship, and godfathership, Jalisco had weak ties based on business associations that stemmed from pressure of globalization. Access to government officials through social networks were critical to Aguascalientes' growth, where such long-established networks were missing in Jalisco's milk producers' community. The networks that did exist were 'semi-clientilist' in nature, so the overall community did not flourish. The successfulness of networks determined opportunities, competitiveness, and protection from Nestle's and other competitors' prices (Cruz et al. 2004: 517).

7 For more on home-workers' relationship in the non-formal sector, see (Appelbaum, Felstiner, and Volkmar 2001: 89-90, Cheng and Gereffi 1994: 201-203).
8 See Gereffi and Humphery (2001) for details on buyers-driven global value chains.

Meagher's case study utilizes social networks within the historical and socio-economic contexts of the changing political nature of the Nigerian economy under market liberalization. It illustrates how social networks use their capital to exploit information (footwear making specialities), labour, and social relationships for their individual economic benefit under intense pressure of globalization.

Nigeria's society and culture changed as globalization penetrated the manufacturing sector as Chinese-shoe import flood the market in the shadow of the weak state. Market liberalization triggered intense competition, extreme pressures on livelihood, and rapid entry of outsiders in the local informal cluster, whereby trust, reliability, and relationships among producers, creditors, and distributors deteriorated. The new business culture became profit-driven through non-differentiated products and cost-savings by exploiting workers and apprentices. Essentially, the exploitation of social ties and relationships became the new norm.

The state was unable to protect against this exploitation and even contributed to it. While political and economic reform evoked changes through the dynamism of social networks in the non-formal sector, the resulting arrangements were not improvements. The Nigerian case study demonstrates that weak ties can be easily victimized by profit-seeking nodes or the whims of politicians. In this case, political manipulation worsened the quality of social networks. For instance, as associations of informal firms spent more time on conflict resolution, they also spent more time appealing to the state to for protection against exploitation that the state should have already protected against. Under clientelist relationship, unlike in the Mexican case, Nigerian politicians manipulated poor producers to serve their own personal and political agendas (e.g., mobilizing votes), rather than to address producers' interests. Over time, this force turned into another source of violence and insecurity in the increasingly fragmented and vulnerable manufacturing society of Aba (Meagher 2006).

In sum, here it shows how these two case studies authors approached the analysis of the informal economy's dynamism differently. For Cruz et al. (2004), 'social-power' is the major explanatory variable. For Meagher, it is politics and the changing nature of businesses. Both studies recognize the state's role and the effect of globalization, though they explain differently (positive semi-clientelism versus exploitative and negative social networks), thereby leading to different conclusions. Finally, while developing countries are slow in strengthening its regulating frameworks to buttress the productive units, the countries are rapidly globalization and the social networks are increasingly becoming the fill-in for the institutional and political gaps in the developing economies. The social network concept is not a strict one, rather a multi-variant concept that needs further clarification.

## CONCLUSION

The question posed at the beginning of this essay was whether the informal economy concept adequately explain the dynamism of the non-formal sector in developing countries. This essay first shows that the concept of the informal economy remains inadequate to explain the dynamism of the informal sector in developing countries from its origin, so the concept developed and evolved over time to overcome the shortcomings of each preceding conceptual phase. The next section substantiates this argument through two case studies that favour a more nuanced and contextual analysis that traces the way in which social networks have been shaped by cultural identity, history, power relations, and relations with the state. These case studies illustrate both the developmental and dysfunctional elements of social networks.

Finally, despite its shortcomings, social networks are an important tool to understand the dynamism of the non-formal sector in regards to market liberalization and the role of the state. The development of institutional approaches to consider all the other social, political, and historical elements permit a precise institutional examination of the developmental implications of contemporary informality, even in a world of market liberalization and regulatory bricolage (Meagher 2006). Rather than blaming developing countries for market failures or neo-liberalization policies, the institutional perspectives of informal economy suggest that productivity and income as responses to survival strategies, that people would accomplish very little through productive modernization. Furthermore, the conceptualization of the social networks in efforts to understand how people survive under predatory, or weak or malfunctioning weak states, helps to fill in the gaps between formal and informal economy the era of globalization.

From the policy perspective, it is important to agree on a theoretical framework for scholars to examine contemporary works on anti-poverty interventions whether led by individuals, by the families or the community. Also, it important to consider the realities of informal dynamism, negligent or weak states' apparatus, and growing global market stress that penetrates every sphere of life. Most of the informally operating economic units, in which regular labour relations have no place, and which operates in such a small scale with low income range that compliance with administrative regulations and tax law is hardly feasible. The strategic options seeking to formalizing informality should concentrate on the productive units of the society whether they are formal or registered and help them modernize and improve productivity through structural supports like access to credit, legal system and provide training. Those who criticize that such policies are difficult to implement, for a lack of quantitative measures should not forget, how China and India raised at the highest level of productivity with its massive informal economy. Despite the limitations on data collection in developing countries, qualitative analysis of the informal economy is plausible, so as it is possible to integrate informal economy in the equation of economic development.

> *The issue is not one of regulation per se but of the form of regulation. All markets are regulated… so the issue is the balance between formal regulation based, ultimately, on the state, and informal regulation based on personal relations such as those of kinship, friendship or co-ethnicity.*
>
> (Roberts 1994: 8)

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