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Linkage to Dynamic Markets and Rural Territorial Development in Latin America

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Summary. — Linkage to dynamic markets is a key factor in understanding why different rural territories in Latin America perform differently. This paper combines two conceptual frameworks (from the new economic geography and economic sociology) for an in-depth analysis of the mechanisms that operate in this linkage and to identify key factors that allow for inclusive economic development. This analysis considers three rural territories that exemplify market linkages frequently observed in Latin America, where, although high transaction costs and limited access to financial capital prevail, other types of capital (social, cultural, and human capital) available to rural dwellers can be mobilized.

Key words — dynamic markets, rural development, territorial development, Latin America

1. INTRODUCTION

Although connection to markets alone is not sufficient for achieving sustained economic growth, there is growing consensus that markets play a critical role in promoting economic growth in rural territories in developing countries. Based on a series of 20 case studies in rural territories in 11 Latin American countries, Berdegué, Bebbington, *et al.* (2012) conclude that the likelihood that territories will enjoy inclusive and sustainable economic growth dynamics depends on "...the way in which structures, institutions and forms of agency interact in a small group of critical domains:" the structure of access to and use of land and other natural resources, connection with cities, productive structures, and their interaction with markets, and the nature of public spending and investment (Berdegué, Bebbington, *et al.*, 2012). According to the authors, this is not a linear relationship; rather, these elements interact, blocking or favoring processes of social change. In this paper we focus on one of these domains: the connection of rural territories to dynamic markets (markets that are large enough and have enough agents and transactions to stimulate sustained growth for prolonged periods of time (Berdegué, Bebbington, *et al.*, 2012). Based on the analysis of three case studies we illustrate the role of traditionally overlooked factors, and their interaction, in shaping the impact of such a connection on achieving—or not—inclusive economic development.

The aim of this paper is to understand how the access to dynamic markets occurs in three rural territories inhabited by people with low levels of economic resources and how the benefits derived from that access are distributed. In order to do this we use theoretical categories and tools drawn from the so-called New Economic Geography and Economic Sociology theories. This combined framework hinges around addressing who the key actors are, what types of capital they mobilize, and what changes facilitate access to capitals, as well as identifying the spatial heterogeneity of capital endowments within the territory. Furthermore, we seek to understand why and how linkage with markets occurs, the historical origins of this process, and its relationship to a suite of tangible and intangible factors. As discussed in the following section, the two theoretical frameworks identify different sets of tangible and intangible factors, which we analyze in the paper showing how they interact and configure specific economic and social structures that account for the economic dynamics that those territories experience. Even though advancing theoretically goes far beyond this empirical paper, we illustrate the importance of taking both approaches into account and emphasize the need for further theoretical developments that thoroughly integrate the two theoretical venues into one synthetic framework.

The analysis performed in this paper focuses on three case studies: Tungurahua, Ecuador (Hollenstein & Ospina, 2013), Valle Sur-Ocongate in Peru (Asensio, 2013), and the interior drylands of O'Higgins in Chile (Azócar, Lizarralde, Mendoza, & Ramírez, 2013; Modrego, Ramírez, Yáñez, Acuña, Ramírez, & Jara, 2012). The selection process of these studies is explained in Section 3, and it was guided by the two theoretical frameworks mentioned before. All three cases focus on rural territories where the average inhabitant lacks financial capital and thus, in order to successfully connect with dynamic markets, he or she needs to mobilize other types of capital instead. Although the three cases show improvements in income inequality indicators, the discussion that follows illustrates the importance of examining gendered, ethnic, and other dimensions of inclusion that tend to be affected, positively or negatively, in processes of linkage with dynamic markets. Furthermore, these territories represent, respectively, three types of "successful" linkages with dynamic markets that are commonly observed in rural territories in the region: (i) historical linkages with dynamic markets located within and outside the territory, with structural inertias in their economic

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and social configuration; (ii) linkages with new markets through product differentiation based on the cultural capital of rural dwellers; and (iii) linkages with dynamic export markets through the entry of large corporations into the territory; in this third case, benefits for the local population are basically channeled through the stimulation of labor markets.

2. CONCEPTUAL FRAMEWORK

In this section, we review the literature on rural development and markets and discuss the conceptual contributions that are most important for our study. We argue that the integration of two particular theoretical frameworks enables us to analyze our case studies and draw initial conclusions about some of the mechanisms through which rural households can gain access to dynamic markets in ways that combine growth with a decrease in inequality. On this basis we identify some of the challenges that may be faced in this process and the policy lessons that can be learned from those territories' experience. It is worth emphasizing, however, that this is an empirical paper and further theoretical work is needed to elaborate a general theory about the role of market dynamics in inclusive development of rural territories.

(a) *Recent trends in rural development*

A review of the specialized literature shows that studies of rural development tend to focus on North America or Europe, and to a much lesser extent on the experience of Latin America. Despite similarities to Latin American rural territories, therefore, their usefulness for this study is somewhat limited. One of the main exponents of this literature, Bernard Kayser, notes that the key to recent development in rural areas may lie in the population factor and the effects of the increased wealth of society in general (Kayser, 1991). With regard to the first factor, Kayser notes two central aspects. The first is associated with changes in demographic flows, with an end to the generalized exodus seen in the second half of the last century, and stresses the heterogeneity of population mobility and migration. Currently, small and mid-size cities in predominantly rural regions not only retain their population, but also attract an urban population unable to find job opportunities in large cities, which are now affected by industrial unemployment and a high cost of living. The second demographic aspect mentioned by Kayser is the aging of the population, which accentuates the role of rent transfers and demand for rural services in the process of making decisions about a place for residence.

Kayser's second factor, the increased wealth of society in general, operates through two channels. The first is increased investment in the physical and virtual connectivity of rural regions. The second is the change in consumption patterns in society in general, with a downward trend in spending on food and increased expenditures on activities such as tourism and leisure.

The main consequence of this series of changes is that rural regions stop being mere exporters of primary goods and begin to capture urban rents in various ways: through rent transfers, the sale of services, or new forms of social use of natural resources (tourism, second residence, or energy production) (Favareto, 2007).[1] As the following section will show, and as indicated in the synthesis study of the first stage of the Rural Territorial Dynamics Program (Berdegué, Bebbington, *et al.*, 2012), these factors are present, to a greater or lesser degree, in various rural territories in Latin America. Although in most cases there is a process of aging of the rural population, rural territories that are currently growing offer economic opportunities for young people, slowing the emigration process and strengthening the diversification of economic activities. The linkage of rural territories with dynamic intermediate cities has also created opportunities for rural households in the provision of tourism services or in local agricultural production.

Notwithstanding the importance of analyzing recent trends in the rural development of high-income countries, which coincide to some degree with the Latin American case, this literature does not offer a theoretical framework for an adequate characterization of rural dynamics in Latin America[2], since it does not incorporate key characteristics of Latin American territories such as the absence of financial means among rural dwellers, the significant gaps in infrastructure and basic services between rural and urban areas that remain despite the increased public investment, among others. More importantly, as will be clear when we discuss the case studies, this literature does not fully take into consideration cultural and symbolic features of rural societies that are typically embedded in economic processes in Latin America. Below we discuss the contributions of two conceptual frameworks that do incorporate some of these features.

(b) *Toward a conceptual framework: contributions from Economic Sociology and the New Economic Geography*

To understand the mechanisms by which rural households in growing territories gain access to dynamic markets, we seek to combine two theoretical frameworks: the new economic geography and economic sociology.

(c) *New economic geography and dynamic territories*

One theoretical approach that has strongly influenced studies of markets and regional development is that of the New Economic Geography. This theory highlights the importance of economies of agglomeration, which emerge from the interaction among economies of scale, transportation costs, and market size (Krugman, 1991). Within the framework of this paper, this approach helps us understand why the presence of a city "near" the territory helps explain why certain spaces are more dynamic than others. In particular urban centers increase market size for both production and marketing of goods and services. This theoretical framework also recognizes that property structures in the territory can have differentiated effects on economies of scale, making economies of agglomeration more or less viable. Finally, the approach recognizes that providing an adequate infrastructure of public goods and services can play an important role in making economies of agglomeration viable.

In this line of argument, various research efforts have identified the role of transportation costs in determining the comparative advantages of rural areas (Kilkenny, 1998). It has also been shown that economies of agglomeration can configure particular spatial arrangements in rural areas (Goffette-Nagot & Schmitt, 1999). In particular, these authors show that a minimum city size is needed if the linkage of a rural area with that city is to stimulate a degree of economic dynamism through the development of markets for secondary services.

Essentially following this conceptual framework, Von Braun (2007) explores the infrastructural and institutional barriers that limit the creation of optimal linkages between rural territories and urban areas. Von Braun analyzes these barriers in the current context of transformations characterized by: increasing trade and capital flows stimulating the food and agricultural chain; the development of information technologies promoting the emergence of new institutional market arrangements; and the growing decentralization of government structures that involve both central and local government agencies and private investors in regional development and inter-regional competitiveness. Meanwhile, Fan, Chan-Kang, and Mukherjee (2005) distinguish three types of arguments that explain how territorial relationships develop. The first focuses on geographic attributes that determine comparative or absolute advantages. The second argument centers on the existence of linkages (forward or backward) that cause the agglomeration of certain activities (Puga & Venables, 1996); and the third argument is related to urban biases in public policies regarding prices, taxation, investment, and expenditures.

One critical issue is the way in which various public and private assets complement each other in different institutional contexts. De Janvry and Sadoulet (2000) show the importance of complementarity between land and institutions, and Escobal and Torero (2005) between public and private assets. These studies show that not only is it the provision of specific assets, such as education or land, that matters but also the extent to which these assets are complemented by the provision of public goods and services. Where otherwise favorable conditions exist, the absence of a limiting factor can be critical, to the point of impeding the establishment of favorable linkages with product and factor markets. If the constraints are severe, the transaction costs could even mean that certain transactions are not feasible. The existence of complementarities among the various types of capital (private, public, natural, social, political), on the other hand, clearly shows that endowments of natural capital alone do not generate economic growth. In addition, Marcouiller, Kim, and Deller (2004) note that development based on the exploitation of natural capital through tourism can have different distributive impacts, depending on the institutional arrangements established for the exploitation of resources.

Although studies based on the new economic geography clearly show the role of tangible or "hard" factors in improving a region's opportunities to connect with dynamic markets in ways that induce diversified growth, Krugman (2011) himself acknowledges that explanations based on the new economic geography are partial and tend to minimize the role of other "invisible" external economies, such as information externalities (*spillovers*). Also, Hadjimichalis highlights the tendency of Economic Geography to disregard non-economic factors despite the acknowledgment that economic activity is "socially, culturally and institutionally situated" (Hadjimichalis, 2006:692).[3] In this paper, we endorse these critics and direct our attention to other intangible or "soft" factors that are not considered by the new economic geography or whose conceptual and practical use has been very limited, but which would (when combined with "hard" factors) facilitate a better understanding of processes of successful linkage with dynamic markets in the context of rural territories. As we will see, these factors go beyond the sorts of institutional conditions that the new economic geography partially recognizes. Moreover, the conception of markets as social structures and the explicit introduction of "soft" factors in the theoretical framework play a critical role when addressing rural territories in Latin America, where markets are not well developed and traditional property structures prevail, and where economic dynamics tend to be more informal and more closely tied to social and cultural structures than in the case of urban environments. Contributions from economic sociology help identify concepts that can complement those proposed by the new economic geography.

(d) *Economic sociology and dynamic territories*

Economic sociology rejects the basic neoclassical concept of the dis-embedded market as a place for exchange between agents who are independent of one another and whose power and influence are irrelevant to the terms of the exchange, and where enterprises seek solely to maximize benefits. Various authors, such as White (1981), Burt (1992), Granovetter (1992) and Callon (1998), agree on the concept of markets as social structures (Abramovay, 2006). Along this line, Fligstein (2002) proposes a political-cultural approach to the question of the construction and consolidation of markets, characterizing them as social "fields," after Bourdieu (2005). Abramovay (2006: p. 65) notes that "[t]he main goal of market protagonists is to stabilize relationships with their providers and, insofar as possible, with their customers. With this as a foundation, they also constantly seek to stabilize relationships among themselves, to reduce the risk associated with the exposure to all oscillations in the price system." This concept of the rationale underlying market functioning is particularly useful in rural areas where local agents tend to have limited information and often have less relative power in market negotiations than do other actors linked to larger markets (regional, national, or international).

Abramovay (2006: pp. 65–66) summarizes Fligstein's proposal, noting that a market becomes stabilized when it can define four types of rules, which may be established formally or informally:

- The property rights of the agents involved in the market.
- Governance structures, which regulate relationships of competition and cooperation among economic agents in the market and guide the way in which enterprises organize themselves internally.
- Rules of exchange that define the conditions under which exchanges are made, from weights, measures, and sanitary conditions required for traded products to mechanisms that ensure fulfillment of contracts.
- Conceptions of control, which refer to the predominant structures of domination operating in the market—who dominates and who is dominated. Stabilization of these conceptions of control allows the reproduction of those structures over time.

As Abramovay notes (2006), although Fligstein highlights the importance of stability in these four rules of market consolidation, he also recognizes their vulnerability. Because these rules are defined socially and their legitimacy is reaffirmed in everyday actions, their transformation is possible if power groups or coalitions emerge that are strong enough to destabilize the current system and propose changes that reflect the expectations of the agents operating in the market. Abramovay notes the importance of recognizing this vulnerability to change, as it shows the close connection between the way markets function and the configurations of power in territories: "the rules by which the markets in a given region function reflect the correlation between different social groups that participate in and depend on them" (Abramovay, 2006: p. 66). Moreover, the entry of new agents into the market, especially extra-territorial agents, tends to have impacts not only in the territory's economic-productive sphere, but also in its social and political sphere (Fligstein, 2002). These changes can lead to institutional transformations, including some of the rules mentioned above.

Analysis of markets that operate in rural territories such as those in Latin American countries poses an additional difficulty besides those faced in high-income countries, such as those of Europe and North America. On the one hand, heterogeneity and inequalities (e.g., economic, social, educational) are especially accentuated in Latin America, transaction costs associated with linking rural dwellers with dynamic market in more urban areas are very high, and the economic capital available to rural dwellers is typically scant. On the other hand, rural households mobilize other types of capital (e.g., social, cultural) that are available to them, and which strengthen their ability to connect with and possibly create new markets. Analyzing these territories, therefore, requires referring directly to the main forms of capital that these agents possess and the historical inertias that affect access to—or formation of—new markets.

In spite of these important contributions from Economic Sociology, it is critical to acknowledge its limitations when analyzing the economic dynamics of rural territories. As Swedberg (2004) highlights, the New Economic Sociology literature tends to neglect important areas such as law and economics and also downplays the role that technology plays in the economy. In order to overcome such limitations, we attempt to combine both theoretical frameworks: the new economic geography and economic sociology.

(e) *The combined use of the conceptual frameworks of the new economic geography and economic sociology*

It is important to stress that these two conceptual frameworks are consistent with one another. Both recognize, although with different emphases, the importance of hard/tangible and soft/intangible factors for the functioning of markets. Each theoretical framework, however, offers conceptual tools more appropriate for the joint analysis of one of these groups of factors. In this paper, we will take advantage of both sets of conceptual tools and use them to analyze the interdependence between key (hard and soft) factors that could underlie the process of linkage to more dynamic markets, which in turn may have propelled the territories being analyzed along a trajectory of economic development coupled with declining inequality.

Before proceeding to the next section, it is useful to present some examples of how the interdependence between hard and soft factors operates when a rural territory is linked to dynamic markets. Let us take a case that is common in rural territories, such as the construction of a road linking a formerly isolated rural territory with a new dynamic market. The road results in lower transportation costs and therefore "brings the territory closer" to a larger market. This "hard" factor can have impacts beyond those associated with transportation costs and market size, which affect the way in which the local market operates. For example, alliances could be created between certain local actors and extraterritorial actors, displacing historical alliances between local actors, modifying the rules of exchange and governance structures that prevailed in the area before the road was built. These changes could exclude some local producers from the new markets and even from local markets, if manufactured goods cheaper than those produced locally are imported—a change which could also affect the structure of income diversification in this group of actors. This type of economic dynamization could therefore lead to non-inclusive economic growth in the territory. This story might be very different, however, if the actors maintained their local alliances and created linkages with extraterritorial markets based on that local framework; governance structures would thus remain stable and growth could be more inclusive.

Let us consider another hypothetical example of the interdependence of soft factors. We take as an example a territory in which a change is implemented in the formal norms regulating the rights of access to and use of irrigation water, making more water available to some producers through the construction of canals. This regulatory change could affect the balance of power among actors in the territory, favoring those who have more financial capital to invest in the construction of canals, and thus prompting changes in governance structures and in hierarchies among the actors operating in the markets. If changes in the structure of property rights do not create conflicts or raise questions about the legitimacy of unequal rights to water use, the conceptions of control would remain stable. A very different scenario would emerge, however, if local actors questioned the legitimacy of this new framework; in that case, market stability could be profoundly affected.

The following section analyzes territories that have experienced changes similar to these. Beyond the analysis of these specific cases, however, it is important to recognize that this conceptual framework has a more general utility for identifying and explaining the mechanisms by which rural territories that are occupied by economic actors with little information, technology, and financial capital, and who typically face high transaction costs when they connect with dynamic markets, might establish linkages with dynamic markets in ways that stimulate their economies and, potentially, more inclusive forms of development. As we show below, these mechanisms are anchored in hard and soft factors that are both dynamic and interdependent.

3. METHODS AND RESEARCH QUESTIONS

(a) *Selection of areas*

Using the conceptual framework summarized in the preceding section, we analyzed the mechanisms fostering access to dynamic markets in the case of three rural territories in Latin America. These three territories were selected from among the 20 territories studied by the RTD program (Berdegué, Aguirre, *et al.*, 2012; Berdegué & Modrego, 2012 [4]). Three main criteria lead to the selection of these three from the wider sample of 20 territories. First, these are territories that have experienced economic growth and poverty reductions in the past two decades; and, according to the base studies performed by the RTD program their growth can be associated with their linkage with dynamic markets. [5] Second, the inhabitants of these territories do not have a great deal of financial or physical capital (a characteristic common to most rural territories in Latin America), and their linkage with dynamic markets therefore tends to mobilize other types of capital that are available to them, such as cultural capital, social capital, and/or human capital. We believe that this characteristic of rural territories in Latin America has significant implications for the mechanisms that underlie their linkage with markets and for the type of development dynamics that this linkage creates in the territory. Third, we sought territories that, taken together, would represent three of the most frequent linkages with dynamic markets that have been identified in the literature on rural territories in Latin America (Abramovay, 1999; Berdegué, Bebbington, *et al.*, 2012; De Janvry & Sadoulet, 2002; Schejtman & Berdegué, 2004). These three types of linkage with dynamic markets are: (i) historical linkages with dynamic markets inside and outside of the territory—territories such as Tungurahua in Ecuador, Jauja in Peru, and Santa Catarina in Brazil would be examples of this first type; (ii) recent linkages with new markets for differentiated products, with which the actors connect using types of capital (cultural, social, human) available to them—territories such as Valle Sur-Ocongate in Peru, Loja-Cariamanga in Ecuador, Peñas Blancas in Nicaragua, and Oaxaca in Mexico would fall in this category; and (iii) linkage to dynamic markets mediated by the arrival of mid-size or large enterprises from outside the territory, a scenario in which local residents tend to establish linkages through labor markets—territories such as ÓHiggins and Chiloé in Chile or the Chaco of Tarija in Bolivia would be examples of this type.[6]

The territories selected are Tungurahua in Ecuador, Valle Sur-Ocongate in Peru, and O'Higgins in Chile.[7] As Table 1 shows, these territories share several features. They are predominantly rural and during the 1990s showed improvements in per capita consumption and poverty, with less successful inequality outcomes. It is worth noting that although the extension and size of the rural population are not significantly different among the three territories, Tungurahua has a notably higher total population. This difference is explained by the presence of a city within the Tungurahua territory. As we will discuss below, this feature leads to further differences in the economic dynamics of Tungurahua as compared to the other two.

Tungurahua is a territory that includes a regional market with a long history in Ecuador. The analysis of its linkage with dynamic markets is therefore framed within long-term processes and structures, and the actors involved are not unfamiliar with the structures and challenges of the market. Valle Sur-Ocongate is a territory that has linked with new dynamic markets in which cultural capital plays a key role. These markets emerged in response to demand created in Cuzco, a highly dynamic city that is close to the territory. O'Higgins experienced recent access to dynamic markets for wines and olive products with the arrival of two types of extraterritorial actors, the central state and a large enterprise. In that case, as in many territories in Latin America, rural households have participated in this new connection with dynamic markets primarily through the labor market, and it is the enterprises from outside the territory that tend to absorb the revenues derived from these dynamic markets. This case also allows us to study the role of the state in promoting private investment in rural areas that formerly held little attraction, both through investment in public and semi-public goods and in the modification of laws that regulate the use of resources. As will become evident below, understanding the processes under way requires integrating contributions from economic sociology and the new economic geography into the conceptual framework for analysis.

(b) *Methods*

This article systematizes information from the three case studies described above in the light of the conceptual framework presented in the previous section, highlighting the ways in which the interdependence and dynamism of hard and soft factors shape different development processes. To gather baseline information in each territory, research teams used a series of qualitative and quantitative tools. Secondary sources were also used, in particular earlier studies and statistical information from censuses and surveys. In all three cases, a large number of in-depth interviews were carried out with a heterogeneous group of local and, in some cases, extraterritorial actors. Depending on the type of territory, the baseline studies used specific instruments. In Valle Sur-Ocongate and O'Higgins, focus groups were held for specific topics, while in Tungurahua, merchants in the Ambato wholesale market were surveyed, and in Valle Sur-Ocongate household surveys were used.

Following analysis of this initial data,[8] follow up qualitative research was conducted in each territory. This research addressed questions specifically related to the conceptual framework laid out above, namely: current conceptions of territorial dynamics; governance structures; the legitimacy of norms that regulate property rights and the use of resources; rules of exchange (especially those that prevail even though they are not written into formal norms); structures of domination as perceived by the different actors; the existence of political or social coalitions that propose changes in the way markets or productive systems operate; and the perception of public investment in hard factors, such as those associated with the reduction of transportation costs.

4. THE THREE CASE STUDIES

(a) *Tungurahua—Ecuador*

The province of Tungurahua, in the central highlands of Ecuador, has three characteristics that we consider key for understanding the configuration of its local markets. As Ospina *et al.* (2012) show, it is a region that has no significant environmental advantages compared to other regions of Ecuador. It compensates for that, however, with huge advantages of location, serving as a point of confluence in the linkages among different regions of the country. It is also a region with a high degree of economic diversification (with no single specific activity or product responsible for the bulk of the local economy, but instead a wide range of primary activities and activities related to transformation, commerce, and services) and deconcentrated production and commerce (in which small and mid-size enterprises generally predominate).

Table 1. *Main characteristics of the territories*

Territory	Size (km^2)	Total Population	Rural Population[a] (%)	Economic dynamics (1990s–2000s)[c]		
				Per capita Consumption[b]	Poverty Headcount Ratio[b]	Gini (Inequality index)[b]
Tungurahua in Ecuador	3.369	426.400	59	Increased	Decreased	Decreased (except in some sectors)
Valle Sur – Ocongate in Peru	2.167	70.900	63	Increased	Decreased	Increased
ÓHiggins in Chile	2.153	20.000	80	Increased	Decreased	Increased

Source: Adapted from Berdegué and Modrego (2012).
[a] According to the national official definition of rural area.
[b] Estimates for Ecuador and Peru (and most study cases in RIMISP study) are based on per capita consumption data, whereas estimates for Chile use per capita income data.
[c] Ecuador: 1990–2001, Peru: 1993–2005, Chile: 1992–2002.

Although during 1990–2001 Tungurahua, like most provinces of Ecuador, had rather discouraging economic growth indicators and marginal improvement in inequality,[9] it still showed greater dynamism than most provinces in the Ecuadorian highlands. It is also a particularly interesting case for this paper, because the territory's linkage with dynamic markets has a long history. We will focus particularly on the dynamism that began in the second half of the last century, creating opportunities in new economic sectors in the region.

(i) *Background: early phases in the construction of a dynamic market*

The advantages of Tungurahua's location are key to its development as a center of interconnection in the Ecuadorian highlands. Other characteristics, however, set Tungurahua's economic and social development on a path different from those of other provinces in the Ecuadorian highlands. Hollenstein and Ospina (2013) point out, following Bromley (1986), that one characteristic that distinguishes Ambato, the provincial capital, from other capitals in the highlands is its important commercial role in linking local producers and farmers' markets (called *ferias*) with the rest of the country. One factor that may have aided the consolidation of a more horizontal relationship between Ambato and its rural surroundings (than those observed in other provinces in the highlands) dates back to far earlier agrarian and political structures, and in particular the period of *corregimientos*. Following the argument of Bromley (1986) presented by Hollenstein and Ospina (2013), the pattern of population settlement by white and *mestizo* colonists who preferred the rural area as a place of residence, in contrast with the situation in other highland provinces, might explain the relative importance of the rural sector in the province's administrative and economic dynamics. Rural areas may have played a dual role in the territory's economy, as a provider of farm products to the market in Ambato and as a destination for consumer goods that the indigenous population would not have been able to afford (in that or any other territory). The existence of both roles, as producer and consumer, helped consolidate the network of local farmers' markets throughout the territory.

According to these authors, the wholesale market in Tungurahua and the network of currently existing local farmers' markets, are each built on the foundation of a deconcentrated agrarian structure and early access to water for irrigation. That deconcentrated land tenure structure became consolidated in the late 18th and early 19th centuries, through both the land market and episodes of violent resistance to the concentration of land ownership. During that same period, the railroad and roads were constructed, reducing transportation costs for goods and strengthening Tungurahua's commercial role. The creation of both the Ambato market and the network of local farmers' markets is, therefore, the result of interaction between hard factors (location, reduced transportation costs) and soft factors (property rights, conceptions of control and governance structures that resisted the tendency toward concentration of land, rules of exchange that favored decentralized exchanges throughout the network of farmers' markets) as outlined in the conceptual framework.

(ii) *The consolidation of a diversified and deconcentrated productive structure*

Hollenstein and Ospina (2013) note that although the productive apparatus began to diversify in the early 20th century, it was not until the 1950s and 1960s that the process accelerated and the territory took on a central economic role in the region. It was during that period that Ambato's population outstripped that of other important capital cities in the highlands, such as Riobamba to the South. At that point, the advantages of location were added to the advantage of market size, along with increasing electrification in the territory, which was conducive to the emergence of manufacturing and craft activities. As the new economic geography predicts, Ambato became the center of economic dynamism for trade and manufacturing in the region, relegating neighboring provinces to a more agricultural role.

One factor that decisively influenced the consolidation of a dynamic, diversified economy in the territory was the tariff protection policy implemented by the Ecuadorian government in the middle of the last century. It allowed the firm establishment of more profitable fruit production and the development of the textile and leather industries, as well as the emergence and consolidation of the metal mechanics industry (Hollenstein and Ospina, 2013). Indeed, Tungurahua was one of the pioneering centers of Ecuador's metal mechanics industry. This industry dynamizes the local economy because of its linkages with other productive sectors (e.g., textiles and leather) that supply bus and truck assembly plants, responding to extensive demand of transportation services from the local network of merchants (a network that is as deconcentrated as is local production).[10]

It is impossible to understand the consolidation of this diversified economy, with local linkages, organized around an extensive network of small and mid-size enterprises engaged in production and commerce (most of them informal), without deeper examination of the way in which economic action is organized in these markets. How was such dynamism achieved in a place with high transaction costs and little information, and why did an extensive network of local farmers' markets operated by a multiplicity of local agents persist over time? To understand this, we must also consider the rules that structure interaction in the markets.

In terms of the rules of exchange, let us take the case of those operating in the agricultural markets of Ambato and, to some extent, the Ambato Wholesale Market. Hollenstein and Ospina (2013) highlight the central role of *compadrazgo,* relationships between parents and godparents that are associated with trust and reciprocity: "*Compadrazgo* involves rules regarding price negotiation, the quantity and quality of the product, forms of payment and the economic content of the exchange, such as credit, and the 'extra-economic' content, such as gifts, non-cash assistance, etc. A transgression of the exchange between *compadres* or *comadres* is frowned upon and punished, not only by the affected *compadre* or *comadre*, but also by the people who are aware of what happened. It is when the interdependent relationships of *compadrazgo* are violated that it becomes clear that merchants perceive the purchase of the harvest of a producer who is their *compadre* to be a right, unwritten but inscribed in social relations" (Hollenstein & Ospina, 2013: p. 46). In contrast with the situation in other rural territories in Latin America, the relationships of *compadrazgo* that form the basis of exchange between producer and merchant do not tend to be detrimental to the farmer. Following Ospina *et al.* (2012), in the case of Tungurahua, the network of local farmers' markets allows the producer to be close to points of commerce and this has favored the participation of producer households (especially women) in commercial activities. The households have diversified both their productive and their commercial activities. The authors note that the rules of exchange for agriculture may have served as an example for the manufacturing sector, a sort of institutional learning that may have made it possible to extend to other sectors of the economy the same stability of market relationships that was achieved early in the development of the agriculture sector.

Hollenstein and Ospina highlight the relative symmetry in power relationships that is seen in food transactions in the network of markets in Tungurahua, and attribute that symmetry to the large number of small producers and small merchants operating in those markets. Although these relatively horizontal governance structures and mutually beneficial rules of exchange between agricultural producers and merchants form the basis of Tungurahua's economic development, they do not benefit the entire population. On the contrary, Hollenstein and Ospina (2013) emphasize that these mutually beneficial rules of exchange have always applied to white-*mestizo* merchants, but not to the territory's indigenous population. This has led to a form of economic development in the territory that is not particularly inclusive and where it is possible to find white-*mestizo* communities involved in diversified and more profitable activities while indigenous communities tend to specialize in the agricultural production of crops that are not very profitable. The Provincial Government of Tungurahua is currently trying to establish more inclusive, transparent, and efficient market rules. Although significant results have yet to been seen, one important step has been the emergence of organizations that represent the interests of producers in the three clusters promoted by the Provincial Government (metal mechanics, textiles, and shoes).

Of final importance is the way in which units of production are organized in Tungurahua, particularly the way in which the distribution of labor is organized in the domestic sphere among household members. In a context of diversification and on-going search for new economic opportunities, women have devoted themselves to exploring new productive activities, while also taking responsibility for agricultural activities as men have sought employment in the labor market. Once women's new businesses take off, however, the men typically assume leadership. Hollenstein and Ospina emphasize that economic diversification "...although positive for the household as a unit of consumption, has created a very high labor burden for women" (Hollenstein & Ospina, 2013: p. 51), a burden that has not been accompanied by greater empowerment of women within the household. Thus, although at a household level economic development in Tungurahua has been characterized by increased inclusion, within the household patterns of gender exclusion remain.

(b) *Valle Sur-Ocongate—Peru*

During the past 20 years, the Peruvian economy has grown by more than 5% annually. Poverty has also been reduced substantially. Although rural poverty has not responded to growth as quickly and sharply as has urban poverty, there has been a significant reduction. In just the last decade, rural poverty fell from 83% in 2004 to 53% in 2012 (INEI, 2013). Within this context of sustained growth, Valle Sur has exhibited relative success in productive diversification and linkage with urban markets. The territory saw greater reduction in its poverty rate and increase in the perception of well-being among the population than was the case for other rural areas of the southern highlands. Fifty-six percent of the inhabitants of the territory now think they are better off or much better off than they were 10 years ago, while only 12% say they are worse off or much worse off (Asensio & Trivelli, 2012).

Valle Sur-Ocongate is in the Andean part of the province of Quispicanchi in the Cusco Region. It is a mostly Quechua-speaking territory, but the majority of the population is urban and better connected with the regional capital (the city of Cuzco) than in other territories of the southern highlands, which makes it possible to supply that city with farm products and services. Smallholdings predominate throughout the territory. Despite sharing a common history, it is a heterogeneous territory, with significant differences between districts. In the area closest to Cuzco, in the Huatanay Valley, economic diversification is much greater. Farm and livestock activities are complemented with small family businesses. In more remote areas of the territory, there is much less diversification, and livestock raising is the main source of income.

The main catalyst for the economy of Valle Sur-Ocongate is growth in demand for agricultural products in Cuzco. The city has been growing since the 1980s and now has about 400,000 inhabitants. Among the products favored by this demographic increase are beef, dairy products, and guinea pigs. Demand has also increased for products such as handicrafts, partly because of tourism and partly because of purchases by people living in Cuzco, who have become interested in local production as part of a general trend toward greater recognition of the value of products that reflect cultural identity.

Until the early 1980s, nearly all agricultural production in the territory was for the farm household's own consumption. Only a small part was exchanged in local markets (Asensio, Escobal, Ponce, & Trivelli, 2013). The shift in orientation began in the 1990s and is related to both the greater dynamism of the city of Cuzco and the effect that this dynamism has had on demand for food products, as well as to the existence in the territory of a large number of public and private initiatives explicitly aimed at stimulating local markets. Notably in this case, the history of linkage to a dynamic market is recent. Although the city of Cuzco has always been an important tourist destination, it is only very recently that tourism and the domestic urban population has begun to demand products and services from Valle Sur-Ocongate.

(i) *Advantages of location and growing dependence on the city of Cuzco*

Traditionally, the region of southern Cuzco was connected with three different spaces: the cities of Cuzco and Sicuani and the Amazonian region of Madre de Dios. Each of these areas served a different purpose in the population's livelihood strategies. Cuzco was a place for education and quality employment. Sicuani was the main destination for livestock and the place where food was purchased. Madre de Dios was the common destination for temporary migration to mine gold and supplement the family income. The demographic and economic growth of the city of Cuzco substantively changed the spatial connections among residents, turning the city into the main pole of attraction for economic activity in the territory. The proximity of Valle Sur-Ocongate to the city of Cuzco enabled it to compete under conditions that were favorable for producers in the region. This proximity, along with the existence of modern communication routes, has allowed access to these new markets with limited transaction costs. The recent construction (2008) of a branch of the Interoceanic Highway,[11] which passes through the territory, links several districts of the territory with the regional capital, not only reducing transaction costs, but also increasing the mobility of the population.

(ii) *Background: recent changes in farmers' markets*

The key factor in the territory's recent history is the convergence of the interests of the new local elite and an emerging sector of society that has gained ground in Peru's southern highlands in recent years: educated professionals in the regional capitals, who come from a rural farming background and live with one foot in the city and the other in countryside, pursuing professional careers that move back and forth between public institutions and private development organizations. This convergence began in the late 1970s and early 1980s. Initially, regional NGOs played the leading role in rural development. Gradually, as the number of professionals of rural origin increased, the profile of NGO members changed. Regional political dynamics also changed, with the administrative and economic strengthening of district or municipal governments.

Municipalities governed by mayors with rural and/or indigenous roots implemented technical assistance programs for rural producers. Budget increases enabled them to hire more and better technical personnel. Municipalities also began to provide new venues for commercialization: local livestock markets, festivals that mixed festive and commercial elements, etc. These initiatives sought to break the monopoly of traditional livestock markets, in which the dominant mechanisms for purchase and sale are very negative for producers from the high Andean areas. Local authorities ensure that transactions are conducted in Quechua, unlike in traditional markets, where urban intermediaries have ensured that Spanish is always used. Authorities also oversee the obligation to weigh animals before they are sold and to record information about the livestock bought and sold, in order to avoid monopolization by intermediaries. The system of exchange also emphasizes the sale of livestock by auction (Asensio, 2013). All of these regulatory elements are explicitly designed to improve the small producers' capacity for negotiation.

(iii) *Competing in the regional market through differentiated local production: the gastronomic circuit*

In recent years, the promotion of regional gastronomy has emerged as one of several strategies for stimulating the economy of the territory. A key factor in this process has been the effort made by the new generation of rural mayors to capitalize on the value of the territory's cultural assets. The coalition between mayors and technical staff of development organizations has drawn on a narrative that emphasizes the territory's Inca past and the values associated with Andean culture (Asensio & Trivelli, 2012). According to Asensio (2013), "Indigenous iconography becomes the official model and Quechua the main language of public administration. At the same time, Valle Sur-Ocongate has become a territory that is home to businesses based on cultural assets: gastronomic products, mystical-religious services, musical bands. The main market for these products is the middle class in the city of Cuzco, which is immersed in a complex process of change of patterns of cultural consumption, which includes a renewed appreciation for the value of the pre-Hispanic past, nostalgia for rural life and Andean New Age ideologies" (Asensio, 2013: p. 12).

The strategy developed by the local population, with key support from municipalities and NGOs, is characterized by a heterogeneous supply that avoids saturating its main target audience, Cuzco's middle class, and that consolidates this circuit as one of regular consumption. There is a clear effort to consolidate a stable demand. To do this, each locality proposes a particular gastronomic specialty, seeking to create a differentiated image and diversify supply: in Saylla, the place closest to Cuzco, pork rinds are the specialty; Lucre chooses duck; Tipón offers alternative guinea pig dishes; and Oropesa is famous for its bread. Asensio and Trivelli (2012) identify more than 180 of these businesses, which capitalize on the value of various cultural assets.

The local low-income population mobilizes available types of capital, particularly the cultural and symbolic capital [12] that resonates with Cuzco's middle class. The importance of the symbolic capital of southern Cuzco has been crucial in enabling the area to position itself successfully as a domestic weekend tourism option for residents of the city of Cuzco. Although there are other options for recreation and gastronomy near the city, the Valle Sur-Ocongate territory awakens Cuzco's residents' emotions and nostalgia for pre-Hispanic times that other localities do not evoke with the same authenticity.

(iv) *The role of public policies*

The rise of Valle Sur-Ocongate would have been impossible without the increase in public goods provided by the state: education that builds residents' capacities, infrastructure that supports commercial transactions, and basic household services that contribute to the perception of well-being. These interventions are not inspired by a specific plan for the territory, but are part of the general expansion of the state's presence in the Andes. In the case of Valle Sur-Ocongate, however, it is also clear that coalitions of social actors have also played an important role in the territory by arranging the foundation of public goods and services in a way that maximizes their positive distributive effects. This is reflected, for instance, in the way in which the territory has been organized, so that each area has a specialty and there is strategic differentiation throughout the gastronomic circuit. The new businesses that have been appearing in Valle Sur-Ocongate have tried to use a similar strategy by (i) increasing production through training programs and technical assistance for producers, and (ii) creating a brand identity for products or services produced in the territory. More recent examples of this process are the production of dairy products connected with Mount Ausangate (a traditional pilgrimage site), flower production in Quiquijana, and handicrafts made of alpaca fiber. The current boom in these products synthesizes the dimensions that have been mentioned: transformations in urban patterns of consumption, efforts of public and private development programs, involvement of local governments, the local population's initiative and versatility in leveraging the advantages of localization, [13] and growing attention to mobilizing the territory's symbolic capital.

(c) *O'Higgins—Chile*

The third territory of interest is located in the dry interior of the O'Higgins region, in central Chile. According to statistical evidence presented by Azócar *et al.* (2013), this territory experienced notable economic dynamism between 1992 and 2002. Real income grew by 44% during that period, the poverty rate decreased from 45% to 14% and the Gini index for the territory dropped by six points. Associated with this economic dynamism was a process of rapid urbanization, in which the urban population in the territory increased from 20% to 33% of the total population. Despite this dynamism, however, the process is still not very inclusive. As the following discussion makes clear, a complementary analysis of hard and soft factors that may have intervened in this process makes it possible to understand why, after the economic boom, the territory has not yet managed to consolidate a sustainable, inclusive strategy that would constitute a promising path for the future.

(i) *The economic transformation of the territory: from small-scale grain production to export agriculture*

Before the 1990s, the economy of the O'Higgins territory revolved around rural families mainly devoted to producing grain in the drylands and to sheep ranching.[14] Small scale, low productivity production coupled with limited access to dynamic markets characterized the territory's economy. Associated with that, the territory had limited access to basic services such as health and education, and a precarious transportation and communications infrastructure. According to base-line studies (Azócar *et al.*, 2013; Modrego *et al.*, 2012), the configuration of the territory's social fabric reflected the limited degree of organization of the population and the lack of local leadership, themselves reflections of the authoritarian national context that characterized Chile in the 1970s and 1980s.

The changes that were conducive to the territory's economic boom were driven by the post-authoritarian state from 1990 onward, as part of a national development policy that emphasized social investment and incentives for private investment. These changes included the construction of highway infrastructure that significantly reduced transportation costs associated with both the commercialization of export products and worker mobility at times of high demand for labor, such as the harvest season. A series of programs to promote production and access to credit were also implemented, mainly to support local farmers. These programs, however, did not stimulate family farming in the territory; the main beneficiaries of the process of productive development in the area were large investors who were drawn to the territory by the new comparative advantages it offered.

Policies and programs that the state has implemented to promote irrigation and the emergence and consolidation of the agro industry that is more profitable in dynamic markets, such as export markets, merit special mention. These programs complement the process of deregulation of access to and use of water that began in 1981, with the promulgation of the code regulating access to and use of water, which, as noted by Modrego *et al.* (2012), enshrined the right to use and free transfer of water rights. In 1985, a law was signed that promoted irrigation, introducing a series of subsidies for irrigation and drainage works to encourage greater productivity in agriculture and agro industry. Modrego *et al.* (2012) indicate that although small farmers initially did not capitalize on these advantages, officials of government entities eventually encouraged legal registration of water rights by small farmers in the area in order to allow them to benefit also and thus make these policies more equitable.

These measures, which stimulated markets for input, labor, and products through formal institutional changes and so-called tangible or hard factors that the new economic geography considers crucial, effectively attracted mid-size and large-scale investors to the territory, especially for the development of grape and olive production. In the 1990s, a market for land was activated, along with a still-incipient market for water (especially with the discovery of an aquifer in the territory). According to Modrego *et al.* (2012), during 1997–2007, land ownership by associations of investors increased from less than 9% to more than 37% of the land under cultivation in the territory. There was also a rapid increase in the area under irrigation, which the authors say approximately tripled in the territory, from 2,222 hectares in 1997 to 7,513 hectares in 2007.

Although large extraterritorial enterprises stand out as the main beneficiaries of the territory's economic transformation, it is important to mention that a sector of small producers was able to connect with dynamic markets. Besides olives and grapes, some producers made a successful transition to blueberry or strawberry production or timber plantations. The most important channel by which most inhabitants of the territory benefited from this economic dynamization, however, was the labor market. This growing labor demand encouraged the inclusion of women in wage-earning activities, which according to testimonials gathered in the field (Azócar *et al.*, 2013; Modrego *et al.*, 2012), may have led to empowerment both within the household and in the communities to which those women belong. Despite these advantages, interviews indicate that the jobs to which women have access tend to be less stable, temporary, and lower paid than is men's employment.

(ii) *The precarious sustainability of the territory's economic growth*

Despite objective improvements in the dynamism of labor markets and those associated with agroindustrial products and export agriculture (Azócar *et al.*, 2013; Modrego *et al.*, 2012), the territory faces a problem of sustainability of irrigation agriculture because of the latent threat of aquifer exhaustion, as well as problems associated with labor instability and the fact that few linkages have been created within the territory. In terms of the functioning of markets, there are problems related to the effectiveness of the rules of access to and use of water that could jeopardize its availability. According to interviews conducted by Azócar *et al.* (2013), the very legitimacy of these norms could be threatened as the local population experiences a scarcity of water for domestic and productive use.

It should be noted that norms for access to and use of water for irrigation do not take into account limitations on the local institutions to identify and control effectively the amount of water used by producers. This has led to overexploitation of water for irrigation to such a degree that, according to Modrego *et al.* (2012) and Azócar *et al.* (2013), in some places even the continuous availability of water for consumption could be compromised. According to testimonials collected, this is more common in areas neighboring large-scale agricultural enterprises. This limited control over the amount of water used for farming has to do not only with the under-reporting of water withdrawal from wells, but also with the limited oversight of the effective use of allocated rights. Modrego *et al.* (2012) note that although there initially was under-reporting of small farmers' wells, this was resolved around 2005 thanks to an active legalization campaign carried out by a government agency. Despite this campaign, in 2009 it was found that 27% of the flow associated with registered water rights was formally in the hands of three enterprises, and the corresponding Gini index was 0.86 (Modrego *et al.*, 2012).

Secondly, the labor market reflects problems associated with hiring mechanisms (or in the language of Fligstein's categories: rules of exchange). This market has been operating on the basis of temporary contracts that are arranged by intermediaries and do not confer the labor rights associated with stable employment. Indeed field interviews show growing discontent on the part of local wage earners. Although this situation is common in other areas of Latin America, in the current context of problems of sustainable use of water in the territory, and the perception among some sectors of the local population that large enterprises have excessive power, this discontent could lead to the formation of coalitions that include both water and labor demands in their rhetoric and thus affect, to some degree, the rules of hiring used in the territory.

Finally, to the extent that those who obtain the greatest benefits from the dynamism of export agriculture do not reside in the territory, revenues do not return to the territory and dynamic local markets of consumption or productive linkages such as those seen in Tungurahua are not created.

These problems could jeopardize the stability of both markets, of water and labor. In terms of Fligstein's categories, the need to adjust the rules of use of and access to water, as well as those governing improvements in working conditions for wage-earning farm laborers, would lead to modifications in both the rules associated with property rights (water) and the rules of exchange (for water *and* labor). Delays in these modifications could lead to deeper problems associated with the questioning of hierarchies in the markets and governance structures that predominate in the territory.

In this regard, the base-line studies show processes under way that could be grounds for an optimistic view of the future of the territory. The researchers found that the evident environmental deterioration in some areas and the shrinking of the aquifer may have led to the recent emergence of local leaders and social coalitions aimed at defending a more sustainable and inclusive development model in the territory (Modrego *et al.*, 2012). Social lessons may have been learned that could lead to a rethinking of the economic and environmental strategy in the territory, without losing all of the progress that has been made. Finally, an additional factor that might favor future prospects for the territory is the investment that residents of the territory have been making in the education of young people (centers of higher education are located outside the territory). Although many of the people interviewed mentioned the problem of the lack of skilled jobs for young people, there is a group of young people who have returned to the territory and are mainly working in government agencies in the area or have taken charge of family farming or timber production (Azócar *et al.*, 2013; Modrego *et al.*, 2012). These young people could become new leaders in the territory and, drawing on their experience outside the territory, could make proposals for inclusive and sustainable development.

5. CONCLUSIONS AND FINAL COMMENTS

(a) *Illustrating the need for a theory integrating two theoretical frameworks*

This paper has offered an empirical reading of processes of linkages with dynamic markets based on two theoretical approaches: the New Economic Geography and the Economic Sociology. Even though we do not attempt to construct a synthetic theory that integrates both frameworks, the analysis of the case studies previously presented illustrates the importance of analyzing tangible and intangible factors considered key in both frameworks, and further investigating their interactions in order to understand the development outcomes derived from access to dynamic markets. The new economic geography highlights the importance of introducing a spatial dimension into the analysis of processes of linkage between markets and territories and proposes a conceptual framework for understanding the role of tangible factors conducive to the emergence of economies of agglomeration and the configuration of hierarchies between markets. In the three case studies, this conceptual framework helps to understand key variables that have determined the possibility and timing of economic growth. In the case of Tungurahua, the advantages of location and the arrival of the railroad and highway provided the initial impetus, while the tariff protection policy and electrification played a key role in positioning the territory as a regional center. These advantages, however, do not explain the reduction in inequality or the positioning of local enterprises, most of them informal, as key actors in the functioning of the most important markets in Ambato. In the case of O'Higgins, the construction of the road network and state support for private investment help to explain the emergence of the irrigated agriculture sector and its linkage with export markets. This conceptual framework, however, does not explain the problems surrounding the sustainability of water resources nor why the greatest benefits for inhabitants of the territory came through the labor market rather than product markets as was the case in Tungurahua where small local producers played a key role in economic dynamics beyond agriculture. Finally, in the case of Valle Sur-Ocongate, despite the advantages of location and increased demand from the city of Cuzco, the new economic geography does not explain why and how rural dwellers successfully mobilized cultural assets, while the same was not true in other areas with similar advantages. It is the conceptual framework of economic sociology that guides the analysis to other key factors, namely the rules that have allowed the stabilization of market relationships, and the role of local actors in defining or modifying these rules. As the previous section shows, in the case of O'Higgins, identifying and understanding the operation of the rules of exchange and the formal and informal norms that regulate access to water and land and the limitations of local social capital are crucial for explaining the risks that this territory faces and the reasons why the benefits stemming from economic dynamism have been distributed as they are.

In the light of the previous discussion, we emphasize the need for theoretical contributions that help construct a synthetic theory that thoroughly incorporates the main contributions of the Economic Sociology and the New Economic Geography.

(b) *Final comments on policy issues inspired in the analysis of three case studies*

The case studies analyzed here highlight the importance of recognizing that there are no "silver bullets." There seem to be no policies, programs, or factors that, on their own, create successful linkages with dynamic markets or the formation of productive structures that favor virtuous circles. Each intervention implemented in a territory encounters a series of structures and processes already under way that can strengthen or weaken its effects or even have a negative impact in the long run. Particular cultural and sociological factors may be key to understanding which local assets can be successfully mobilized by public interventions, and how. It is therefore crucial to anticipate how local actors will react to the interventions implemented, a reaction that may be explicit or implicit, depending on the framework of existing social structures.

More specifically, each territory's story suggests more specific policy lessons. For instance, O'Higgins' experience stands out as an example where problems of environmental and economic sustainability may derive from changes in law and regulations that were designed to attract private investment and promote economic dynamism. When such changes are not meticulously designed, taking into account potentially pervasive mechanisms that may lead to overexploitation of natural resources and low labor standards, the initial economic success can be rapidly outweighed by environmental fragility and risks, and social tensions. Where production is concentrated, large scale, and involves intensive use of the natural resource base, it continues to be a challenge to design policy instruments that establish conditions and socio-environmental regulations that will lead companies to internalize the negative externalities they create in territories. From the experience in Valle Sur-Ocongate, in Peru, on the other hand, we learn some limitations involved in the emergence of, potentially promising, new types of markets. In cases like this, where such markets may stimulate more socially inclusive economic activities, as well as leverage cultural and natural attributes and biological diversity in ways that are only rarely exploited in most Latin American countries, limitations in local organizational capacities may preclude further access to and development of such markets in the territory. Thus, public policies oriented to strengthen local capacities to organize and develop associative endeavors may be critical.

NOTES

1. These trends are described in various papers on rural development published by the European Union and the OECD, in works such as that of Galston and Baehler (1995), for the case of the United States, and in an extensive series of articles published in specialized journals on the topic in the 1990s and 2000s. For more information, see Favareto (2007).

2. Although Kayser's analysis has been enriched by others—like Chambers and Conway (1992) or Farthing, Carriere and Fournier (2007), among others—the population dynamics and the linkages between urban and rural spaces continue to be substantially different in Latin America when compared to North America and Europe.

3. This critique has been presented in Schneider and Susman (2008).

4. For more detailed information on each case study and full access to all publications prepared by the RTD program, see http://www.rimisp.org/proyecto/programa-dinamicas-territoriales/.

5. Territories where economic growth was mainly due to income transfers from the national government were excluded. The study by Quan, Olalde, and Souza (2012) analyzes this type of territory in depth, using the case study of Jiquiriçá, a rural territory in northeastern Brazil.

6. For further details on these territories, see Berdegué and Modrego (2012). Besides the territories that show successful access to dynamic markets among the 20 territories analyzed in the RTD program, there were several others that show no access to dynamic markets, territories that owe their relative economic growth to public transfers or remittances, this is the case of territories such as Cerron Grande in El Salvador, Carirí in Brasil, and Cuatro Lagunas in Peru.

7. For more information on these territories see: Hollenstein and Ospina (2013) for the case of Tungurahua in Ecuador, Asensio (2013) for Valle Sur-Ocongate in Peru, and Azócar *et al.* (2013) and Modrego *et al.* (2012) for O'Higgins in Chile.

8. For more information about the documents produced in both phases of the program, see: http://www.rimisp.org/proyectos/publicaciones-y-documentos/?p=programa-dinamicas-territoriales&c=documentos-de-trabajo.

9. According to Ospina *et al.* (2012), during 1990–2001, this territory showed a mixed performance in its income, poverty, and inequality indicators. While Ambato, an important regional center located within the territory, which concentrates much of the regional population, showed good performance in the three indicators, its rural surroundings did not show growth in average income, despite a reduction in inequality and, to a lesser extent, in the poverty rate. Compared to other provinces in the Ecuadorian highlands, however, Tungurahua maintained significant economic dynamism.

10. This diversified structure with productive linkages, however, has faced two significant challenges in the past two decades: trade liberalization in the 1990s, which opened up the market to international competition, and increasing domestic competition.

11. The Interoceanic Highway has been constructed over the last decade and runs from the Atlantic coast of Brazil to the Pacific coast of Peru.

12. Symbolic capital is a particular kind of capital based on social recognition and prestige. Following Bourdieu (1977: p. 179), symbolic capital is defined as "prestige and renown attached to family and its name."

13. Advantages of localization are associated with the relative closeness to the Cusco city which leads to lower costs of travel for tourists, and in general lower information and transaction costs for all economic agents in Valle Sur-Ocongate, as compared to other rural territories in the region.

14. Regarding land ownership in the territory, Modrego *et al.* (2012) note that distribution is relatively more equitable than in other rural areas of the country, because of the strong agrarian reform processes that occurred in the territory between the 1960s and 1970s.

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