



RURAL TERRITORIAL DYNAMICS, MARKETS AND PRODUCTIVE STRUCTURES

Key Aspects of Territorial Development Series



This document is an overview of the research and capacity-building and policy-dialogue activities carried out within the context of the Rural Territorial Dynamics Program (Programa Dinámicas Territoriales Rurales, or DTR, in Spanish). The Program's objective is to contribute to the design and implementation of public policies that encourage and support virtuous circles of economic growth, social inclusion and environmental sustainability in non-metropolitan areas of Latin America. It was coordinated by Rimisp and implemented in collaboration with 52 partner organizations in 11 Latin American countries. This initiative has received financial support from the International Development Research Center (IDRC, Canada), the International Fund for Agricultural Development (IFAD) and the New Zealand Aid Programme.



Rimisp-Latin American Center for Rural Development is a non-profit organization founded in 1986. Its mission is to achieve rural development in the continent. Development is understood as strengthening the capabilities of rural social groups and expanding the liberties of people in the region's rural societies. Rimisp's contribution of knowledge supports institutional change, innovation and the strengthening of social actors, to revitalize and transform Latin American rural societies so they become more just and equitable.

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Key Messages

Territorial linkages to active markets are necessary for successful territorial dynamics. (Pages. 2 -3)

Territorial linkages to dynamic markets favor economic growth, but do not necessarily guarantee greater social inclusion or environmental sustainability. On the contrary, activities associated with dynamic markets often lead to the concentration of resources in a few hands, particularly those of extraterritorial actors. Where institutions are weak and inequality great, environmental problems due to economic activities linked to dynamic markets are also common.

For linkages between territories and dynamic markets to increase social inclusion and environmental sustainability, structural long-term factors must be considered. (Page. 4)

Long-term factors generally are not considered in the design of public policies related to market access and competition; instead, the focus is on viable production and commercialization. For territories to achieve steady, inclusive and sustained benefits from growth associated with ties to dynamic markets, however, the territories need a particular combination of elements: less concentrated agricultural structures, more diversified productive structures, proximity to cities, public investment in infrastructure, and public policies that take territorial development into consideration from a variety of perspectives.

Less concentrated property structures allow market linkages to be more socially inclusive. (Page. 5)

Development dynamics with greater poverty reduction and social inclusion are more likely in territories where tenure structures for land and key natural resources have historically been conducive to equality and stakeholder involvement in economic dynamics. This encourages broad-based asset accumulation that includes the formation or strengthening of social, human, and political capital of territorial actors, and increases the possibility of establishing coalitions that encourage growth with greater social inclusion.

Productive territorial structures that have stronger market linkages, greater participation of small and medium-size local businesses and greater diversification are conducive to more inclusive markets. (Pages. 6 - 7)

Territories with more diversified economies, a higher density of local inter-sectoral and inter-business market linkages and a significant presence of small and medium-size enterprises, along substantial local capital, have more options for establishing market connections that foster socially inclusive growth.

The presence of intermediate cities in territories favors linkages to dynamic markets, economic growth and poverty reduction, although the cost may be greater income concentration. (Page. 8)

The existence of a city in the territory gives it a comparative advantage over rural territories lacking proximity to an urban center. Benefits include the possibility of capturing and reinvesting a greater proportion of the economic surplus locally, providing more and better services to businesses, and increasing the demand for labor.

Where dynamic markets exist, the state and public policies must integrate various aspects of territorial development to achieve greater social inclusion and environmental sustainability. (Page. 9)

When territorial actors do not have the same access to information, markets and capital and the territory lacks enough social capital to counterbalance those differences, the government is the only actor able to respond, through public policies. The government should focus on four equally important areas: (i) investment in infrastructure that fosters competition; (ii) development of individual and institutional capacities that promote more equal opportunities; (iii) rules and oversight that guarantee transparency, regulation and equal access to information; and, (iv) investment in targeted programs based on each territory's particular needs and advantages.

Territorial linkages to active markets are necessary for successful territorial dynamics.



In northeastern Brazil, the Jiquirica Valley experienced growth even before public transfers increased substantially. Public investment played an important role in supporting equality in territorial growth. In contrast, in Cariri, transfers have been important economic motors for the territory, where dynamic markets are absent or unstable, and where the government has had to use public procurement mechanisms to maintain growth.

- Territorial linkages to dynamic markets are conducive to accumulation and growth. Because territorial development requires economic growth, dynamic markets are necessary
- Some territories in Latin America have achieved economic dynamism and growth through linkages with dynamic markets. Others have done so through public and private extraterritorial investments. If it is not combined with other initiatives to reduce dependence, however, the latter option does not guarantee sustained growth, unless such transfers are capitalized within the territory and spur internal growth that can link the territory with markets.

Linkage to dynamic markets is understood as a rural territory's degree of access to a variety of markets for products, services, credit, labor and other factors of production. These markets must be significant enough to stimulate high and sustained growth for extended periods of time.

- Many Latin American territories that have achieved sustained growth through linkages to important dynamic markets have not reduced their inequality gaps, and others have seen very slight reductions in poverty.

- Some of these territories also experience socio-environmental conflicts due to unsustainable use of resources and inadequate management of waste from their economic activities.
- There are no precise answers to the question of how to achieve market dynamism that favors more inclusive and sustainable dynamics at the territorial level.
- When territories create linkages to more dynamic markets with the participation of many producers and local businesses, the effects are more than economic. The territory can also make gains in human capital, new relationships with a more diverse group of extraterritorial actors, and political power, all of which may also favor social inclusion and environmental sustainability.



Telar -Chile

In the 1990s, Chile experienced spectacular economic growth and made significant progress in poverty reduction. Nevertheless, only 2 percent of its municipalities (with less than 1 percent of the country's population) showed dynamic growth with poverty reduction and more equitable income distribution.

In the same period, El Salvador's overall economic and social performance was not particularly remarkable, but at the sub-national level, 11 percent of its territories (with 7 percent of the total population) showed dynamic growth with poverty and inequality reduction.

For linkages between territories and dynamic markets to increase social inclusion and environmental sustainability, structural long-term factors must be considered.

- The main role of markets is to catalyze the territory's economy. But markets and economic growth alone do not guarantee progress toward greater social inclusion, and even less toward environmental sustainability.
- Rather, a combination of soft and hard factors is necessary. Linkages to dynamic markets must not only generate growth, but must do so in a sustained, inclusive and sustainable manner.

- **Hard factors** explain the concentration of economic activity in certain geographic areas. These factors include economies of scale, transportation costs, market size and amount of infrastructure for goods and services. The “new economic geography” is a discipline that studies these factors.

- **Soft factors** are social relationships and formal and informal institutions that regulate economic actions. Soft factors include government structures, property rights, rules of exchange, gender systems and ideas about how to control resources and activities. The “new economic sociology” studies these factors.

- In our case study we identified several factors that influence the way markets affect social inclusion and environmental sustainability, including agricultural structures, productive structures, the presence of small and medium-size cities, and types of public policies and the way in which the government relates to the territory through them.



Less concentrated property structures allow market linkages to be more socially inclusive.

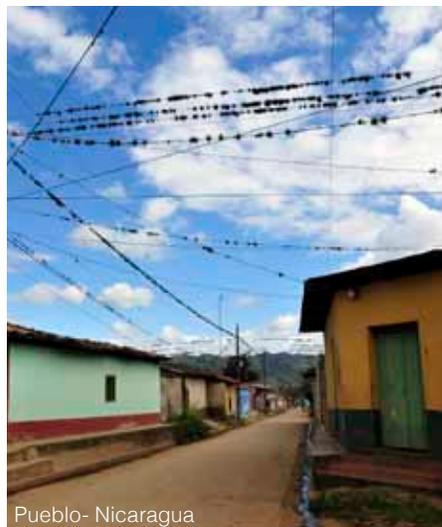


- In rural areas, the agrarian structure – the institutions that regulate access to and use of land, as well as the social relationships underlying them – has a strong effect on the degree of social inclusiveness in linkages between territories and dynamic markets. Important factors include not just the territory’s recent agricultural structure, but also its development over time.

- When territories that have been characterized by large landholding structures are linked to dynamic markets, they usually do not achieve social inclusion. Exclusion and inequality may even become worse. The resulting dynamics are polarizing and less inclusive.

- Territories that have more equitable agrarian structures early on, however, tend to achieve more inclusive dynamics.

- In some cases, territories that have had fairly equal agrarian structures for years create linkages with new dynamic markets and still experience concentration of income. This indicates that the relationship among the agrarian structure, markets and territories is also influenced by other factors, as discussed below.



In Santo Tomas, Nicaragua, a history of strong land concentration has created power structures that channel public investment toward small groups of beneficiaries. These structures also promote the capture of benefits generated by linking the territory to national and export dairy markets.

In Tungurahua, Ecuador, the relatively more equal historical distribution of land and access to irrigation water facilitated the consolidation of a large segment of small and medium-size producers and merchants, as well as the development of a dense system of fairs and street markets that forms the basis for the inclusive growth this territory has enjoyed.

Productive territorial structures that have stronger market linkages, greater participation of small and medium-size local businesses and greater diversification are conducive to more inclusive markets.



In Tungurahua, Ecuador, productive diversification is high, making it more likely that forms of governance (rules of exchange and concepts of control) will encourage participation by the poorest sectors, based on trust and more democratic access to information.

- Enclave production structures or others in which a few companies – usually extraterritorial – predominate, which create little or no employment, have few local linkages and ultimately result in the removal of a huge percentage of the surplus from the territory, lead to little or no growth, social inclusion or environmental sustainability.

- **The productive structure** refers to the degree of diversification of the territorial economy, inter-sectoral linkages within the territory, and the variety of types of businesses (by size and the amount of local and extraterritorial capital they possess).

- More diversified production structures offer possibilities for a wider range of linkages in the territory, expanding the options for participating in and benefiting from growth dynamics. This increases the social capital of territorial actors and the likelihood of the emergence of coalitions that are more conducive to growth with greater inclusion.

- First, a productive structure with greater density of territorial linkages, a solid presence of small and medium-size businesses and a significant amount of local capital in its economy will offer more opportunities for participation in local life to a more diverse set of social groups.

- Second, under these conditions, a greater percentage of the territorial surplus generated by markets will be reinvested in the territory.
- Third, this kind of productive structure will be more conducive to greater asset diversification, deconcentration of connections between actors and consumer and labor markets, and greater social diversification.
- Finally, a more diversified productive structure should be more resilient to the economic and environmental shocks the territory may face.
- Some types of markets offer more opportunities than others for promoting more inclusive and sustainable dynamics. Because of the nature of their products, some markets have more linkages and attract extraterritorial actors that are more inclined to allow inclusive forms of market governance.
- Other markets are supported by income generated from the extraction of natural resources. The productive structure of these markets is generally characterized by a type of actor that limits the possibility of adapting forms of market governance. One example of this is natural gas production in Tarija, Bolivia.



Mango- Bolivia



Caranavi- Bolivia

The presence of intermediate cities in territories favors linkages to dynamic markets, economic growth and poverty reduction, although the cost may be greater income concentration.

The city of Cuzco, Peru, is the end market for most producers and local businesses in the Southern Valley-Ocongate area. In this relationship, Cuzco predominates as a demander of products and services offered in the city, while playing a smaller role in providing labor or demanding specialized services from territorial businesses.

In Ecuador, the city of Ambato is not only an end market for most local producers and merchants in Tungurahua, but it also helps link the local economy with the extraterritorial world in various ways.

In the coastal areas of Santa Catarina, in southern Brazil, strong ties between the territory and local and external urban centers, along with a process of economic diversification largely due to the territory's location, has resulted in a very vigorous local economy. This has led to the emergence of markets for tourism, industry and fishing and to a greater capacity to create coalitions that promote the expansion of pro-poor productive and social policies.

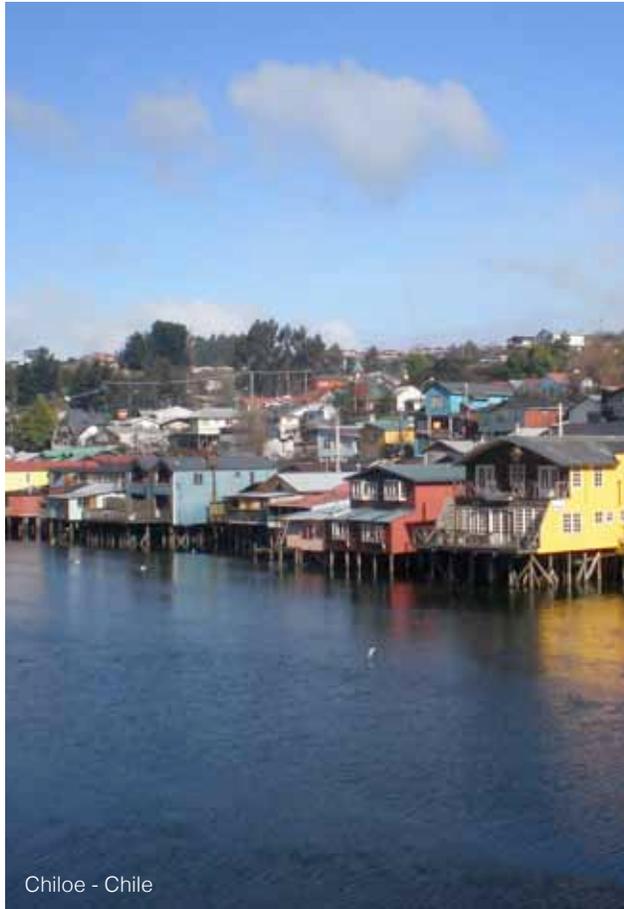
The Tungurahua, Ecuador, gender structures play a role in territorial dynamics, as women are more likely to explore new (and riskier) income-producing opportunities.

In the Southern Valley-Ocongate region in Cuzco, Peru, most new ventures promoted by the Cuzco-Puno Corridor are headed by women, while men continue to work in traditional (and stable) economic activities. Only when the new activity has become established do men seek to regain a leading role (and capture the profits).

- Proximity to a city gives a rural territory a comparative advantage over rural areas that lack urban areas. Whether the territory can exploit this comparative advantage depends on several factors.
- Cities may be located in places that people pass through or may be the final markets for products in a rural territory. Cities can also provide goods and services to the rural world or demand territorial labor. The more variety there is in these relationships, the greater the opportunities to generate income for a larger number of residents in the territory.
- Transformative dynamics in gender systems are also more likely to occur when a city is located within or close to a territory.



Where dynamic markets exist, the government and public policies must integrate various aspects of territorial development to achieve greater social inclusion and environmental sustainability.



Chiloe - Chile

- Public policies are instrumental in achieving more equal opportunities in a territory, but public policies have little or no effect if the territory lacks adequate institutions.
- The government's role is even more significant when the territory has a variety of actors with very different levels of access to natural resources, political power, information, markets and capital, and other assets. Where inequality is great, only public policies can create the necessary conditions for market relationships to provide opportunities and benefits for the majority of people and protect the environment.

In Santo Tomas, Nicaragua, dairy production increased after a road was built to Managua. Real gains in territorial competitiveness, however, are associated with the arrival of electricity. This territory has historically been characterized by large landholdings, where one person may own several agricultural operations. There is a strong relationship between controlling land and having political power. As in other areas of Nicaragua, one of the greatest environmental concerns is forest fires caused by agricultural burns, especially of cattle pastures, which often results in the burning of forests, fences and even neighboring houses. Municipalities are currently responsible for conservation and controlling the use of natural resources and the environment, regulating controlled burns with a system of permits and fines. In 2005, a municipal ordinance was issued in Santo Tomas to regulate and protect local water sources, rivers and streams, regulate logging, control fires and prohibit the dumping of chemicals and agricultural and industrial waste into any municipal water source.

In Chiloe, Chile, the construction of comprehensive infrastructure, largely with public funds, enabled the salmon industry to thrive. This industry not only required roads for expansion but also a complete network of rural electrification and connectivity to match the expansion of the industry. As a result, between 1992 and 2003, households in Chiloe saw their incomes increase by more than the national average. Poverty reduction was also strong, exceeding 15 percentage points during that period and also surpassing the national average. In equity, however, results were not as positive, as income distribution worsened, ranking between 0 and 0.03 on the Gini scale. The salmon industry created a new source of employment; by 2008, the industry had created 40,000 jobs. It also brought a series of environmental conflicts that threatened the industry itself, and led to the closing of several plants and the loss of many jobs. More jobs were lost in 2008, with the appearance of infectious salmon anemia (ISA), and the total number of directly related jobs dropped to 15,000.

Additional Readings

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