

# Global trends and the future of rural areas

*Rural areas are not exempted from the impacts of globalization. Global trends affecting agriculture are particularly significant in this respect. A number of options are available to developing countries in responding to these trends. Given the scarcity of resources it is important that they choose carefully. If they fail to respond, rural areas will become even more marginalized than they are already.*

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**A**griculture is the core economic activity in most rural areas of developing countries. The modernization of agriculture is therefore an essential starting point for reducing poverty in largely agrarian societies. Subsistence farming is the most important system of social security in developing countries.

However, the interests of the rural population cannot be meaningfully judged as being limited to agriculture alone. It is in the interests of the economy as a whole – and therefore in the interests of the rural population as well – to enable gradual structural change to take a wider footing within agrarian society; this can be done by developing non-agricultural activities, abandoning agriculture, and through rural-urban migration. Up to now, economic development has always gone hand in hand with this kind of structural change, and diversified national economies with a high degree of urbanization have been able to offer their populations – including the rural population – a higher standard of living than agrarian societies.

Although this article mainly focuses on the consequences of global trends for the agricultural sector, this does not deny that structural change is taking place in rural areas. Rather, the aim is to acknowledge the dominant role agriculture continues to play in developing countries at the present time, as well as the fact that it is affected the most by many of the trends discussed here.

Agriculture is the dominant sector in the early stages of economic development and must make its contribution to overall economic growth and to structural change. However, this should not lead to one-sided exploitation of the rural population or take place at the expense of agricultural performance capacity, as has often been the case in the past.

A process of balanced growth, involving the shrinking of the relative (though not absolute) importance of the agricultural sector as well as the protection of natural resources, poses a

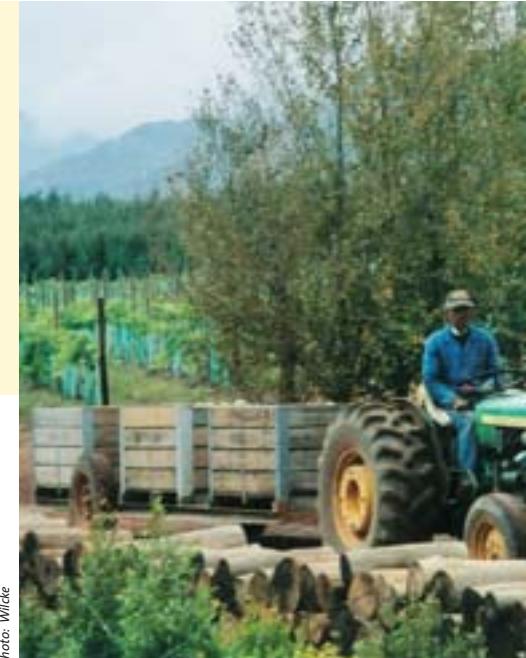


Photo: Wilcke

Investment in a modern agricultural sector brings dividends for the economy as a whole; South Africa and China are good examples of this.

central challenge to many developing countries.

## Globalization and agriculture are not incompatible

The future of agriculture is closely linked to global markets. Debates about building up competitive «core sectors» in developing countries have long concentrated on industry because this was thought to be modern and future-oriented while agriculture was considered non-modern and non-dynamic. This view of things is outdated for two reasons.

**Firstly**, the experience of the last two decades has shown that agricultural development is indeed based on technology and knowledge and can generate intensive added value; it is certainly capable of making an important contribution to the modernization of developing countries' national economies. Chile is an inter-

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ing rather than modernizing informal sectors will not be sustainable in the future.

### Higher standards expected of agricultural produce

A major trend in agricultural markets is the growing importance of quality standards. This trend is partly being driven by demanding consumers in industrialized countries and by the importers of agricultural produce; it is also spreading more and more to developing country markets. Even if a large proportion of agricultural exports is dominated by mass production, it would be wrong to accept unquestioningly the notion that for developing countries agricultural exports – unlike industrial exports – are a «low and easy road» towards the global economy. Environmental and quality standards as well as complex technical standards have become extremely important in the global value-added chains into which world market-oriented companies in developing countries are integrated. In many cases, agricultural exports are just as knowledge-intensive as industrial or service exports nowadays: Investment in knowledge, higher education and training and company-based research are increasingly the key to success, even in agrarian economies. Low wages and the existence of plentiful natural resources do not in themselves offer any long-term competitive advantages.

Domestic markets are also making higher demands on the quality standards expected of agricultural produce. Increasingly urbanized populations, contact with differ-

ent patterns of consumption through the media, competition with imported products and adjustment to international standards all mean that, in the market segment of agricultural production, there is no choice but to adapt to these trends.

### The WTO process: Higher prices on the world market, fewer options for political influence

Because agricultural development increasingly takes place in a global economic context, progress on agricultural issues at the WTO is seen to be extremely important. The anticipation of large profits for developing countries from the worldwide liberalization of the agricultural sector is based on two facts: It is currently the sector most affected by trade restrictions and subsidies, and it is the most important sector for developing countries.

However, the enormous profits forecast even just two or three years ago on the basis of a worldwide liberalization of agricultural trade have been reduced by at least 80 percent as a result of more recent studies. In one of the more optimistic studies, the World Bank estimates that the potential welfare gains from a complete liberalization of agricultural trade worldwide for all developing countries will be 56 billion US dollars in the year 2015, comprising 62 percent of their total profits from the liberalization of commodity trade. This corresponds to about 11 dollars per capita. However, the gains are largely concentrated on just a few countries, in particular Brazil, India, Argentina

### The terms of trade are changing – will agriculture profit?

For a number of decades it was presumed that the terms of trade for agricultural products and natural resources would decline. Development economist Raúl Prebisch had predicted that an ever widening gap would open up between industrialized and developing countries, based on the assumption of continuously falling prices for primary commodities.

However, even during the initial development decades, some countries demonstrated that sufficient technological progress combined with gradual structural change certainly make it possible to engage in profitable economic activity – in spite of declining terms of trade – and to make agriculture an important pillar of the national economy. By contrast, hardly any country has managed to take off economically without at least some measure of agricultural growth.

From the start of the current decade, conditions have changed yet again. In the light of increasing demand from China, India and other countries, the terms of trade for primary commodities are improving again significantly, albeit so far this applies more to non-agricultural raw materials. The latest figures seem to indicate that prices of agricultural products too will begin to increase, especially for products such as sugar and rapeseed, which are used as direct feedstocks in the production of biofuels.

These trends may have both positive and negative impacts. On the one hand, the opportunities for agricultural enterprises may improve on the world market, rural employment may increase and poverty may thus be reduced. On the other hand, strongly increasing foreign currency income from the export of non-agricultural raw materials make local currencies more expensive and thereby weaken agricultural competitiveness (the «Dutch disease»); in addition, there are growing problems with governance (the «oil curse»). These two factors make it difficult for other sectors of the economy to modernize as they need to. Whether the impacts turn out to be positive or negative will depend above all on the internal structures that exist within developing countries.

esting example of development based on raw materials and agriculture (timber, fruit, vegetables, wine) and supported by increased investment in education, training, research and development, marketing expertise and the carving out of specific competitive advantages. In Africa, too, there are examples of value-added intensive agricultural developments, such as cut flower production in Kenya, wine and other special crops in South Africa and the rapidly growing production of speciality coffees in southern and eastern Africa.

**Secondly**, most poor people in developing countries still live in the countryside, and the industrial cores are not able to grow quickly enough to absorb the underemployed rural population. In China, which, on the basis of industrial development and low population growth, has experienced annual economic growth of about ten percent over a period of more than twenty years, the number of people living in absolute poverty has declined significantly, yet mass poverty in rural areas has remained constant and income distribution has worsened dramatically. In the course of this process, the Chinese government has learned that, alongside speeding up industrial development, it is still necessary to invest in rural areas and agriculture in order to guarantee growth, a minimum distribution of the benefits across society and political stability.

These examples show that from the point of view of poverty reduction, ignoring rural areas and agriculture is not an option. Development policy has to contribute towards making agricultural sectors more dynamic, since rural poverty can only be overcome in the long term by creating strong agricultural enterprises. Development strategies geared towards permanently subsidizing agriculture or maintain-

and China. Moreover, an increase in welfare does not necessarily equate with gains for agricultural producers, because rises in world market prices are often countered by lower import barriers and therefore declining prices on the domestic market which, when net prices are falling, favour consumers first and foremost. Consequently, industrialized countries are by far the biggest winners in the liberalization of global agricultural trade. In fact, in terms of overall welfare some developing countries will even be among the losers of liberalization, especially those currently enjoying preferential access to the markets of highly protected industrialized countries and countries that are net importers of agricultural products. However, even in these countries, agriculture and rural areas can benefit from trade liberalization if the internal terms of trade change in favour of agricultural products. Whatever specific impacts the WTO's liberalization of agricultural markets will have, one thing is sure, namely, that the range of policy options available to states for supporting their agricultural sectors will be further restricted. This applies not only to multilateral trade agreements but also to bilateral and regional trade agreements. Such a loss of «policy space» may pose a problem for the agricultural sector and rural areas in some developing countries; overall however, that loss is more than compensated for overall by the reduction in agricultural subsidies in industrialized and newly industrializing countries and might help to prevent similar mistakes being repeated in other developing countries.

### Climate change: A prime structural determinant of agriculture

In the future, climate change will present agrarian economies around the world with a completely new set of challenges. So far, the average increase in temperature around the world since the industrial revolution has been 0.6 degrees Celsius. By the end of the 21<sup>st</sup> century there may well be temperature increases of between 2 and 6 degrees. Although climate change is only just beginning, its impacts are already being felt in the form of increasingly strong hurricanes, rising sea levels, and melting glaciers and polar ice sheets. The main impacts on agriculture, particularly in sub-Saharan Africa, will be more droughts, more soil erosion and greater water scarcity. The poorest agrarian economies will be affected the most. Two important consequences emerge from this. First, the industrialized countries are using highly aggregated climate

Photo: Wilcke



A good infrastructure – especially public transport routes – can considerably improve rural living conditions.

models to prepare today for future environmental change in their countries and regions. On the basis of such studies, for example, the wine growers of Baden-Wuerttemberg in Germany are already beginning to plant new grapevine varieties adapted to the changes in temperature and soil conditions forecast for coming decades. The agrarian countries of Africa most affected by climate change often do not have the means to carry out such studies and are therefore not able to devise long-term, robust development strategies.

Second, agricultural scientists and development policymakers need to work together closely with climate researchers in order to be better prepared for future environmental conditions; scientists have data and models that are highly relevant to development policy, particularly with regard to rural areas and agriculture.

In addition to the global trends that have an impact at the national level, there are also those that occur autonomously inside developing countries and are nonetheless of global significance, namely, population growth, urbanization, a greater division of labour, changed consumption habits and greater competition for local natural resources such as water, land, forests and biodiversity.

### Impacts of global trends on specific regions

It is extremely difficult to say for certain how developing countries can best prepare themselves for the global trends outlined above, given that they have very diverse starting points. Nonetheless, a systematic examination of the most important trends affecting specific regions should make it possible in many cases to identify areas (factors, sectors) with greater potential for change and to highlight their strengths, weaknesses,

opportunities and risks in general terms. Whereas some regions may well have great potential as winners of globalization, others – particularly remote and ecologically disadvantaged regions – will clearly be the losers of globalization. Many regions will experience some combination of the two.

Adjustment strategies need to ensue from these analyses; regions should be supported in their economic development in a targeted way, according to their potential. The «watering can» method has not proved to be effective, but the concept of systemic competitiveness and formation of industrial clusters can be applied productively to rural areas as well. The main priority for sectors and entire regions with a low or declining development potential is to create and support social networks and non-specific adjustment options and instruments that nonetheless have a broad impact. Despite the great uncertainty concerning the impacts of global trends, a high degree of flexibility has to be created prior to supporting specific sectors. Whatever the situation, only by looking first at the instruments and resources a region is able to generate by its own means and those made available to it by state or donor support will it become clear what adjustment strategies are feasible and make most sense.

Many developing countries have little influence over the factors that affect a given location. Rural areas have the added problem that they are considerably more dependent on fixed location factors than urban areas. These include geographic distance from markets, the lack of mobility

of the key production factor (soil), the ecological potential and regenerative capacity of agri-ecological systems, as well as the regional effects of climate change on these parameters, including the spread of diseases and pests.

In addition, higher overall transaction costs (transport, communication, information gathering, control, investment costs per inhabitant etc.) make many economic and socio-political instruments harder to implement in rural areas than in conurbations. Because of these complex external conditions, rural regions face greater difficulties adapting to global trends than urban ones; especially in terms of adjusting to the market economy.

Rural regions are often rather slow in dealing with change, probably because they are strongly characterized by traditional behaviour patterns which are better able to persist due to the population's greater isolation and the smaller range of options available to them for adapting to change. At the subsistence level, however, they do provide a relatively reliable social safety net.

## Strategies for adjusting to global trends

A wide range of potential policy instruments and measures is available for general, non-specific adjustment strategies for rural areas:

**Exchange rate policy:** In order to mitigate the effects of «Dutch disease», exchange rates can be influenced within certain limits, for example by building up foreign currency reserves, by mixing the share of imports in public expenditure and investments, central bank policy etc.

**Education policy:** Education makes the younger generation in particular more able and willing to respond flexibly to change. This includes – especially in weak regions – the opportunity to migrate.

**Infrastructure development:** Roads and communication systems benefit every sector across the board. In some regions it is however questionable whether big infrastructure investment in a rural road network is profitable and sustainable over the long term.

**Development of the financial system:** Access to ways of saving money, obtaining credit and insurance services is a basic need for nearly all rural population groups and increases their capacity to bear risks and to find new opportunities for earning income. Rural financial systems are often

more difficult and more costly to establish than urban ones and therefore require special support.

**Decentralization and organization of the rural population:** In many developing countries the interests of the rural population (except for large landowners and plantation owners) are only poorly represented. Without organizations to represent non-state actors, a crucial factor is missing in the development of rural areas.

Some measures suitable for specific adjustment strategies:

**Trade and agricultural policy:** Trade policy is included among the specific measures because it enables individual sectors to be directly protected or taxed (unlike exchange rate policy). As explained above, the policy options available to trade and agricultural policy are becoming increasingly limited by WTO rules, especially when measures deemed trade-distorting are taken. Nonetheless, exceptions mean that developing countries can retain more options than the industrialized countries, and many agri-policy measures are classified as non-trade distorting and therefore not subject to WTO disciplinary action.

**Agricultural research, consultancy and training:** Good research capacity is one of the major points of leverage for agricultural development. However, agricultural research is often oriented very specifically towards certain product and management systems, related links with extension services and private-sector actors are specific as well. School students can begin learning about agriculture and obtain further knowledge through adult education.

**Agricultural loans:** Agriculture makes special demands on providers of financial services because of the higher risks involved and the often long-term production and investment cycles. General financial providers are frequently unable to meet

these requirements adequately. Special agricultural finance mechanisms are therefore an important component of a dynamic agricultural sector.

**Specific infrastructure:** Whereas general transport infrastructure is certainly the most important component of an infrastructure policy for rural areas, other specific structures are often significant for particular sub-sectors only: refrigeration chains, warehousing, trans-shipment systems etc. In many cases these are not adequately provided by the private sector, especially in start-up phases.

**Standards and regulations:** In addition to setting up general measurements, standards and testing institutions, most measures relating to adherence to standards and regulations required at international level or expedient at national level are highly product-specific. In many developing countries this area is still largely dominated by the principle of one-sided regulation and control and not by the principle of enabling and promoting the private sector.

**Coordination and cooperation among farmers:** Small farmers, particularly in developing countries, are structurally disadvantaged for a number of reasons: They live in widely dispersed locations, their sales and purchasing volumes are small, their markets are far away and, in some cases, are highly concentrated. Cooperation in purchasing and selling is often the only way farmers can secure contractual conditions that guarantee competitiveness. Given the negative experience with previous state-controlled cooperatives, farmers now need support in organizing themselves. Such interest-based communities have led to the emergence of politically active and internationally successful pressure groups in some countries, as with the cotton farmers of West Africa.

If developing countries fail to respond to the new global trends, rural areas will become even more marginalized than they already are, with devastating consequences for economic growth, poverty reduction and natural resources.



Photo: Wilcke

Interest-based communities, which exist among West African cotton farmers can represent successful pressure groups.