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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