



# APRA Brief

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## Agricultural Commercialisation Lessons from Asia and Latin America

### Summary of lessons

Fragmented land tenure in Asia has not limited agricultural growth and has been achieved from the efforts of millions of small-scale family farms.

Asia's success in raising farm output over 25 years or so has very largely been the result of three trends: land use intensification, crop/livestock diversification, and output commercialisation.

Markets, roads and technology are the elements present in almost all accounts of smallholder commercialisation in Asia.

Most smallholder commercialisation in Asia involves production for domestic markets, but exporting is possible, e.g. north-east Thailand.

Land tenure changes have not figured as main drivers of change in the past two decades.

The drivers of smallholder commercialisation in Latin America include the combination of public investments in infrastructure and people, with private enterprise organising supply chains.

The drawbacks of not operating at efficiency thresholds for machinery, or receiving bulk discounts, can be overcome by renting, trading in used machinery, and in forming small associations.

Using evidence gathered in Asia and Latin America, this brief draws out lessons in smallholder commercialisation that may be instructive for sub-Saharan Africa.

The brief provides a summary of a longer report<sup>1</sup> which was produced from a dataset analysis – largely from FAOSTAT – on agricultural production, as well as a review of recent literature on commercialisation in Asia and Latin America.

For Asia and Latin America, the review considers the prevalence of smallholder farming, the trends seen in growth of production, and the forms and processes that smallholder commercialisation has taken.

Some have argued that Brazil's vast farms, worked by machines using advanced technology, are the best way to transform African agriculture. But this model is only feasible for countries with abundant land, plenty of capital and little labour.

However, Asia – with its small farms, abundant labour and limited capital – may prove more instructive for contemporary sub-Saharan Africa.

### Asia

In Asia, agricultural development has largely been achieved through the efforts of millions of small-scale family farms (less than 2 ha); surprisingly little of Asia's agricultural land is now, or has been, cultivated on large holdings. The exceptions to this are the estates growing cash crops of oil palm, rubber, sugar cane, tea, cocoa, etc. – largely for export. Operated farm sizes show little sign of consolidation; rather, they have become smaller. But despite the small scale of most farms, the pace of agricultural growth has been maintained.

Three elements are present in almost all accounts of smallholder commercialisation in Asia: markets, roads and technology.

<sup>1</sup> Wiggins, S. (2018) Agricultural Commercialisation: Lessons from Asia and Latin America. APRA Working Paper, Brighton: Agricultural Policy Research in Africa



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### Smallholder commercialisation

A fragmented land structure does not appear to have limited agricultural growth. Indeed, from the late 1960s, most Asian countries saw a green revolution in cereal production (maize, rice, wheat) as improved higher-yielding seeds, with fertiliser and irrigation, allowed food production to increase faster than population growth.

Since the 1990s, this has been followed by even more impressive growth in the output of higher-value produce (mainly for domestic and regional markets): including livestock products, farmed fish and shrimp, fruit and vegetables, beverage crops, and some industrial crops. Most of this has also come from small-scale family farms as higher yields of food crops made it possible to free up land for cash crops and livestock.

Consequently, producing on a small scale has not proved an obstacle to commercialisation. Where lump investments have been needed (e.g. for farm machinery), either small-scale machines have been produced (such as two-wheeled tractors) or rental and hire services have emerged.

Raising farm output has therefore been achieved through the intensification and commercialisation of small farm production, which has been done, in large part, through private initiative – even if public investments (including in rural roads, electricity and banking) have been critical. Better roads and booming cities have expanded market opportunities, while improved technology (improved seed and fertiliser) made a response to these opportunities possible. Traders have helped to link farmers to market while also providing inputs and technical advice on credit.

### The non-farm economy

However, despite the technical advances and the shift to growing higher-value crops that may allow farm households to escape deep poverty, across the continent, most farm households in Asia receive half or more of their income from off-farm activities and employment.

A wide range of non-farm activities are observed: operating small businesses, working locally for wages, and migrating or even commuting daily to urban centres for paid work. Additional employment in local, non-farm economies, along with the high levels of migration and commuting, are distinctive features of modern, rural Asia.

Given how many farm households earn most of their income away from the farm, it might be thought that farming is not that important. But that would be to ignore at least three key points.

1. The dominance of the urban and industrial economy over the rural and agrarian economy is very recent and its effects have only emerged since the turn of the century. Agriculture's role has been critical in getting to this point.
2. Some people lack the skills and education to get off-farm jobs. They then depend on what they can earn from the farm, as well as (in many cases) on what migrant (younger) members of the household can send home. In addition, commercial cultivation of fruits, vegetables and chickens means that even tiny plots can provide an income.
3. The agricultural revolution unleashed in the late 1960s has not abated; farm output is growing as fast as ever. Domestic markets are large, and the demand for higher-value produce is growing rapidly: some farmers are clearly investing and innovating in the present, as much as – or even more than – in the past.

### Conditions for smallholder commercialisation

It might be feared that agricultural commercialisation in Asia has favoured only a few farmers, while others have been marginalised. The evidence, patchy and imperfect as it is, does not support this. This is not to claim that commercialisation is always a good thing, nor that commercialisation alone is the driver of the improved welfare seen across much of rural Asia. But, from the evidence gathered, commercialisation does seem likely to raise the incomes of the majority of the rural population, whenever the following conditions are present:

#### Farming opportunity

- A market and effective links to that market.
- Natural conditions (soil, rainfall/irrigation, temperature) that allow cash crops to be grown at a low enough unit cost to make a profit.
- Appropriate technology used for the cash crops that can be adopted by a wide range of farmers, and access to capital for smallholders (not just credit, but also off-farm earnings, remittances, savings, etc.) to enable investment without undue risk.

#### Spread effects through rural labour markets and the non-farm economy

- Commercial farming, especially at small scale, often generates demand for labour, including in seasons that were previously slack – thereby creating more work for others in the rural economy.
- Commercialised farming creates links to the local economy in processing facilities, input supplies, transport, storage, etc.
- Commercialising smallholders spend much of their increased incomes on local goods and services.

## Context

- Overall economic growth that means thriving and growing cities with rising demand for food.
- Improved transport links between urban centres and the rural surroundings.
- No institutionalised roadblocks, i.e. cartels in marketing, exclusive contracting deals, deliberate marginalisation of minorities, land grabs, etc.

This is a long and demanding list, but the cases reviewed in Asia suggest that most of these conditions were fulfilled.

## Latin America

Latin America is rather different to Asia. Large farms dominate the area cultivated and grazed, although the majority of holdings are of 5 ha or less. Latin America's agriculture has grown strongly since the 1960s, much of that growth coming from expanding the farmed area. Since the 1990s, exports have been rising rapidly: for South America in 2010, around 60% of output by value was exported.

The drivers of smallholder commercialisation are similar to those seen in Asia: the combination of public investments in infrastructure and people, with private enterprise organising supply chains.

### Farm structure and land reform

More so than in any other region of the world, Latin America's farm structure is bimodal: most of the land is in relatively few *latifundia*, but with an abundance of *minifundia* due to a history of European invasion and settlement, unequal land distribution, and rentierism (living off rents). By the time of the Second World War, the bulk of the land was held in very large estates, while most of the rural population was either landless, dependent on the estates for work, or else had access to small farms, usually on low quality land that did not interest the landowners.

In the 1960s, some land reform and land redistribution took place. Legislation to transfer unused land from large estates to smallholders often galvanised the landowners into investing, innovating and greatly raising the productivity of their estates. Owners of large farms lobbied successfully to extract subsidies from the state to do this. Some of these large farms have thus become models of efficient farming on a large scale; the giant soy farms of the Cerrado in Brazil may be the best-known example.

### Commercialisation

Since the 1960s, like Asia, Latin America has seen a green revolution in cereals production, as well as even larger increases in the output of higher-value crops. The difference is that Latin America has seen major increases in output for export: soy and beef from Argentina and Brazil; fruits, flowers, vegetables and wine from Chile, Colombia, Costa Rica, Mexico and Peru. Much of this increase has come from large-scale farms.

Although many smallholdings in Latin America may be producing largely for household subsistence, some are commercialising. Three pathways can be seen:



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1. Producing perishable, fresh produce for regional cities;
2. High-value, niche export crops (e.g. snow peas and quinoa); and
3. Producing export crops (e.g. soy) for mass markets on a relatively small scale, overcoming scale inefficiencies in machinery, input supply and marketing by forming groups.

### Non-farm economy

In common with Asia, most commercialising smallholders in Latin America have other jobs and businesses. A diversified rural economy is central to the prospects of eliminating (deep) rural poverty. Small farms in themselves rarely generate enough income to reach a minimally acceptable standard of living.

Indeed, for the most marginalised rural residents – those with no land or very little land, those lacking labour, those living in remote areas with poor natural resources – money transfers may be the only way to ensure that households survive with some dignity, and to give the next generation the start in life offering better prospects.

### Advantages of smallholder agriculture

The experience of some Latin American smallholders shows that agriculture is an adaptable industry. For all the technical advances, both on-farm and in the supply chains – which seem to imply that competitive production must involve large-scale operations with heavy capital investments – intermediate solutions arise and persist. The advantages of family farms in labour supervision are considerable. The drawbacks of not operating at efficiency thresholds for machinery, or receiving discounts, can be overcome by renting, trading in used machinery, and in forming small associations.



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## Lessons for Africa

1. **Success in agricultural development comes from sustained public investment** in roads and other infrastructure, and in people – in education, health and clean water. In addition, most Asian governments have provided a reasonable investment climate. Brazil's agricultural success, albeit from large farms, has also been underpinned by strong public investment in agricultural research (sustained over decades), roads and, at times, unaffordable capital subsidies.
2. **Successful urban development.** Urban markets create opportunities for farmers. When rural people can get off-farm jobs, without necessarily giving up farming, then not only does the economy benefit, but rural incomes also rise substantially. The most successful cases in Asia have all had major booms in urban-based manufacturing.
3. If the former two conditions are met, then **agricultural growth, ahead of population growth and with rising productivity of both land and labour, is more likely than not.** Some people engaged with agricultural development in sub-Saharan Africa were so dismayed by the dismal years of low growth that prevailed across the continent from the early 1970s to the mid-1980s that they assumed only dramatic efforts, or some technological miracle, would spur agricultural growth. Not so: experiences from Asia and Latin America suggest that a rather more prosaic agenda will allow growth.
4. **Small scale is not an obstacle to farming.** Asia shows that farming on a small scale is no obstacle to agricultural growth. Indeed, some East Asian experiences – e.g. mainland China, Japan, South Korea, Taiwan province – suggest that splitting larger holdings into smaller units actually encourages growth. It is remarkable how resourceful and adaptable farmers and grassroot traders can be in overcoming any drawbacks of small-scale operations, often finding intermediate solutions. It is therefore not necessary to make wholesale changes to the structure of farming or to dispossess smallholders of their land.
5. **Equitable rural development policy.** While achieving the right conditions can get small-scale commercial agriculture moving, ensuring that this is done equitably and that all share in prosperity requires additional measures. A focus on commercialising smallholder farming does not preclude an active rural development policy that attends to the needs of all. Even in farming, households with little land and labour, including those of older couples whose children have left the farm, can be helped to raise yields and incomes, through appropriate technical innovations.
6. **Encouraging better policy can be challenging.** The conditions that have encouraged smallholder commercialisation may be, for the most part, common sense and straightforward; but policy choices in reality can sometimes reflect greed and narrow self-interest, populist currying of favour, and even delusions. Not for nothing has there been such a surge of interest in the political economy of agricultural development in Africa.

## Image captions:

Cover – Sor Phoeung, a farmer from Cambodia's Prey Thom village, prepares his field for the next crop.

Page 2 – At a market in Myanmar, chillies are bought from smallholders before being packaged and sold for export.

Page 3 – Cerrado, Brazil. A harvester fills a wagon with cherries.

Page 4 – Asanre Bismark and Dwomoh Christopher spread cocoa bean for drying near their farm in Kyekyewere, Ghana.

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