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COOPERATIVE AGREEMENT ON HUMAN SETTLEMENTS AND NATURAL RESOURCE SYSTEMS ANALYSIS

A STUDY OF RURAL-URBAN TRADE RELATIONS IN ASIA: CAN SMALL TOWNS HELP FARMERS GET BETTER INCOME?

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The conviction that small towns have an essential role to play in promoting rural development has been gaining strength. An important element in rural development is, of course, raising the level of income of farmers. As a part of our research into rural development, the Division of Human Settlements Development of the Asian Institute of Technology has undertaken research into rural-urban relations. In this paper we shall only look into one aspect of this relationship, the trade relationship. One of the essential functions which small towns perform vis-a-vis the rural people, mostly farmers, is to provide them with facilities to market their agricultural surplus and purchase their agricultural inputs and domestic requirements. This is the trade relationship that will be examined in this paper. We shall try to see whether small towns can promote rural development in the way they fulfill this function.

For the purpose of this paper we shall consider as "small towns" the lower order service centers such as provincial and district towns, small towns, and rural centers, without entering into a debate on how one would or should define "town." The paper is based mainly on the work that four of our students have done for their Master of Science theses in the past two years.[1] In interpreting of their findings the author will draw on his own experience in rural areas of some Asian countries.

The farmers in the study areas grow a variety of crops such as paddy, corn, cassava, sugar cane, vegetables, and fruits. Of these paddy was the most important crop in all the areas, and was grown mainly as a subsistence crop. However, in all the areas the farmers sold a portion of their crop to get cash income partly to repay their loans and partly to purchase their other domestic needs. As most of the farmers are smallholders and their productivity (per unit of land) is low, the amounts sold are relatively small. The farmers do not sell all their surplus at one time; they sell most of it soon after harvest to repay loans and the remainder in small quantities as and when they need cash. Cash crops like kenaf, cassava (when it is grown as a cash crop, as in Thailand) and corn are sold soon after harvest in bulk. Vegetables are often grown for domestic consumption as well as for sale; they are sold in small quantities. The pattern of sale of different agricultural commodities varies according to the nature of the crop and the main purpose of its cultivation. This affects where the farmers sell their produce.

It is also very common to find in Asian countries that traders come to the village to purchase agricultural produce soon after harvest. Since many farmers borrow money from these traders, farmers are obliged to sell their produce to them.

The traders are both local as well as those who come from neighboring small towns; sometimes they come from the larger cities farther away. The traders at the rural centers (village level) are often not simply traders. Large landowners and their tenants may both be involved in trade. Traders may own a shop from which farmers can buy their domestic needs on credit; sometimes

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(1) Uton R. Harun, The Role of Rural Marketing in Transmigration Area: The Case of the Sitiung Transmigration Project, West Sumatra, Indonesia (1982)

Madan Manandhar, The Socio-Economic Impact of the Growth Center on its Rural Hinterland: A Case Study of Birendranagar, Nepal (1982).

Dayapala Thiranagamage, The Role of Small Towns in Rural Development: Some Lessons from the Uda Walawe Project in Sri Lanka (1981).

Titiraht Chudasring, The Spatial Pattern of Economic and Social Linkages in Rural Khon Kaen, Thailand (1982).

they may own tractors, buffaloes, or a rice mill which farmers use. Often traders lend money or provide agricultural inputs on credit to farmers. Where local traders have developed into such multi-purpose institutions, they can control the villagers' selling and buying behavior in many ways.

The traders who come from outside may not have so much influence over the villagers, but they exercise their control mainly through lending money or providing agricultural inputs on credit. Providing agricultural inputs on credit, however, is still not a very important mechanism of control because the use of such inputs is still confined to few farmers. Of the four study areas mentioned, only in the Uda Walawe, Sri Lanka do farmers use significant amounts of fertilizer and agro-chemicals. Some traders in the small towns act as agents for mill owners or export companies, particularly in Thailand where sugar cane, cassava, corn, kenaf, and even rice in some areas are grown mainly as cash crops. Agricultural products are milled or processed by large-scale processing plants for domestic and foreign markets, while local level traders act as agents of processing organizations to purchase the produce from the numerous farmers.

The spatial pattern of marketing agricultural produce is the outcome of these various marketing arrangements and individual considerations which affect the decision of individual farmers as to whom they would sell their produce. This decision is also influenced by other considerations. In Sri Lanka, the government operates a guaranteed price scheme for several commodities which was implemented through the network of multi-purpose cooperative stores; these cooperative stores are found at the rural center level. Thiranagamage found that most farmers sold their paddy to the local cooperative store. Subsidized fertilizer and until recently even agricultural credit, could also be obtained only through these cooperatives. Therefore, farmers found it advantageous to deal with the cooperatives unless they were obliged to deal with traders for other reasons. Another factor that induced them to deal with traders is the proverbial inefficiency of the cooperative systems in their countries.

There are several indications that farmers sell their produce at the nearest service center, often their own village, for reasons other than financial profitability. We have already referred to the obligations that compel farmers to sell their produce to local or outside traders. Convenience and risk are, obviously, other considerations farmers take into account in selling their agricultural produce. Small farmers with no regular or frequent contact with distant market places are not aware of the marketing opportunities at those markets. The prices could be higher at such places, but they fluctuate, and a farmer cannot be certain that he can get the price he expects. Further, they have difficulty in arranging transport for the small amounts of produce they can offer for sale at any time, unless it is small enough for them to carry it themselves via irregular and infrequent rural passenger transport services. Such services, where available, then only link the village with the nearest small towns. All these difficulties plus the cost of transport make it risky to take the produce to a larger but more distant market center even if the prices may be higher. Thus, we can say that a farmer decides to whom and where he sells his produce in an <u>environment of uncertainty</u>. This, combined with an economic condition that discourages taking risks, would induce them to sell to local traders at the nearest small towns rather than searching for better prices at more distant places. Chudasring found that the price of paddy varied between B2.20/kg and B3.00/kg among the various small towns she studied which were within 150 km from each other. Most of the paddy, however, was sold within 10 km of where it was produced, although in two areas, Banpai and Chumpae, the net return from selling paddy was locally higher than selling it at a more distant market where the price was higher.

Where the opportunities for marketing locally are either poor or non-existent and the net return from marketing are evidently better at a more distant market place, farmers do take their produce to such market centers. Chudasring showed that kenaf growers in Banpai, Chonnabud, and Nampong took their produce to the provincial capital, Khon Kaen; similarly the sugar cane cultivators in Kranuan sold their produce in Nampong where the sugar mill is located, and silk producers in Chonnabud sold their products in Khon Kaen. Thiranagamage showed that although farmers sold their paddy at the local co-operative store, they took their subsidiary crops such as vegetables and fruits to the larger market centers at Embilipitiya and Angunukolaya which are farther away. In Sitiung, Harun also showed that farmers prefer to go to market centers farther away to sell their produce. In both these planned land settlement schemes, the planners had very thoughtfully provided local level market centers in every locality for about 500 families. Many of these, however, had not developed because the farmers preferred to go to more distant traditional market centers which had large, well-patronized periodic markets. There they could find several buyers for their produce and could, at the same time, buy a variety of their needs. The quantity of produce they sold at these markets was small, and they carried it themselves by foot, bicycle, cart, or local motorized transport.

In Surkhet, Nepal, Manandhar found that most of the produce was taken to the marketplace on foot partly because transport facilities, including roads, are poorly developed and partly because the surplus available for sale is small. The level of productivity of the farmers who are mostly smallholders (with less than 1.0 ha) is low and because their production is still subsistence-oriented, they sell only a small proportion to obtain the essentials they do not produce. Rice was the only commodity which most of the farmers sold at the nearest market center; other products like vegetables, fruits, honey, ghee, poultry, and cattle were sold mainly at the market in Birendranagar, the region's major urban center. Most of the farmers stated that they preferred to sell these products in Birendranagar because there are more buyers and they have a better opportunity to sell their produce at a reasonable price. A visit to Birendranagar enabled them to purchase what they needed and attend to other work.

Because of the low volume and prices of agricultural produce sales, farmer's cash income for purchasing various items is limited. Most cash is spent on food items they do not produce, such as cereals in the case of those who grow cash crops, sugar, vegetable oil, salt and fish, clothing, kerosene oil, and soap. In Khon Kaen, Chudasring showed that farmers buy these from the nearest rural centers; if they wanted better quality items, especially in clothing which they buy infrequently, they went farther. In all the other study areas most farmers bought many of these items from marketplaces farther than the nearest one. In Uda Walawe, Thiranagamage found that the periodic market and regular shops at Embilipitiya and Angunukolaya provided needed goods, while items like sugar and kerosene oil were purchased by the villagers from local stores in small quantities as needed. This was also seen by Harun in the Sitiung. In Surkhet, Manandhar found farmers tended to buy even salt, sugar, and kerosene oil in distant Birendanagar, because in Nepal such staples are available at controlled prices through cooperative stores located in Birendanagar.

Looking at the trade relationship between small towns and their small hinterlands in the context of rural development, the four studies referred to show that small towns perform their marketing function fairly adequately. It is true that farmers do not always get the best price or the maximum opportunity to sell at the nearest marketplace, and where this is evident farmers go to more distant marketplaces to improve their net return. This is particularly true for specialized commodities for which the local market may not offer adequate opportunity. However, it is quite common for farmers to sell their produce at the nearest small town. Periodic markets certainly seem to enhance marketing opportunities as they bring several producers, traders, and consumers together on particular days at a particular place. As most farmers buy, sell, and often attend to other work at these small towns, they are willing to go farther than the nearest available marketplace to transact their business. This has downgraded the importance of the lower order service centers and enhanced the higher order service centers. The larger towns may become even more important if the farmers become more commercialized and have larger surpluses to sell as well as have more cash income to buy their domestic and agricultural needs. However, that would also depend on the convenience and cost of transport.

As the studies did not reveal that farmers could not sell their surplus for the lack of a marketing facility, marketing was obviously not a constraint in that the availability of this marketing facility had encouraged the farmers to improve, intensify, or diversify their production. Obviously, demand alone was not sufficient to stimulate a response from the farmers because they were constrained in changing their production patterns by other factors. There is also the problem of low prices for agricultural commodities the farmers produce relative to the prices of the commodities that they wish to buy with their cash income. It is doubtful whether the development of small towns can change that situation; that is a national and international problem which affects rural areas adversely.

Another factor that denies farmers the full benefit from their efforts and investment is their obligation to sell their produce to particular traders. In that situation, they cannot sell at a price favorable to themselves. They are compelled to sell most or all of their produce soon after harvest when prices are normally lower; in addition, they have to sell it on terms which are even less favorable because of their ignorance and economic vulnerability. Development of small towns cannot help farmers overcome that problem.

In considering the role that small towns can play in rural development we must realize their limitations. There seems to be no serious problem from the marketing point of view in the current availability of small towns or market centers. Because of economic and social conditions that affect rural-urban relationships as well as the relationships between farmers and traders and farmers' productivity, small towns by themselves cannot benefit their rural hinterlands. There is no automatic mechanism through which benefits will flow from these small towns to the rural people because several factors constrain the benefits that farmers can gain from this relationship. A change is required in the framework of rural-urban relations for rural people to benefit from this relationship. Changes are also required at the rural level to free the farmers from the constraints that prevent them from increasing their productivity and benefiting fully from their efforts and investments. Only then can small towns help farmers earn more income.