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# **Economy of Globalization and Market Crisis: What Solution for the Agricultural Sector**

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Additional information is available at the end of the chapter

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## **1. Introduction**

Economic globalization has triggered a process of market innovation and communication, through direct and indirect effects, in the primary sector and particularly in the agribusiness sector.

Supply and demand of agricultural products and especially food is centred not only at national or local level but also at a global level.

Within these contexts, the individual farms are being increasingly squeezed out and they are unable to compete and to influence the market or have an effect on markets.

For this reason, farms can't only operate in their local area, but in a more complex and organized context with an ever increasing larger scale, accordingly they must give up individual policies and instead create alliances, collaborations between companies, for example through consortia, cooperatives, food and rural districts.

In this chapter we want to highlight the opportunities in the light of the district may help to re-launch both the agriculture and rural areas.

This growing interest in the district comes from a pondered reflection, aimed at any hypothesis intended for local development theory which might have its foundation in the endogenous development strategy. Through the creation of the district it is therefore intended to promote the integration between the enterprise system and the reference area.

## **2. On the concept of globalization**

The term globalization means a set of phenomena of high intensity in quick succession throughout the global of, economical, social, cultural and ideological aspects. These events

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gradually lead to the elimination of the tangible and intangible barriers to free movement of goods and people, to the dissemination of knowledge. The tangible effects of globalization are those that lead to the standardization of economic conditions and lifestyles of people in accordance with the Western model.

This is a fairly recent trend, which is realized mainly through a process of integration of the global economy to generate a network of activities that transcend the economic, social and geographical boundaries (Pinstrup-Anderson & Babinard (2001)).

The Nobel prize winning economist Amartya Sen argues that globalization has always existed, including in it also the geographical discoveries of the sixteenth century and the discovery of America in 1492, events that resulted in a similar form of globalization that has contributed to the progress of humanity.

Phenomena similar to the process of globalization in importance and extent of involvement in different countries of the world, have been seen throughout the history of this planet even in ages long gone by. If we think of mathematics: the decimal system appeared in India between the second and sixth century AD and quickly spread among Arab mathematicians. After the knowledge of mathematics reached Europe around the second half of the tenth century (Sen, 2002), again resulting in a process of globalization.

Although some scholars, economists and sociologists argue that the roots of globalization date back to centuries past, the term was apparently coined by Theodore Levitt (Levitt, 1983), American economist, and since then this term has almost radically replaced the expression often used i.e. "global village".

The beginning of this change can be traced back to the summit of the G6 meeting in Rambouillet (France) in 1975, when the general liberalization of the market process was created, governed by the GATT and later by the WTO, IMF and World Bank Investment. Since then, other definitions of globalization have been proposed, for example, the ODCE has interpreted this phenomenon as "a process through which markets and production in different countries are becoming increasingly interdependent due to the dynamic exchange of goods and services and through movements of capital and technology."

The globalization that currently affects our planet and which we can define "post modern" to distinguish it from all other forms of globalization that have arisen in the course of time, can certainly be considered a fairly recent phenomenon, whose birth, even if it has its roots in the 70s, can be traced back as the start of the process of change of the late '80s.

Today this in reality translates into a phenomenon of progressive enlargement of the sphere of social relations, which potentially should involve the entire planet and coincide with its boundaries.

In particular the benefits generated by the phenomenon of globalization, consist in giving a higher performance than ever before, due to the free movement of goods and services, which brings to obtaining better quality products at lower prices. This has resulted in clear benefits for consumers, which in terms of purchasing power have obtained better products

and have been able to save a larger share of their income; as for companies, which in the long term have set aside increasing funds which have been able to be invested in innovating the production processes. The exchanges have increased, since the process of globalization, to the extent of 1200%.

This has favoured the dominance of multinational companies in the world economy, whose mission is to respond to the logic of increases in profit, this has led to the relocation of production processes in less developed countries as a result of lower labour costs, with obvious repercussions for the economic and social integration of individual countries. The consequence has been the decline in industrial employment in Western countries and the exploitation of child labour in the third world countries, where wages are very low. In this international scenario, poorer countries have been forced to sell off their natural resources because of inflation and to buy consumer goods at prices always higher.

From the globalization of commercial markets we have gone to financial globalization. The economic and financial globalization has resulted in the elimination of all legal barriers, and has fostered economic and cultural leveling of prices and production costs to the most affordable on an international scale. This has led to the birth of "tax havens", places where to off load and clean the huge profits of the multinationals.

If we analyze only the positive aspects of the process of globalization, we note that the economic growth, favoured by trade and finance, has involved in little more than a decade and a half a billion people worldwide, who in that same time have doubled their income. Emerging countries that have experienced their greatest growth in the last two decades are those that have demonstrated a greater trade and financial integration in the global economy; emblematic examples are the countries of Southeast Asia and the new EU partners. The economic growth of these countries has promoted a more rapid diffusion of new technologies and the formation and the improvement of human resources.

Certainly the phenomenon of globalization does not produce unique effects. Besides the positive effects, although extremely important, in fact, there are also negative ones.

On the world scale the creation of increasing interdependence between countries is in itself a positive effect, as it has promoted the spreading of technologies and disseminated knowledge, but at the same time represents an element of weakness, because all the phenomena, action, problem, even though born at the local level, it is no longer confined to the territory of origin, but it creates turmoil in the global balance.

The attempt to examine the negative effects of globalization, related especially to disturbances in turn related to the liberalization of markets, emphasizes how this phenomenon has made financial markets particularly unstable, making distribution of resources and the spread of development in the world inequitable, further exacerbating social inequalities. In fact, uncontrolled deregulation of markets has had disastrous effects and the current international crisis bears witness to this.

In fact seeing that the processes in place are not perfect and linear, often more or less consistent areas suffer from a social division that is constantly increasing, due to the worsening of the dichotomy of the systems of the socio-economic world.

The causes that have triggered this gap is attributable to a number of key factors: the action of market forces, facilitated by specific policy choices, which have substantially increased the free movement of goods and capital, the crisis of the socialist systems of Eastern Europe, the most important of which is the one that occurred in the Soviet Union, the key role played by technology and, in particular, the rapid spread of new technologies applied to telecommunications (ICT), to the development of transport systems, which have reduced incredibly the time and cost of long distance communication, making possible transactions in markets geographically and logistically far apart. In the last thirty years, the reduction of time and costs is equivalent to 65%.

We can therefore say that the benefits of globalization fall almost exclusively on the model of Western life, generating different levels of economic welfare. This requires the implementation of alternative development models to those already in place, which destroy local ways of life and human, cultural and environmental resources. The biggest risk that is likely to emerge as a result of a mature process of globalization is in fact the progressive loss of local identity.

### **3. Economy of globalization and market crisis**

Historical events, new geopolitical balance and socio-economic and technological changes that affected the world in the last three decades certainly represent a moment of epochal change that will characterize the "modus vivendi" of future generations.

Among the most significant changes, clearly the process of globalization is the most important, although some scholars prefer to speak of an internalization economy process.

The internationalization of the world economy has outlined the characteristics of international trade, geared to promote a complete liberalization of trade and total elimination of any constraint both regulatory and tariff which could hinder free trade.

The ideological motivation of the process of globalization can be traced back to the Ricardian theory of production specialization, according to which each economic agent has to focus and specialize in the field where it is more capable and which requires a lower production cost, while the policy of free exchange would have allowed everyone access to goods produced in optimum conditions.

In other words, the free market of products provides the optimal allocation of productive resources.

However, the analysis of the current situation allows us to see how the impact determined by these phenomena has dramatically affected the weak economies in the developing world.

Despite the undoubted positive aspects, in fact, we should also consider the weaknesses that this economic system brings, the among these worsening of one of the physiological defects of the economic society, defined by Keynes as "unfair and arbitrary distribution of wealth and income"; this is the limiting factor in achieving sustainable development, which, as we

know, is marked by inter-and intra-generational equity principle, known as “equal opportunity” to access resources for the entire population of the planet.

The economy of globalization, now has greatly exacerbated inequalities between industrialized countries and developing ones.

We note, in fact, the existence of areas, such as Latin America, Sub-Saharan Africa and central South Asia, hosting almost 90% of world population, but with only one third of the wealth produced on the planet.

An examination of the effects of international trade on development can not ignore an analysis of market liberalization, which in the last two decades has been a priority of adjustment policies, implemented by international organizations, aimed at the developing countries, an objective taken up by China and the socialist countries of Central and Eastern Europe.

The phenomenon of liberalization has benefited the economies of countries that have certain characteristics, such as a consolidated and diversified manufacturing base, an important human capital, entrepreneurial capacity, a system of government, solid public institutions and a strong social cohesion. In countries where some of these features are missing, globalization is producing anything but positive effects, it has in fact encouraged the process of deindustrialization and loss of gross national product, it has exacerbated inequalities and increased the range of poverty. Emblematic examples are Russia and Africa, all this shows that the transition from a closed economy to an one to produce positive effects the transition must be gradual (Stiglitz, 2002).

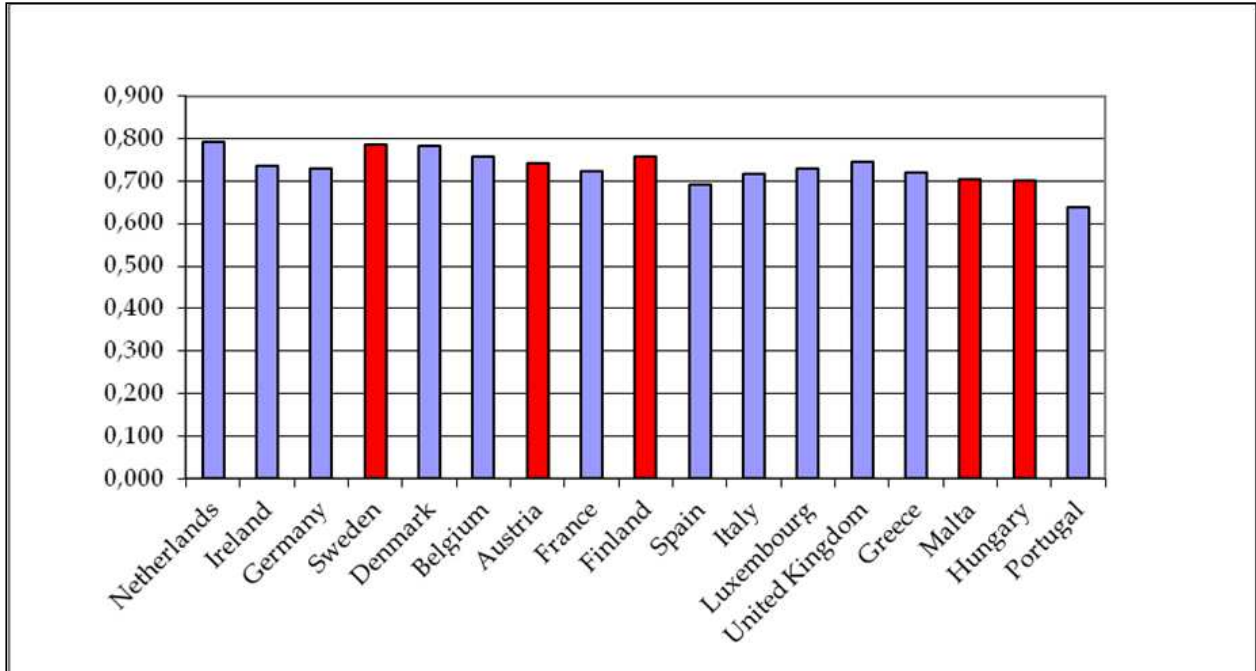
If we take the Human Development Index (HDI) as the benchmark to measure the level of growth and wealth of a country, we note that the most important factors considered for evaluation, are three: life expectancy at birth per capita income and educational level. The latter is determined by the literacy rate and the average enrolment at educational institutions; of these two variables the weighted average is then calculated , for 2/3 related to literacy and 1/3 on the average enrolments (Volpi, 2007).

The ratio of HDI for the year 2011 says that the recent progress in human development for most of the poor of the world consisted only in the support received, and most of the benefit is for future generations. The reports of previous years have shown that living standards in most countries have been growing for several decades, yet the 2011 Report projects a disturbing turn around of this trend. If environmental degradation and social inequality continue to intensify, the less developed countries will be further alienated from the global models of progress.

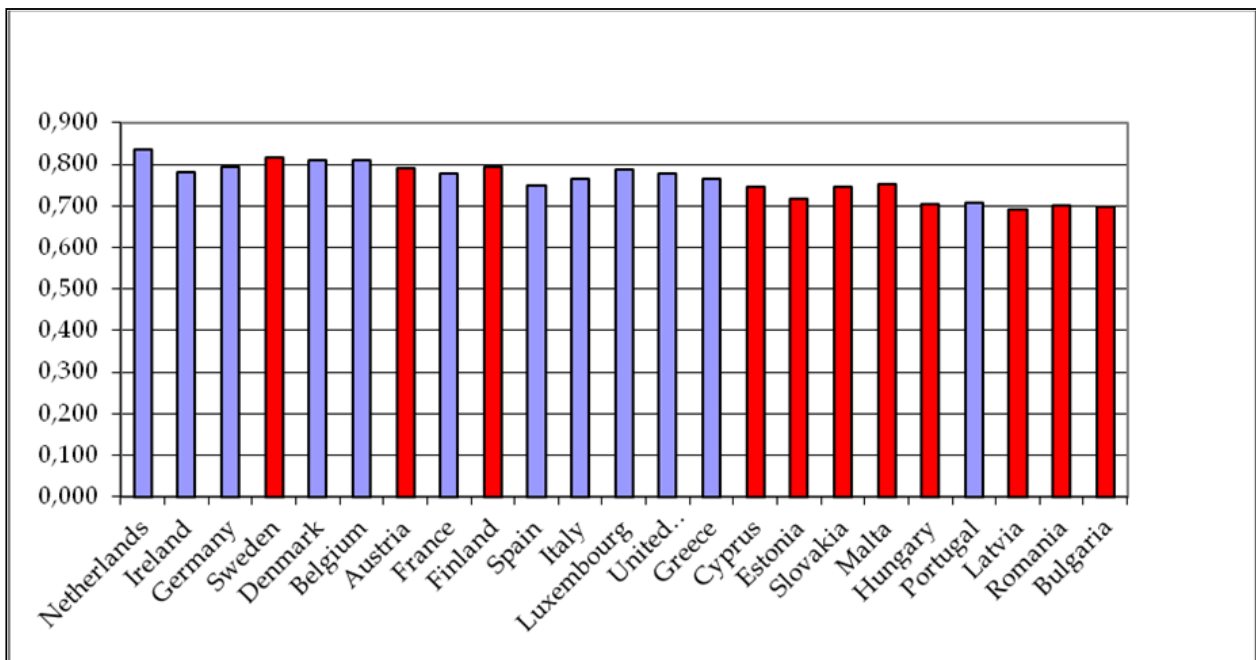
It seems clear that there is a profound dualism between developed and developing countries. While in the West schooling is obligatory, illiteracy in many African countries is about 4 out of 5 people. In a ranking based on HDI, near the bottom lie several African countries, including Guinea, which registers 27% literacy, life expectancy at birth of 43.9 years and a per capita annual income of \$ 500.



The following charts show the trend of HDI for the period 1980 to 2011, relative to European countries. In red are indicated those countries that at that time had not yet entered the EU. As can be seen, the trend has increased for all the countries surveyed.



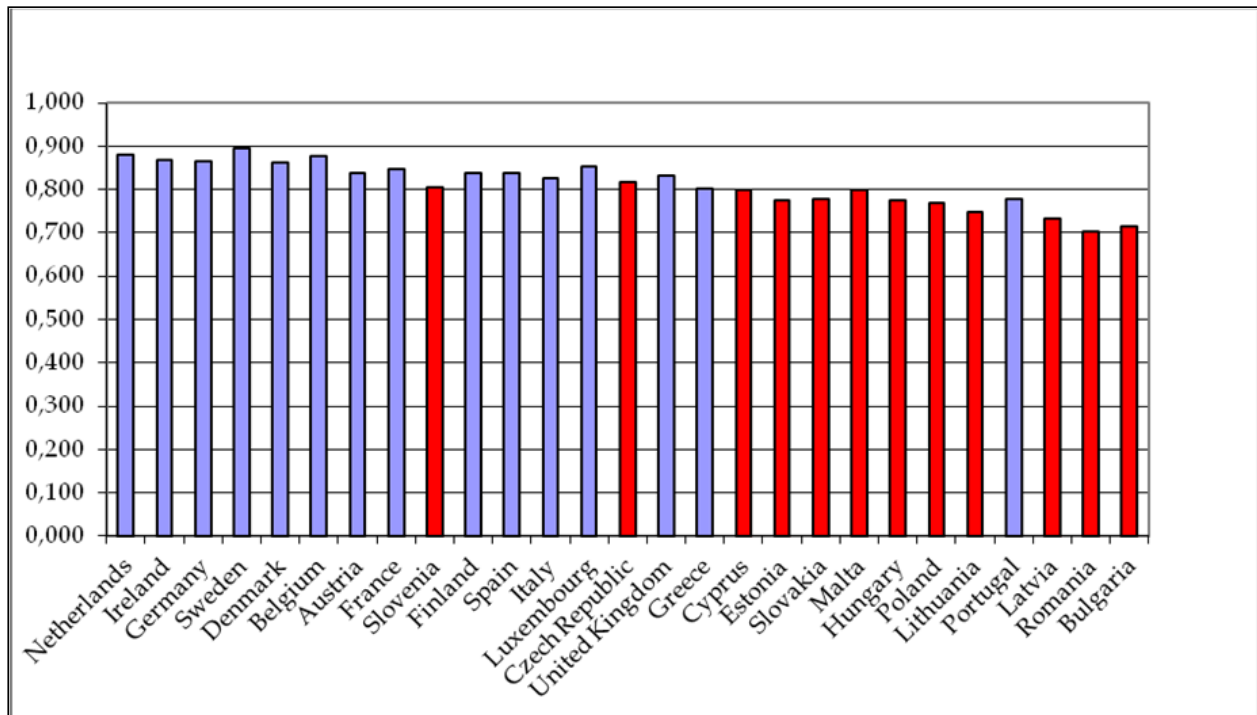
**Graph 1.** HDI 1980 EU (red non-EU countries)



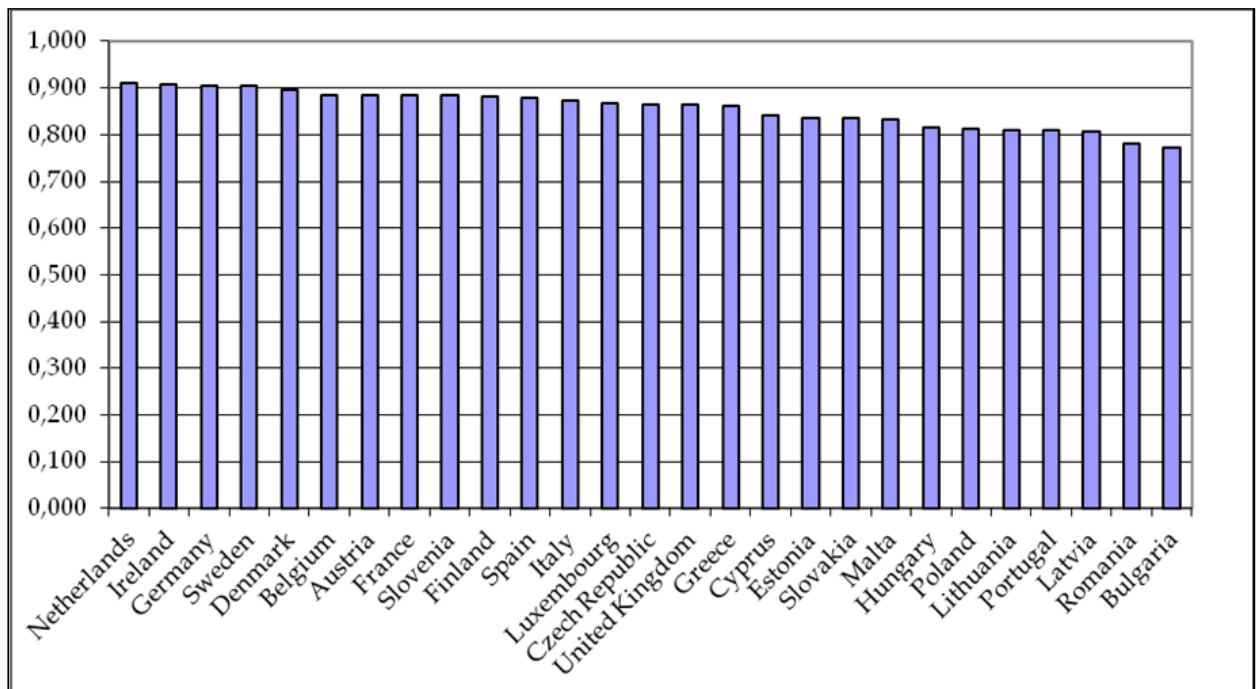
**Graph 2.** HDI 1990 EU (red non-EU countries)

Graph No.5 highlights the trend of HDI in different areas of the planet. We can see that in thirty years the living conditions of developing countries has not changed significantly, because the trend expressed by the indicator HDI, although rising in relative terms, has

increased less than in other areas of the world ; it should be noted, however ,that a positive trend occurred in East Asia and in the Pacific.



Graph 3. HDI 2000 EU (red non-EU countries)

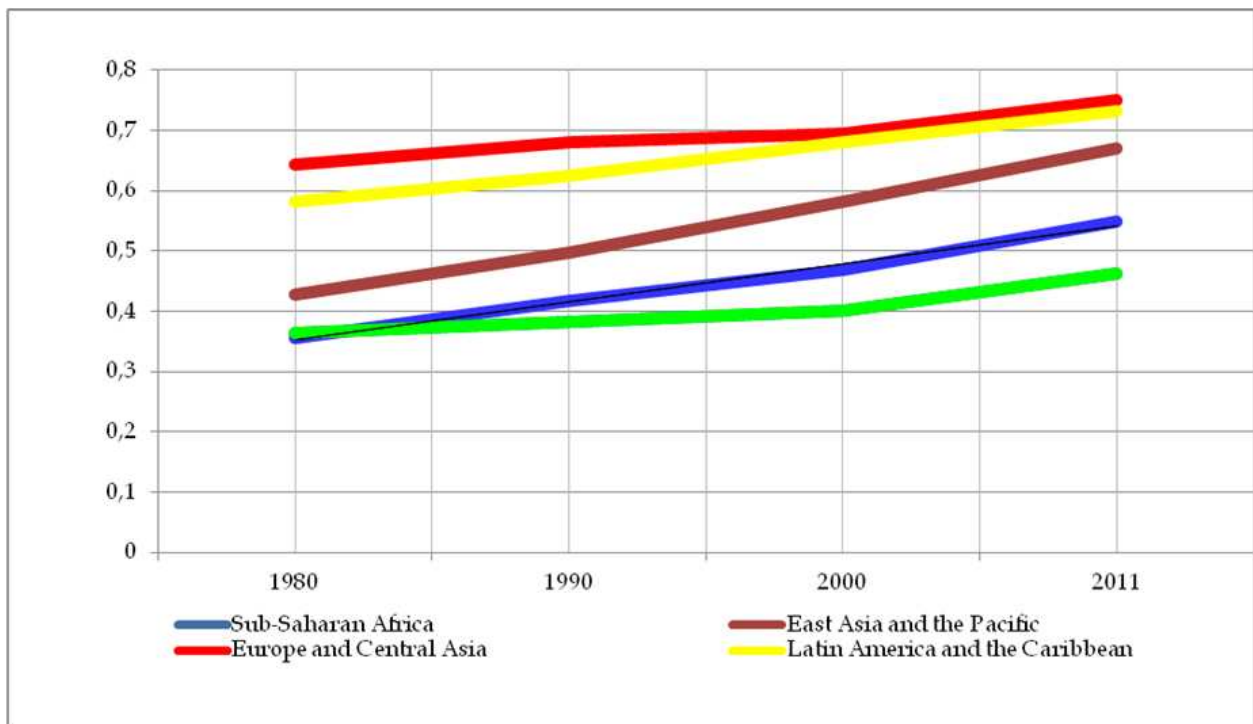


Graph 4. HDI 2011 EU

With regards to the population growth of the world, it has in just over half a century passed the six billion barrier, with an average growth rate of approximately 100 million individuals



annually. Demographic estimates say that in 2050 the inhabitants of this planet will be about 9 billion.



**Graph 5.** Human development Index Regions compared

Consequently, the trend for the number of people suffering from hunger is increasingly growing, partly because of rising prices of agricultural raw materials: today, in fact, individuals who suffer from hunger are about 963 million, against 840 million in 2003.

If the poverty in the world increases, this means that the gap between rich and poor, instead of diminishing, increases. Currently the process of globalization has not been so globalizing in the sense that the developing countries that have been positively affected by this phenomenon are few: in Central and South America only Brazil, Argentina, Mexico and Chile, in Asia China, Hong Kong, Indonesia, Thailand, Taiwan and Singapore. Often the survival of these populations is anchored to agricultural activity, which is also characterized by a weak and pulverized manufacturing base.

#### **4. The dark side of globalization and its negative effects on the international food system**

From the first half of the nineties to the mid-twenty-first century, the effects of globalization had its full impact of (modernization of financial markets, expansion of investment opportunities for families), the GDP of various countries, which had already begun to slow down from the early nineties, is now stagnant in real terms.

The current economic crisis is not just a financial crisis, but a deep recession in which different causes (housing market, stock markets, credit, commodity markets, etc..) influence

each other, causing a vicious circle between money economy and real economy. It is a global crisis, as all advanced economies and many emerging or developing countries are simultaneously experiencing a recession, which, from a historical point of view, is the longest since World War II. Because of the interdependencies associated with globalization, it has spread rapidly throughout the world, in fact the collapse of financial markets in the West also cause disturbances in financial markets in the east and vice versa, so the economy crack has now spread out of control.

The process of globalization, which has increased trade to an extent more than proportional during the ascending phase of the economic cycle, now amplifies the negative effects. In the last half century, for example, the average growth of trade was about three times greater than that of income, then in 2009 there was a real collapse of international trade.

The most obvious phenomenon of the recession, as previously mentioned, is significant and worrying fall of 5.9% over the previous year in GDP, in 2009, when the global crisis became consolidated, and this dragged down the other socio-economic variables.

The evolution that has accompanied the economic systems of Western countries in the last three decades has inevitably involved agriculture, which has undergone major changes in production systems and within the social body of rural areas.

Agricultural trade was not certainly the most affected by the crisis, although all major countries have registered significant reductions in the agri-food trade.

In recent years, the turbulence of the market for food products brought to the fore the debate on the relationship between population, food supplies and resources. Many have wondered if the growth and price fluctuations that could be observed were interpreted as harbingers of a perspective of resource depletion. The agricultural sector at global level is under serious pressure, such as the growing demand for food and energy, the globalization of markets to climate changes. Global and local interact, generating a market expansion. In the widening market, however, risks are higher.

The evolutionary scenario in which the international food system is in at present has a food chain forced to face the consequences arising from the incessant development of the internationalization of markets - in a difficult situation in which the agricultural sector already is within the Community market- and reveals glaring weaknesses in terms of competitiveness.

What we see is a highly globalized food system, with the presence of large transnational corporations that dominate the market. The concentration of food is another of the negative effects stemming from globalization. In fact, if we analyze the entire system of agribusiness, we note that the top 10 companies in the world of seed production control more than 50% of the global seed market.

In the initial stage this changed reality was greeted with emphasis as a possible opportunity to increase competitiveness, today said evolutionary picture is seen with prudence, which in some ways seems to portend even an afterthought on the actual opportunities that liberalization of markets can offer to the food system.

The process of globalization in agriculture should enable each country free access to markets, however, the products of poor quality would always be destined to the LDCs.

Limiting the negative effects of globalization and the wide sharing of its benefits do not depend exclusively on the internal dynamics of individual countries, but on the activation of new international rules and institutions, and currently, as this system of rules and balances is significantly unbalanced in favour of the developed countries, it prevents the passing of other countries, from underdeveloped phase to the development phase.

According to surveys of FAO for 2009, the poor have grown by 105 million in respect to the previous year. For the first time in human history, people in state of malnutrition have exceeded one billion (FAO, 2009). The paradox of globalization is therefore that on one hand the increase of the poor and on the other hand the increase in the amount of food wasted along the chain. The negative consequences related to poor allocation and distribution of resources among the world's population, are not a unique problem to the least developed countries, but also of those who have attained a high level of development. In the U.S., for example, the Americans without the certainty of having enough food are approximately 50 million (North et al., 2009).

The issues related to agriculture in the south are substantially related to the fact that globalization has generated a shift from labour-intensive agriculture to one characterized by a high level of capital intensity, almost completely absent in these depressed areas. In other words, improved agricultural productivity doesn't improve the levels of wealth of these populations. In addition, the innovations that followed, such as the Green Revolution, have affected a limited number of crops, wheat, corn and rice. The emergence over the years of industrialized agriculture has also determined the gradual build up of surplus production and consequently the decrease in prices of agricultural products on international markets, thus reducing not only profits but also the propensity of farmers to invest.

The globalization of agriculture has produced negative effects in terms of environmental compatibility. In fact, mechanization, heavy use of fertilizers, the increasing use of fossil fuels, the use of genetic engineering and GM products, have generated new sources of air pollution. The pursuit of productive specialization, leading to the abandoning of multi-cultural agricultural techniques has fostered land degradation and desertification. This has caused social consequences, with the rural exodus and the subsequent abandonment of the territory.

Finally, globalization has exacerbated the bargaining weakness of farmers in developing countries, due to growing pressure from international corporations and industry groups, that, becoming increasingly strong, impose their own conditions of purchase, regardless of the actual production costs incurred by producers.

The entry of multinationals in less developed countries with the main objective of achieving new and greater profits and the diversification of activities, and not, as lead to believe, the development of these depressed areas. In such circumstances, the small farmers are unable to compete in the global free market.

This asymmetric bargaining power strengthens a market system identified as atomistic monopoly, that is, a market which on one hand has the demand, almost concentrated in a small number of buying groups that dictate the conditions of sale, on the other hand an offer too weak consisting in a large number of small producers, who can not do anything but passively accept this unbearable situation of the market. Therefore, to cope with the enormous costs of management, entrepreneurs are often forced to borrow and to repay the loans, are forced to sell their land. The economic power of multinational corporations is apparent from the analysis of some data: they control 2/3 of international trade, and the most important have an annual turnover greater than that generated by medium size countries. The international scene sees the top 100 most important multinational companies, 53 are European, 23 American and the remaining 24 located between China, Japan and India.

The international situation is therefore characterized by multinational companies which strive for the removal of economic borders, but these natural boundaries are essential to ensure the ecological integrity and social responsibility. The risk associated with the removing of such boundaries takes our planet to the entropy, that is, towards a world without form, without structure and order, and lifeless.

The global food market, however, is also experiencing a process of profound restructuring, with a redefinition of the concept of productive specialization. The demands for change, sometimes in order to counter the relocation of production and unifying of tastes are different and range from the role in the international scene of traders and finance of Asian countries towards technological innovation.

Globalization has in fact led to changes in Agricultural Enterprises in Western countries, which effectively place Increasing attention to customer satisfaction, based on the principle of achieving total quality.

Indeed, the success or failure of a company depends on the ability to learn to interpret the needs and desires of the postmodern consumer.

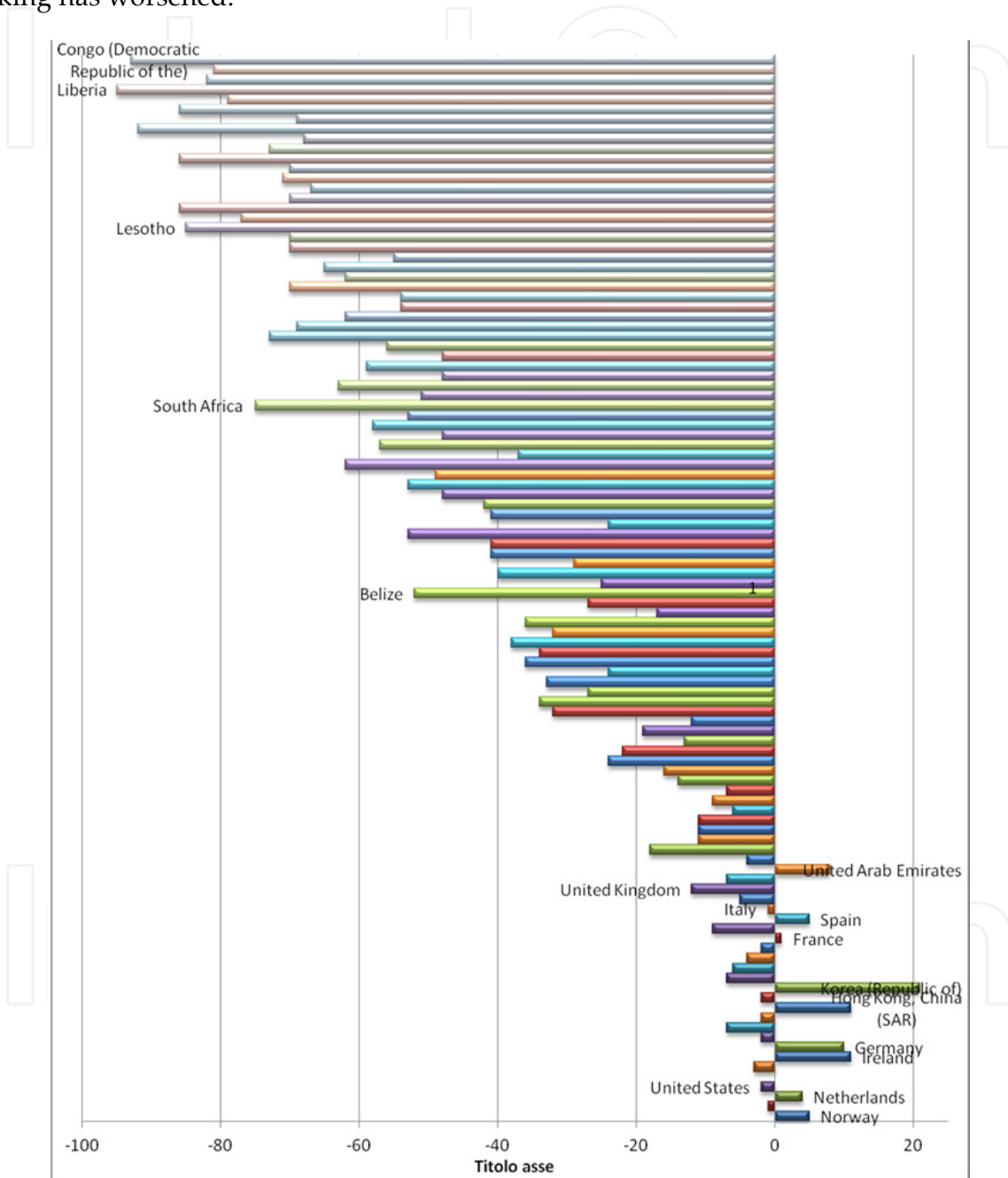
At this stage it is therefore necessary to stop and wonder what could be the real opportunities and real risks that lie ahead for the international food system.

## **5. Globalization, global agribusiness and improving the quality of life**

In this section we want to correlate the impact of TNCs in developing countries and improving the living conditions of the population, taking as a benchmark, the Human Development Index, an index which, as we saw in previous pages, is taking into account the expressed Life expectancy at birth, education and the level of GNI per capita.

An interesting fact is that , of the 25 multinational companies operating in agriculture, 12 are located in developing countries. If we analyze the development of the Human Index for the period from 1980, when the constraints of globalization had not occurred, and 2011, we note that the loss of positions in the ranking of Human Development Office

report, commissioned by the United Nations Development Programme (UNDP), is widespread. Indeed, as evident in the figure n. 6 only eight countries (Norway, Netherlands, Ireland, Germany, Hong Kong, China (SAR), Korea (Republic of), France, Spain and United Arab Emirates) have improved their position over time compared to the HDI, while the rest of the countries of the world, while having improved the index, the ranking has worsened.



**Graph 6.** Changes in the position of the country according to the HDI 1980-2011

A closer examination shows that countries that were in the top ten ranking in 1980, despite having lost or gained a few positions remain substantially and firmly in this *top list*, even the last ten ranking countries remained at the time considered.

Moreover, only a very few cases have been recorded of countries moving from a *high human development* category to the *very high human development*, and the same goes for the improvement of other categories from *low human development* to *medium human development*.

All this shows that the positive effects of globalization have been confined to a few areas and economic development has not always coincided with an equally satisfactory improvement in the quality of life.

In this section we also wanted to compare the performance of HDI with that of another indicator, the *Basic Capabilities Index (BCI)*, developed by Social Watch to see if the values expressed by this other index recorded positive differences in favour of developing countries.

The BCI is an index that is used to monitor the evolution of social indicators and compare them between countries and within the same country, without using statistics based on income; it also provides a general picture on health status and level of education of a country. It is obtained from the average of three indicators: the percentage of children reaching the fifth grade, survival beyond the fifth year of life and the percentage of births attended by medical personnel. The range of the index goes from 0 to 100, a BCI close to 100 indicates the presence of a country whose entire population enjoys basic levels of health and education. The analysis of the BCI indicates that unfortunately, since 2000, as many as 77 countries remained at the same level and only 21 have improved their position.

In order to confirm that the process of globalization has not improved the position of the poorest countries, a comparison has been made of the top ten countries in the HDI ranking of 1980 and 2011 with the first ten countries in the BCI ranking relative to the ' year 2011, the same was done for the last ten countries of both charts. We excluded those countries for which there was no indexes available for the observed periods. In particular for the *top list* Liechtenstein excluded, whose index in 1980 was not available and that in 2011 occupied the eighth position, inserted in its place was Switzerland, which occupied the fourth position in 1980 and in 2011 the eleventh.

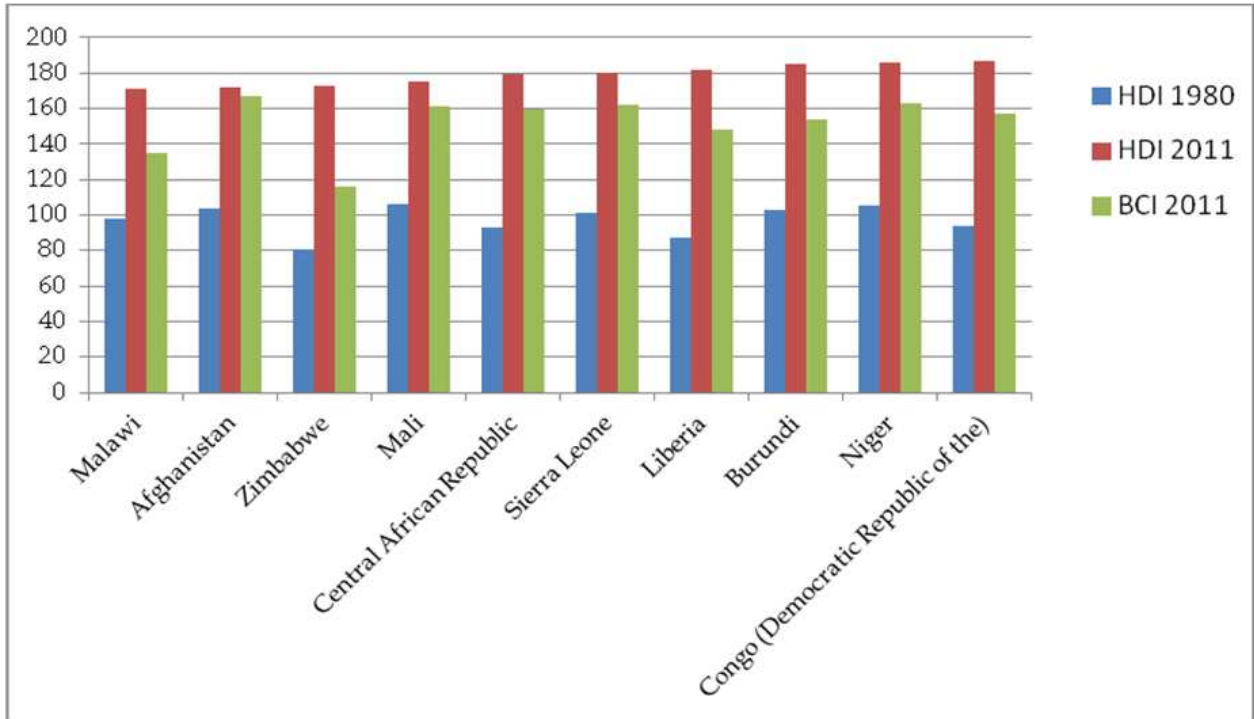
The graph. No. 7 shows the evolution of the positions in the respective indicators examined for the last countries in the *HDI ranking report of 2011*. As can be seen from the chart, although there is some change in position between the two different indexes, however, states remain in the category of countries with high crisis and critical poverty.

From the above chart it can be seen that, compared to 1980, these countries have worsened their position, remaining in the lower part of the league.

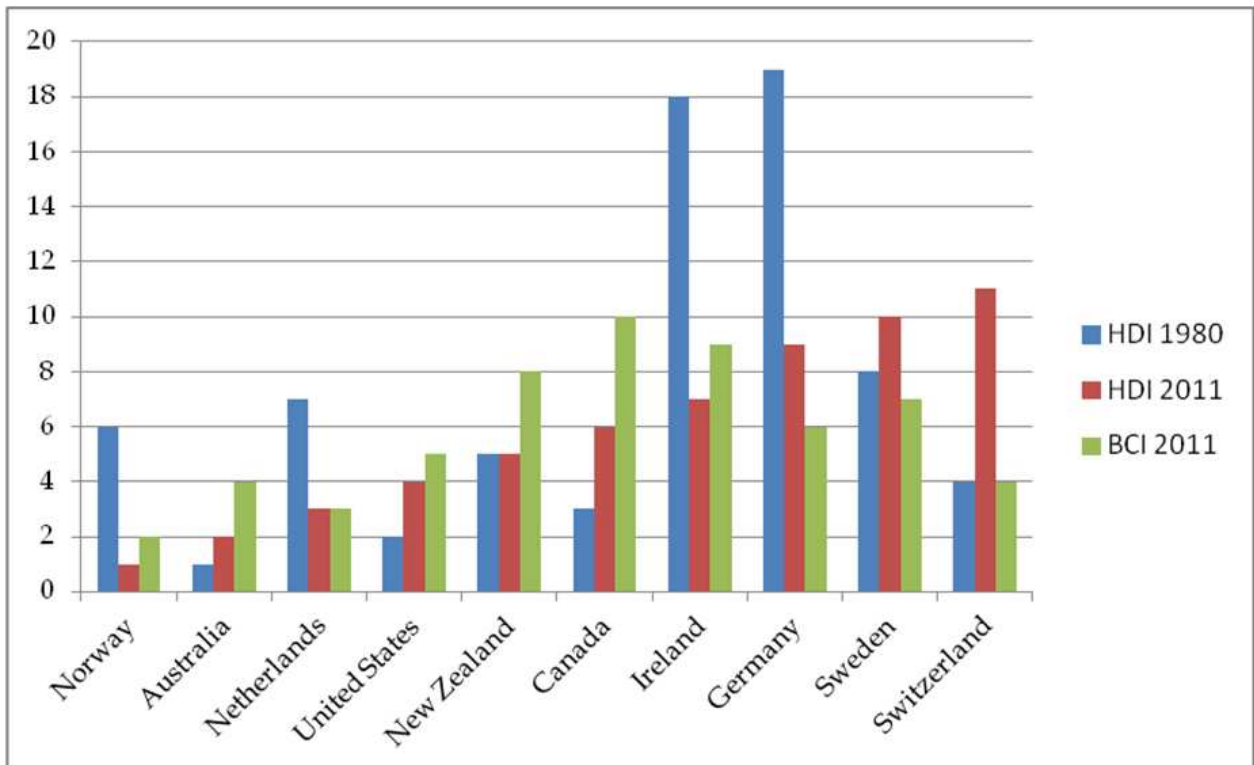
Similarly, countries with relatively high human development, the chart shows (graph. No.8) in this case there were no substantial changes, except for Japan, which ranked in the HDI, reports of 1980 and 2011, respectively, occupying the tenth and twelfth place, while in the ranking of the BCI it is in first place with an index of 99 +.

The graph clearly shows how the ranking has improved for four countries: Norway, Netherland, Ireland and Germany, while the others, while remaining in the *top ten*, have lost some positions.





**Graph 7.** The Last 10 Countries in the HDI classification 1980-2011

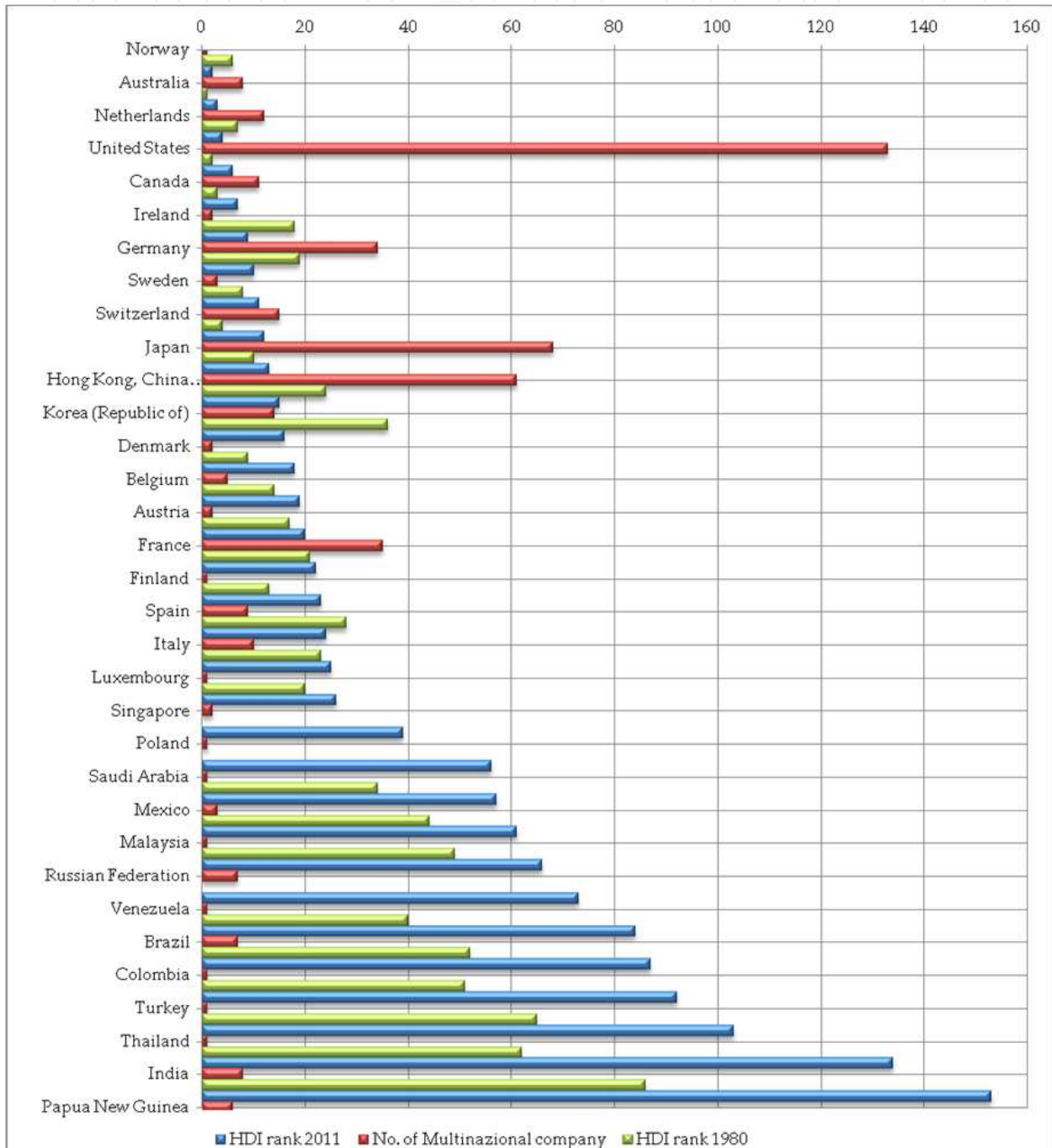


**Graph 8.** The First 10 Countries in the HDI classification 1980-2011

At this point we wanted to investigate further the relationship between the indicators of the quality of life and presence of multinational firms, in the countries under analysis, considered the symbol of this global social-economic revolution. To be considered a

significant impact on the economy of a country, were considered the top 467 corporations considering their turnover relative to 2011.

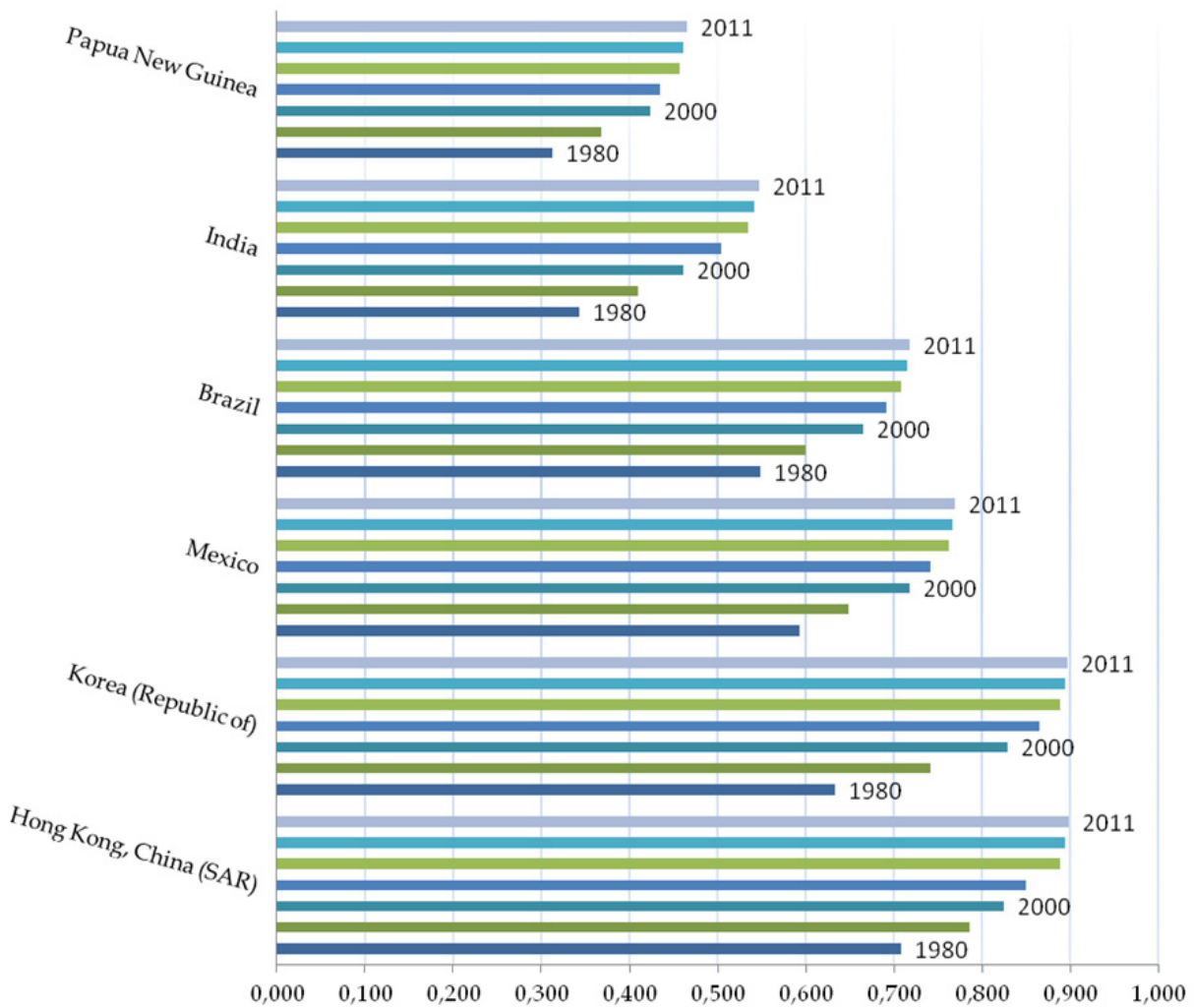
As you can see from the graph No.9, there is no significant correlation between the values of the best indicators of well-being and the presence of multinationals, because the presence of multinationals in developing countries has not prevented the worsening of their position in the level of welfare.



**Graph 9.** HDI rating in propotion to the presence of multinationals

Finally, graphic No.10 relates the HDI of less developed countries within which multinationals operate. The period under observation is that for the years 1980, 1990, 2000, 2005, 2009, 2010 and 2011.

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**Graph 10.** HDI rating in developing countries and presence of multinationals

Again we note, in the countries in which multinationals operate, a poor correlation between the increase of wealth and the presence of the multinationals. In particular, if we examine the situation of China-Hong Kong, we note that, despite the economic growth and the presence of 61 multinational companies, the growth trend of the indicator HDI was equal to 1, 10% per year in the range of time between 1980 and 2011; vice versa, at the same time other countries have registered major increases in levels of wealth in the absence of the giants of globalization, for example, Qatar has had an improvement rate of well-being equal to 1.20 %, even though it hasn't multinationals in its territory.

## 6. Globalization and European agri-food system

We now turn to a discussion of the characteristics of European agriculture.

The analysis of the Agricultural economic systems of the new EU members highlights a production structure characterized by micro enterprises that lack the necessary capital to modernize production technologies.

The European agricultural production system therefore has little ability to negotiate and entrepreneurs are forced to accept the conditions imposed by the intermediary distribution, both local and international. A major obstacle to economic and social growth of these countries is the large international debt.

The agricultural sector has shown in Europe, in the last thirty years, a declining trend both in terms of GDP - which on average does not exceed 3% of the total - and in terms of employment capacity, and on average now absorbs no more than 5% of the entire employed labour force.

The present scenario of European agriculture is characterized by the pressing technological evolution, in an attempt on one hand to compensate for the lack of territory, subtracted from the field due to the phenomenon of urbanization, and on the other hand to replace the productive factor of work with the capital, the latter being more convenient in terms of cost.

Such a situation, which ratified the industrialization of agriculture, has resulted in the long run with a considerable increase in energy demand, which to be satisfied has created a heavy reliance on fossil fuels. The constant external energy input, which stands at roughly around 3% compared to the overall requirements, causing a worrying impact on the environment; it is estimated that the contribution of the emission of greenhouse gases is equivalent to about 15% of total emissions, resulting mainly from the use of fossil fuels for transport and for heating.

Nevertheless, agriculture is once again called to play a key role in economic development, since it affects 80% of EU territory, and still provides employment to just under 20 million European citizens.

The concern related to the effects of globalization on the agricultural system in fact has prompted the EU to provide in future guidelines of CAP 2014-2020, aid for structural adjustment of firms adversely affected by globalization. In the event that the EU further reduces its barriers at the border (for example, as a result of entering into international agreements of trade preference), it will be possible to intervene to help companies in the sectors most directly affected to realize structural investments able to help them return to being competitive.

Undoubtedly the expansion of markets has represented for the European Union an opportunity for new markets, but also a threat due to the entry of competitive products for the European ones.

The obvious difficulties that characterize much of European agriculture (low income pro capita, over-pulverizing of business and high land fragmentation) have prompted farmers to seek solutions that are able to withstand the competitive edge without being swallowed up by the international rules of world markets.

Food consumption in the last decade, however, followed the same downward trend that has characterized the GDP of many other countries. The crisis and reducing the share of food consumption, far from having little impact, affected greatly the least developed countries and areas with lower incomes, i.e. those in the south, characterized by an imbalanced population structure.

To analyze the evolution of markets means above all to study the changes in demand, supply and global food security and investigate what might be the impact of phenomena such as the liberalization of trade and the approval of consumption, which do not have an immediate effect.

In an attempt to identify possible solutions to the problem the supply chain of local products has made progressive headway, through a policy of territorial development linked to the exaltation of the territory. The belief that through the rediscovery of local products, and this could be successful to address the agricultural crisis of our country, has begun to take root even in rural development policies ever since the end of the last century. The spread of the typical food, in addition to the influence exercised by the media, has been aided by the tastes and consumer behaviour, which, by changing their eating habits, have changed the demand for food products on the market. In fact, the third millennium is characterized in particular by increased consumer attention to "postmodern" food quality, safety and territorial links of local productions.

The current international crisis has in fact led to notable changes in consolidated consumer behaviour, in relation both to the composition of shopping baskets of different types of households and to the details and places of purchase.

In recent years the investigation and analysis aimed at studying the evolutionary process of consumer behaviour has shown that in making choices of the "price" factor has

dropped to around 20% in the scale of values, while an opposite trend was recorded in services, which increased at a rate that fluctuates around 50%; the quality requirement remained basically stable at around 30%. In this new model of the consumer the typical products, therefore, find a typical large space of demand and value, with a positive impact on production.

The increase of the range and interest for local products, however, resulted in an asymmetry of information negative for the consumers, because the labels on the packaging are unclear or misleading, production systems that violate the regulations on food safety and advertisements that are often misleading.

Gradually this has prompted companies to introduce codes of ethical behaviour.

The introduction of "codes of business ethics" is particularly widespread in the food sector, this marketing operation aims to promote a positive image of the company to consumers who increasingly base their decisions on principles.

From a supply perspective, it should be noted that the big food companies do not show particular interest in local products, or at least this choice is not a business priority, they seem rather more interested in process and product innovations. Only the channels of distribution show a growing interest in the rich agricultural characteristic, and this is justified by the particular attention to consumer behaviour, which, as mentioned above, the choice was in favour of local products that convey more food safety and wholesomeness.

In light of the new international reality, the European farming sector will inevitably have to adapt to changes in the orientation towards precise strategies.

## **7. Strategic actions of farmer to address the globalization era**

In strictly economic terms, the last three decades were marked by the decline of industrial growth, model based on big enterprises dedicated to the production of standardized mass production configurations that are more flexible and responsive to turbulent markets, in the form of clusters and industrial clusters, local production systems, business networks and network enterprises.

The figure of the farmer during these years has had to adapt to such disruptions linked to the global financial and economic scenario has undergone significant developments, relating to the change of the complex relationship between company, territory, processes and socio-economic system, which in time has led to the expulsion of certain phases of the production process, once the prerogative of the farm.

This outsourcing has seen the gradual emergence over time of food processing industries, this has led to a decreasing importance of the small farm, which has become marginal in an increasingly globalized world, ending up being expelled from it.



The gradual down winding of farmer activity has called for an adjustment of that figure, both allowing the possibility of product diversification and by providing the opportunity to supplement farm income alongside other complementary activities of agriculture.

Therefore, if once the function of the farm was to supply the urban environment with products designed primarily to meet the basic need of food, now a farmer, in addition to this function, must ensure product quality, environmental sustainability and regional development.

To end this crisis companies must reduce agricultural production costs, facilitate the placement of products on the market by improving the prices rise, and increasing domestic demand (and encouraging diversification of consumption) and external demand (with a proper internationalization policy).

To achieve these objectives, farms, the last decade characterized by an opening of international markets, to maintain their profits have to make a "policy of alliances". The sharing of goals and projects including more companies creates added value in relation to individual actions and enables the scheduling of activities in a development perspective.

It is now known that the agricultural market is tied to some variables such as the rigidity of production cycles, the perish ability of agricultural products, the lack of attention to market needs, and especially the limited bargaining power of operators.

The low bargaining power is determined by the fact that market consists primarily of small and medium enterprise and the farmer is a price taker, that means that he hasn't the possibility to determine or to influence the price of goods or services that he produces or acquires.

In the primary sector it is becoming essential to unify economic synergies between companies in order to achieve common goals.

The need for synergies due to the fact that the internationalization of markets and the consequential growth of competitiveness have accelerated the process of technology development, total quality development, professionalism and the study of new products to put on the export market.

The access to the successful use of these variables is possible, for economic and financial reasons, only for large companies, those who occupy a significant role in the market not only at a national level but also at Community level.

Agricultural SMEs across Europe, have, for this reason felt the need to set up cooperatives, considering the adoption of this particular formula as an essential starting point to occupy foremost positions in product markets and agricultural services. The cooperation may thus become a means of access to technology, which in turn allows far more easily, the emergence of more efficient models of cooperation. The cooperative not only allows easy

access to technology, but also the develop product innovations, economies of scale and wide-ranging marketing policies.

It is common opinion that joining an alliance does not mean giving legal and economic identity and distinctive features and submit to a project totally different to the original objectives of their business, but really facilitate the realization of their ideas and larger operational projects. Deciding to cooperate, however, means to be available to achieve a common task, to change, to innovate and anticipate the demands of the market.

## **8. The district as a tool for small farms to address the crisis of international markets**

The Italian agricultural system has lived, since the postwar period, profound changes associated with increased labor productivity, increasing food demand, technological developments and actions undertaken in National and European agricultural policy over time. These elements have over the years contributed to assign a characterization of agricultural heavy to rural areas, in which the primary sector is often the only productive activity.

Therefore, as agriculture has contributed to the country's economic growth, promoting transmigration of the labor force first from primary to industrial sector, and then to tertiary, so rural areas having to accommodate these changes have had to acknowledge the negative effects related to the rural exodus and depopulation of mountain areas, thus the low population density in these areas.

With the process of the relocation of production, so too the food industry has increased in parallel with the use of means of transport, with consequent negative effects on the environment, so as a result of these changes the path made along the food chain "from the field to the table" has increased considerably in recent years.

The international economic crisis that began in 2009 is affecting all sectors of production, for the agricultural sector in particular it has been a crisis of business income that according to Eurostat data registered a decline of around 25%. Such a decrease in the income of farmers is unprecedented and was the worst in Europe. This negative result is mainly due to on one hand from the gradual decline in sales prices and on the other hand by the continuous increase in production costs. To worsen the economic situation of enterprises in addition to the volatility of the price system a significant decline in consumer demand to the situation has also contributed, a phenomenon due to the recession that has brought down prices below the threshold of company viability. This situation of crisis has seen a considerable decrease in the added value (VA) of the agricultural sector by 3.1% in 2009 in respect to the previous year, representing 6.4% loss when compared to the added value of the last five years. This decrease translates into a loss of EUR 900 million for 2009 and EUR 2 billion over the last five years. This recession has slowed the capacity to invest and innovate in business and stopped the production processes aimed at economic growth

To overcome the current crisis, it has become necessary to devise strategies similar to those which were mentioned in the previous paragraph, in particular, one of the solutions that could be particularly effective is the creation of a group of firms located within the same territory.

Starting from a re-conceptualization of multifunctional agriculture (where the company must have the requirement of multi-functional and synergies with other businesses, and the company has projected the territory beyond the corporate boundaries), characteristics of territoriality and District, awarded by Iacoponi respectively from company to enterprise, foreshadowed the discovery of the rural district, considered both as a territorial system, as enterprises operating mainly in the area that have a responsibility to preserve it as a vital resource for their survival, as a district system, since the population of firms in the primary sector and others connected to it working together, through the logic of the district, with the aim of implementing endogenous development (Iacoponi, 2002).

The challenge of global agricultural enterprises can be met through the implementation of the quality in farming or in the rural district, which are governed by Italian law.

The profound changes that occurred in the relationships between the agricultural and rural world have brought us today to welcome the extension of the original concept of the district, refined to the industrial sector to transfer it, in view of the production chain, in other productive sectors, and among these, the food industry.

In certain respects it should be borne in mind that the concept of the district, based on the location production, is in conflict with the principle of globalization, which is based instead on the relocation of production.

The identification of a district can define a framework of action within which to pool projects, supported not only by individual enterprises but also by the public sector or by forms of access of priority funding and incentives.

Districts in general, and particularly the rural one, are inspired by the principle of multinational agriculture, deals with environmental service, the promotion of local tourism resources, the cultural heritage of rural areas, this obviously not change the production function but also enhances the products that apparently are intended for a local market.

From the etymological point of view, the term district comes from the Latin, "dstrictus", which means narrow tight, within and content.

Just the last two definitions are particularly pertinent to the concept of a typical district of a local economy, because we intend to include in this term all the economic and productive forces of a given segment present of a territory and thus contained in it.

It is an aggregation of local, medium and small enterprises interested in the same production process.

This unity of production units enables us to separate the production process in to several steps, each of which is attributed to each single company, although it retains its autonomy it, is set in a system of enterprises operating in a given territory that weave interrelations amongst themselves and also outside their district.

The importance of the district instrument is easy to see and know how it allows significant flexibility in the management and organization of the production process by helping to achieve economies of proportion that are able to give a finished product even more competitive to large enterprises. Therefore it is easy to see how the district represents a principle instrument in promoting the economic and territorial development of rural areas at risk of abandonment, as it allows to overcome the fragmentation and pulverization of production, passing the limits of individualism and accepting the concepts of system and production synergy.

Only the district can therefore overcome the significant limitation that characterizes the local economy which is mainly in the south, i.e. a business tissue characterized mainly by micro business, which remains outside of any regulated market logic of globalization.

The presence of clusters enhances the potential in our opinion that the area offers in terms of both natural and economic resources, smaller companies, if they are located in a district, they have a greater chance of survival, and even more micro-enterprises, as defined by the EU with the recommendation 2003/36112, if outside the logic district they are in danger of disappearing.

We can look favorably on the district because, economically, it does not weigh down the local situation asking to acquire new resources, but is anxious to efficiently allocate those already available and can qualify as a new instrument of governance. In accordance with the concept of district within a local institutional reality that can give answers to local needs and allow the enterprises to deal with the crisis that arose following the globalization process

The food quality districts are: local production systems, including inter-regional nature, characterized by significant economic presence and interrelation and interdependence of production enterprises agricultural and of food, and of one or more certified products and protected, or by traditional or typical production<sup>1</sup>.

From this definition it is apparent that Food District for its own identification, must have certain requirements, including the significant economic presence, the interdependence of production and typical or traditional production. The first requirement can be identified through the indices expressed by variables that represent the phenomenon, they may relate to employment, the number of businesses that relate to the sector of agriculture and food processing, to the machinery and equipment used in the manufacturing processes (Lanfranchi & Giannetto, 2010).

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<sup>1</sup> Their recognition is attributed to regions, and are there are few region that have adopted specific legislation.

The second requirement, namely the interrelationship and interdependence of production highlights the correlation between agriculture and the food processing industry<sup>2</sup>.

In this regard we can consider the sub-vertical manufacturing segments that make finished products for the construction of indices with the local units and operators working in related segments.

Finally the third condition, the presence of a traditional or typical production, is a sign that requires the presence of foods that have a quality mark such as PDO, PGI, DOC, DOCG, IGT, etc.

Based on this logic, the relations between different economic actors within the District shall be guided by a close collaboration between public and private.<sup>3</sup> In light of these considerations we are led to believe that the food district can have different functions, such as creating an efficient integration between businesses, create an action of food marketing, identify priorities for investment aid, identify training needs, identify the needs and demands of research, create support structures, providing expertise to identify future operating ability. The food district, therefore, must present the relevant characteristics of dynamic economic-agriculture and non-agriculture, drawing, from complementary activities of the rural sector<sup>4</sup> (Lanfranchi, 2008).

There are different types of district, all having a common matrix the "Marshall district" and the "industrial one".

The "Marshall industry district" are those in which small size enterprises operating in the same industry come together to create a territorial production systems.

The "industrial district" can be defined as *"socio-economic entity characterized by the active presence, in a limited area, of a community of people and a population of industrial enterprises"*[1]. Its essential components are:

- same territory-cultural-history (industrial atmosphere);
- reduction of information costs (for the same coordination costs);
- entry barrier (for outside competitors);
- exit barrier (for the district system).

We can speak therefore of agricultural district at the regional level when speaking only of vertically integrated stages of farming and farm supplies and when the agro-processing concerns mainly agricultural products produced locally (Cecchi,2002).

Conversely we are in the presence of an agro-industrial district where in a given area there is the integration of the three phases of agribusiness (farm supplies, farming, processing and distribution).

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<sup>2</sup> In economics we talk about vertical integration between production processes of the production chain.

<sup>3</sup> Subjects which form a relationship between the open nature, in a logic of management of a complementary nature.

<sup>4</sup> An example is the environmental management, from recipes from the culinary culture, ethnic traditions and folklore.

Districts quality food
Farms / total farms
Employment in agriculture to total employment
Companies in the food industry / manufacturing companies
Employed in food processing / manufacturing companies
Employed in the food industry / employment in manufacturing
Mechanical / farms
Heads of livestock / farm
Farms / employed in agriculture
Rural districts
Companies with crops, woody crops, agricultural and pasture / total farms
Utilized agricultural area / total area
UAA with arable crops permanent crops and pasture / AA
Heads of livestock / AA with arable land, permanent crops and pasture crops
Employment in Agriculture / Farms
Employment in agriculture / UAA with arable crops permanent crops and pasture
Companies with mechanical / farms
Farms / other businesses
Employment in agriculture and other occupied
Urban land use / total surface
Population density

**Table 1.** Indicators used to identify food and rural districts

Instead, the identification of district food occurs when the downstream phase of processing and distribution prevails over the upstream supply. To be able to talk about food, however, the district must use the same organizational conditions of industrial districts:

- construction of a typical product;
- modularity of the production process into stages;
- divisibility in primary production unit (business) of the manufacturing process;
- concentration of enterprises in a limited area and their specialization in the production phase;
- inter-industry relations that take place in conditions of transaction cost reductions.

## 9. Conclusions

Faced with the prospects of increasing trade liberalization, European agriculture and the Italian in particular have two alternatives: either they become competitive with the cost of production for a global market, or they enhance the production and situations for which even now they have a clear advantage and which can point to seize the opportunities provided by new market horizons. In any case, to better understand the real possibilities of



adaptation of our agriculture, it is essential to be aware not only of what the prospects of development will be, but also those that are structural constraints that, traditionally, (Vieri, 2005) influence it.

In light of the events taking place in international markets and in particular the crisis gripping the economies of all countries, it is necessary to contribute to the development of more sustainable alternatives on the local scene, which can reduce dependence on multinationals. Among these are to be included the attempt to develop local food systems through the creation of districts and local markets. The development of local niche markets and use of alternative instruments, such as districts, may contribute to the economic sustainability of small family farming enterprises, which have an immeasurable social and environmental value (Lanfranchi, 2002).

The district can be an important tool for the revitalization of rural areas.

It is structured by physical capital represented by the territory in which the companies are, belonging to a supply chain, human capital, consisting of the resident population, and the share capital represented by all the relationships and interactions carried out by all those involved.

It allows to grasp and enhance social diversity that characterizes the different rural areas and because the district through the instrument can examine the interrelationships between the various stakeholders. Indeed, as seen in the previous pages the analysis of the role that the district can play in the revival of business and production, socio-economic recovery in rural areas must consider the district as a well-defined and characterized by a set of infrastructures and physical capital, but also of the so-called human capital, represented by all falling within the aforesaid area and its ability, knowledge and attitudes. The District is structured by a capital represented by the physical territory, within which there are the entities of a supply chain, human capital, constituted by the resident population, and the capital, represented by all of relationships and interactions carried out by all those involved. It is important to understand how this system of relations through exchange of knowledge and skills in relation to production processes and technological developments, which also allows those companies so small size of power to participate in technological growth benefiting from economies of scale that allow them to reduce production costs and make businesses less vulnerable on the market. But we can certainly state that the instrument district, regardless of its particular connotation of rural food quality and agro-production, proved suitable to trigger a more comprehensive development process, starting from the territory in harmony with the principle of bottom up and come to have effects on local business[8].

Indeed, with the ability to build collaborative atmosphere it can enhance the socio-economic boundaries falling in the district, and this translates into added value for firms participating in the district compared to those working in surrounding areas with the same issues of development but are not part of the district. The competitive advantage of these production units resulting in the possibility to count on increased availability of inputs, in some cases

available at lower costs, and to leverage economies of scale reduce costs aimed at transactional and information.

In an international scenario marked by uncertainty and in anticipation of the post-2013 EU gives particular attention to the applying of a territory of efficient policies in response to increasing competition in the markets, and represents a district in this connection an interesting tool for intervention governance in rural development within a defined area with product quality of local material. In this direction for some years now the EU has authorized state aid for the implementation of supply chain contracts and district in order to promote agricultural modernization and technological development of enterprises.

Supporting local food systems will not result in the abandoning of agricultural products that are not local, but will ensure food security for every country, in terms of both quantity and quality, and at the same time lessen the negative effects of a liberalization of markets, namely the standardization of production and approval of tastes, which, among other things, has the indirect consequence of the loss of biodiversity.

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