

THE ROLE OF LOCAL MARKETS IN THE SUSTAINABLE ECONOMIC DEVELOPMENT OF HUNGARIAN RURAL AREAS

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There are such ongoing economic tendencies which fundamentally change the conditions in the global market, e.g. the former sources of development and growth have been exploited, the yields of production capital have reduced, therefore the willingness to invest has moderated and above all, the global financial crisis has hit the markets. However, due to the growth period of the past decades, the demand has changed and new consumption elements have emerged, which have become natural demand and needs due to the spread of welfare society views and institutions. All these are reflected in the social actions (e.g. environmental protection movements), new age initiatives, the self-awareness of communities, the increase in the need for autonomy, which all accompany the revival of regionalism. Under such circumstances, full of ever-changing conditions, the experts consider the use and development of own resources as well as the efficient use of regions' internal potentials as a new regional development strategy. The aim of this new spatial development approach is not primarily the continuous use of existing resources of advanced regions, but activation and use of additional – endogenous – unused potentials. Since, the basic question of the development is how the territorial factors can be integrated efficiently into the specific economy and society to achieve their optimal operation under given economic and social conditions. In our study we intended to introduce how important the local markets are in the economic and social development of rural areas of Hungary, and explain the impacts of their improvement. It is proven that the increase in the production and consumption of local products and the improvement of the efficiency of local markets are inevitable in the survival and development of peripheral areas.

Keywords: rural area, local products, economic and social effects

Introduction

The latest regional policies have shifted their focus to the endogenous resources of the regions, therefore finding their comparative advantages, highlighting their unique values. Due to the ever-changing resources, such factors could be the drivers of the regions' sustainable development. Former growth theories ignored endogenous resources, since due to the share of work, the most important resources (capital, power, information) concentrated in the centers resulting in the strong specialization of areas. Demand for the periphery was only because of the preferred resources available; therefore they linked to the traditional export-sectors, even if they could have been used more efficiently in other ways of production. Due to the lack of innovative ideas, communication, market information, outdated technology, such areas have got stuck and resulted in rather a passive entrepreneurial behavior. Ultimately, several functions and services have not improved or even disappeared.

There is a wide range of regional endogenous potentials; however, the most important ones can be categorized as one of the followings:

- Capital potential (production bases and assets available).
- Features, qualification of labour force.
- Infrastructure available.
- Geographical conditions.
- Quality of the environment.
- Market relations (demand factors).
- Socio-cultural conditions.
- Decision-making-, institutional-system and power.

The endogenous factors can be interpreted individually as well, but they are related to each other, they can urge the development of other factors under

specific social and economic conditions. Therefore, territorial potential comprises all the endogenous resources of a given area (Nagy-Káposzta, 2006). Most of such resources were not used or were even hidden in the region earlier.

Going back to the last few decades in all periods Hungary was competitive only when employment and livelihood were ensured for those who live in the countryside (Magda, 2011b).

The significant local features

In the economy and science, localization is referred to as the opposite of globalization. According to Lóránt Károly (2000): „Localization basically means the change in the share of power and the relocation of decision-making rights from the transnational companies to the democratically elected local communities. “Local” may refer to a nation, to a part of a country or even to a multiregional association. The economics of localization is based on the proven fact that most of the human demand can be met locally economically.”

Local economy is the most bottom level of the economy where the production and consumption are directly linked. It is traditional, since it has existed in several points of the world, and innovative as well, since it is invented again and again as an alternative for economic growth in underdeveloped areas. In order to reorganize the local economy, we can encourage the establishment of businesses, their cooperation, raise the awareness of the consumers, promote the direct relations between producers and consumers, and increase the cohesion within the community. The aim is to achieve that the profits and benefits of economic activities (e.g. products, services, jobs or income) could be used locally. It means that local economic development is not only local (as a territorial scope), but represents local interests. It intends to support the local market with

encouraging the local businesses and economic activities for the good of the local community. Its aim is not only of economic nature, but definitely also of community and social ones, i.e. to increase the standard of living of the population and not to gain maximum profit at whatever cost. Therefore, it can be considered as local community economic development. In ideal situation, it is realized as a local initiative, but external expertise cannot be avoided especially at the beginning.

The development of local economy has great significance even nowadays. Several benefits – environmental, economic and social – justify the creation of a competitive local economy. One of the most common ways of local economic development is the promotion of the sales of local products:

- Promotion of local food products,
- Promotion of non-food products,
- Trademarks and brand names,
- Encouraging of the consumption of local products.

Local products are such products that constitute the identity and the face of an area (settlement, region etc.) and that are produced partly or fully by the local economy. The added value produced is of local character and contributes to the improvement of wealth locally. Local products are mainly produced by micro- and small enterprises with a high rate of self-employment. The sales of local products in the local market have great significance from both environmental and economic aspects. Local production also means employing local workforce and the benefits of employment can be observed locally. Local products have a serious advantage, namely that their environmental load is minimal, since they are sold locally.

Cooperation has extremely important role in local economic development. One of its most important features is that the local players (economy and society) cooperate in order to encourage local economic activities; they do such actions that suit to the local conditions, are based on the local resources and intend to meet new local demand. The common thinking and actions of the businesses, municipalities and local community may facilitate the community to preserve their own values and use their potentials based on their special local conditions while the local and external conditions are always in change. It means the improvement of their adaptability as well. This is always a pro-active adaptability, in which the preservation and sustainable use of local traditions and values and meeting the demand of local population is realized in a way which is in compliance with the principles of environmental, social and economic sustainability in long terms.

The impacts of localization on the food industry

According to the current terminology, local economy and local economic development is the bottom level of operation, where the production and consumption are in close relation. This type of economy is traditional, since it exists all over the world and innovative as well, since it is regularly invented as an alternative for the consumer society. Until the modern age, the economy had been basically based on local conditions. The transportation for long distances as well as the territorial separation of production, processing and consumption used to be less important. Individuals used to live on self-sufficiency. Most of the food demand in rural areas used to be produced by themselves. Such local markets required local farmers, craftsmen and retailers, thus contributing to the local employment. As an opposition, nowadays the external, global impacts are more determining than before. "Local markets" provide income for fewer businesses than before. Local producers sell their products mainly in other settlements, while products in the local market are often transported from far away. As a result, local economy has almost

disappeared in several disadvantaged settlements by now, or limited to only a few businesses. At the same time, in such places many people do not have a job, therefore their consumption is low.

■ Economic effects

A question should be raised: is the local food industry economically viable compared to the global one? The answer greatly depends on the economic environment (subsidies, regulations) but the analyses on the whole lifecycle often justify the beneficial effects of alternative agricultural production (Pretty, 2008; Heller and Keoleain, 2000). Supporting the local food production is one of the most important tools of rural development since it preserves and creates jobs and it also can help the preservation of land.

The most important community benefit is the local multiplication effect, which primarily facilitates the development of disadvantaged regions, with enabling most of the income generated to be kept by the local communities and induces additional income generation.

■ Environmental effects

The distance of transportation of food has significantly increased recently and many blame the increasing distances for the high energy demand and CO₂ emission of the food industry (Pretty, 2005). Recent researches, however, proved that the "transport to the destination", i.e. transport from the producers to the consumers accounts for only 10% of the greenhouse gases increase within the effects caused by agricultural production (Garnett, 2007; Weber and Matthews, 2008).

■ Social effects

In addition to the direct nutrition-production and intake, the local food production improves the social relations and solidarity. One of the major components of sustainable local agriculture is the preservation of local, conventional farming skills (the samples of sustainability) and their most efficient use under the current circumstances, based on wide range of community resources (natural, economic, cultural, political, social etc.) (Berry, 2007). The key to reorganize viable local food industry is the strengthening of communities, since weak communities are responsible for defenseless societies. They are characterized by social unfairness, social-economic tensions, conflicts which prevent the increase of social capital.

All in all, local economic development has several positive impacts, having spatial and rural development significance:

- it encourages business activity,
- it preserves and creates jobs,
- it activates the local community, expands the cooperation network,
- it leads to sustainable use of resources,
- it strengthens the local identity and local patriotism,
- it improves the capacity of settlements to keep the population, it improves the viability,
- it renews the relations between urban and rural areas.

Economic usefulness of local products

The most fashionable and most common tool of local economic development might be the production and development of local products, as well as the promotion of their sales. The production of local products is encouraged primarily to meet the demand of local population, but the actions may aim at the development of marketable products. In order to do that, the local conditions and traditions need to be taken into account, the

local values and abilities need to be discovered and an "inventory" of values also needs to be completed. In case of developing the local products, the encouraging of cooperation related to product lines has great significance, which covers the processing, storage and transportation activities as well. Encouraging the network of suppliers and buyers is a key in this process. However, there are several other actions that can be done to support the sales of local products, e.g. the development of local markets, infrastructure, market services to the creation of a uniform image for the products, the establishment of a small shop where local products are sold (or operating via the internet), etc.

We can also mention the representations at trade fairs, local events or even the establishment of sample farms. The latter can contribute to the keeping of farming traditions, local values as well as to the strengthening of local identity and the improvement of touristic potential. We also consider it important to create and use local trademarks and brands. The aim of local economic development has to be the creation of higher added value and keeping the income locally as well as to achieve proportionate income by the local farmers.

National Rural Strategy (2012 – 2020) – the constitution of Hungarian rural areas

Based on the abovementioned, Hungary pays special attention on the improvement of the capacity to keep the population in rural areas and provide jobs locally, thus to improve the standard of living in rural areas.

Major fields of the strategy:

- to increase employment in rural areas,
- to do agriculture and forestry with using the resources sustainably,
- to have a diversified production structure,
- to develop the local food industry and markets,
- to restore the relations between urban and rural areas,
- to take advantage of the export potentials of food products with higher added value,
- to develop cooperations,
- to strengthen the rural communities,
- to improve the demographic indicators and the living conditions of rural areas,
- to preserve the biodiversity.

Overall objectives

To improve the capacity of rural areas to enable them to attract and keep population with a program which

- builds on the values of people and community,
- keeps the traditions,
- protects the landscape and built environment,
- uses the natural resources in a sustainable way,
- develops the agricultural and non-agricultural businesses to
- restore the appreciation and attractiveness of rural life,
- improve the quality of life of rural population,
- develop the rural areas, thus the nation as a whole,
- create a countryside where living and working do not mean disadvantages but attractive, healthy and up-to-date conditions and values.

Strategic aims

1. To preserve our landscape and natural resources: to preserve the productivity of soil, the maintenance of the cleanness of water base, the preservation of biodiversity, the protection of forests and other

important ecosystems, to maintain the ecological balance, to increase the environment security, which are the requirements of healthy and high quality agricultural and food products.

2. Various and viable agricultural production: to improve the viability of agricultural and food industry, to improve their market positions, to restore the balance between the crop production and animal breeding; to promote ecological farming based on national and local biological basis aiming at the protection of landscape and natural resources; to increase the share of agriculture in employment; to prevent the purchase of land by foreigners, to have a land policy which allows viable farming; to encourage the bottom-up cooperation.
3. Nutrition- and food-safety: to produce high quality and various food products that are based on local raw materials, sustainable and exportable; to increase the market share in both domestic and foreign markets, to improve the prestige of Hungarian food, to allow the "Hungarian product" trademark to reflect to good quality.
4. To provide the basis for living in the rural economy, to increase the rural employment: to strengthen and restructure the economic basis of rural areas, especially villages and farm-steads, to diversify the rural economy, thus providing the living conditions, to maintain jobs and increase employment.
5. To strengthen the rural communities, to improve the quality of life in rural areas: to halt the migration from rural areas, to create attractive conditions for young people, to encourage young, educated people to move to rural settlements, to restore the demographic imbalances with encouraging rural life and farming.

Horizontal aspects

- Sustainability: equal rights and solidarity for the present and future generations; the protection of natural heritage and the sustainable and wise use of resources to achieve reasonable "welfare", to maintain their quality; environmentally, economically and socially balanced development.
- Territorial and social cohesion: to enable the disadvantaged rural areas to catch up based on the local conditions, specialties, the protection of environment; cooperation with maintaining the local identity and common goals; to provide equal chance for life in rural areas.
- Relations between urban and rural areas: to raise awareness on the interdependence of urban and rural areas, to restore the mutually beneficial cooperation.

The abovementioned priorities are realized in the framework of a national strategy, including 7 strategic fields, comprising 42 national programs, accompanied by 8 complex areal rural development programs.

Building on the local economy and networking

One of the keys to the abovementioned future is the strengthening of local economy and society and creation of networking economy. The cooperation and network of small-scale enterprises not including large centers may moderate the dependence of society and reduce the "transaction" (storage, cooling, transporting, trading, advertising etc.) costs. With bringing the producers closer to the customers, the food safety and security of the community improves, the use of energy, packaging materials and additives decreases and, therefore, protects the environment.

Thus, the economic autonomy and cooperation of small areas may be the potential path for the Hungarians in the Carpathian-basin.

So we try to encourage the farming in specific areas, to develop the local agriculture, forestry, industry and trade, based on the traditional production methods, products, plant and animal breeds, local factories as well as local energy production and supply. All these create jobs for the rural communities. Our aim should be to protect the rural nature and provide healthy local products to the local consumers. One of the basic principles of operating a sustainable local community is that the local demand needs to be met first. It is also important to develop the small-scale enterprises, the local firms of sales and processing so that we would use rather local energy sources and allow the money to stay within the local community as long as it is possible, enabling the village society to have a constant relation with the urban one nearby. The realization of government policy depends on the local players, thus it is extremely important to "shake up" the local society, to involve them in the planning and development of rural settlements.

Increase the added value, secure food supply and market

Taking the advantage of Hungary's food production potentials, we have to have at least 80% of the population consuming products made in Hungary. It improves the security of food supply and means stable market for the producers. Due to strict food control, high food safety can be achieved. Consumers need to be encouraged to purchase Hungarian products with marketing and other tools. Food supply plays direct and indirect role in employment and in keeping the population in rural areas. For the workforce not employed in food industry at the moment, it may be an alternative to do small-scale food processing and sale. The cooperation-willingness of food chain players has to be improved, and the consumers' awareness has to be increased: if they buy Hungarian products, they preserve Hungarian jobs. These two require fundamental social changes, thus it may be set as an aim by the end of the programming-planning period. Changes are needed on both the producers' and consumers' sides and we need to restore the fame of and trust in the local and Hungarian products.

Our country is really lucky because it has enough arable land and water capacity. Without these two resources it would be impossible to produce anything (Magda, 2011a). The favourable ecological conditions of the country – if appropriate production methods are applied – allow the production of food of excellent quality in volume which exceeds the domestic demand. The country is still able to produce 20% more than is the domestic demand on basic consumer food products. This level can be further increased, which might be a serious national advantage for the country due to the increasing demand in the global market. We need to facilitate such production systems that burden the environment less, namely e.g. ecological farming (Nagy-Káposzta, 2003). We have to develop our production potentials rationally and sustainably in order to produce products with higher added value.

Concerning agricultural market-policy, -regulation and -protection we do not give up the export-oriented production in great volume and ignore its positive effect on the foreign trade balance, however, our aim needs to be to produce products of higher added value and to regain our former domestic and foreign trade position. The most important market for the Hungarian agribusiness is the local and domestic market. We need to cut the trade chain and reevaluate the customer protection policy. In order to protect the local food markets and to achieve food security, we have to strengthen the institutional system of authority control and customer protection.

Conclusions and recommendations

Based on the abovementioned, the key elements of the agricultural market-policy, – regulation and –protection are the protection of local food markets and improvement of food safety. In order to achieve these aims, we need to make the following steps:

- ❑ After changing the economic and legal background, the shift to a supply that meets the local demand first needs to be promoted.
- ❑ Acts regulating food producers, especially family farms, SMEs need to be reviewed.
- ❑ The common charges should be imposed on issues related to the environment load, the use of external energy sources as well as transportation, instead of live-work. Thus the spread of farming systems which use live-work, involve human work, are environment friendly and energy-saving, focusing on the local and regional markets could be observed. It would result in the minimal use of external resources, the dependence on internal resources, the cycle of product-flow and money could start and end in the region, thus strengthening the local economic network.
- ❑ The VAT on basic food and agricultural raw materials should be reduced, the credit accessibility of processing companies needs to be improved.
- ❑ In order to cut the food chain, the local markets have to be developed fast, the creation of Community Supported Agriculture needs to be supported, the local processing and sale have to be encouraged and the use of local trademarks and hungaricum brands have to be facilitated.

The relation of customers to safe and high quality Hungarian food has to be improved by community marketing and raising awareness. Adult education and school trainings should include information about conscious consumption and domestic food of high quality.
- ❑ The position of domestic enterprises in the bargain with trade chains has to be improved. Strategies which cover the whole product lines need to be elaborated and regional cooperation need to be encouraged.
- ❑ Farmers' cooperation, production-consumption associations have to be supported in the case of small and medium-sized processing plants based on locally produced raw material in order to make quality and traditional products.
- ❑ The retail networks specialized in the sale of locally processed products should be encouraged, such products should be sold under special trademarks, furthermore, such products should be linked to and integrated into village/rural tourism as well.
- ❑ The development funds have to be spent on the production of high added value and high quality products created by SMEs, while supporting the establishment of internationally competitive Hungarian large-scale companies.
- ❑ The institutional system of authority control and customer protection should be improved to provide safe food products.
- ❑ The entrance to the market and the market position need to be supported. In order to achieve this, we must strengthen the supply and discover new market segments. The aim should be to make the "Hungarian food" equal to "safe, controlled food of high quality."
- ❑ The act on hungaricums (Hungarian special products) should also be passed. The participation in the EU and national qualification systems should also be encouraged.

- ❑ The expression of Hungarian product needs to be defined clearly, distinguishing 3 categories: Hungarian product (95% of raw material is Hungarian), domestic product (70% of raw materials is from Hungary) and domestically produced products.
- ❑ In addition to the abovementioned measures, the regulation on basic food supply has to be reviewed as well.
- ❑ The expansion of cross-border food trade with non-EU members (Ukraine, Serbia and Croatia) has to be closely monitored and the strengthening of the economy and cooperation within the Carpathian-basin populated by Hungarians has to be promoted as well.

All in all, the local communities need to be supported under the local economic development policy so that they could reorganize their local economies and initiate closer relations between local producers and consumers. Moreover, local products should be supported, local processing and sale should be facilitated, the approach and attitude of people to local products and sustainable consumption need to be changed, a complex model for local energy production and district supply should be elaborated, rural and village tourism as well as ecotourism have to be encouraged (Káposzta-Nagy-Kollár, 2010). More favourable conditions should be created for traditional handcraft products. Handcraft traditions and potentials need to be assessed and developed. In areas where it is necessary, people need to be driven back to the labour market through solidarity economy.

Putting rural Hungary at an advantage relies on the improvement of the economy of rural areas and the implementation of sustainability. Halting the negative processes experienced in the disadvantageous areas requires new and complex rural and settlement strategies that will result in competitive agricultural structures and the employment of the undereducated workforce – even if only to a limited extent – will be possible (Magda, 2012).

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