

# Rural Development as a Leading Factor in Economic Growth

**Oksana Takhumova**

Federal State Budgetary Educational Institution of Higher Education  
 “Kuban State Agrarian University named after I. T. Trubilin”  
 Kalinina str. 13, 350044 Krasnodar  
 Russian Federation  
 e-mail: takhumova@rambler.ru

**Abstract** This paper researchers the leading role of rural development in overall economic growth and wellbeing. Contrary to the common consideration that thanks to the increased productivity of labour, agricultural sector and rural development are no longer important for any economy, it appears that they still play a very important leading role and yield many useful benefits.

The paper shows that rural development contributes to the economic development of any country and often plays the key role in the composition of gross domestic product. In addition, it becomes clear that certain tools and incentives need to be applied for making it more efficient and helping it to sustain a leading factor in economic growth.

The results obtained in the course of this research might help stakeholders and policymakers to promise rural development policies and to help to turn the public attention to the problems of agriculture and post-agriculture alike. It appears that rural areas might become the new hub for innovative economic projects and might yield positive net profits from non-agricultural activities that include, for example, small and medium production, tangible and intangible tourism, local crafts, and many more.

**Keywords:** *economic growth, well-being, rural development, leadership*

## 1 Introduction

Rural development has always been looked upon as a side effect of the policies aimed at developing agricultural sector. For decades, rural development policy proposals have favored investment in physical infrastructure (including broadband), loan capital, and human services (Niño-Amézquita et al. 2017). While indispensable, these are not a substitute for funding to build and strengthen strong local institutions and their leadership (see Selyanskaya et al. 2018). As the governments invest billions annually in critical rural transport, water, broadband, healthcare, loan funds, tax incentives, education and housing, it spares a fraction of it for technical assistance, training, planning, capacity building, and operational support for local organizations and leaders who make decisions to make sure that federal investment is used strategically. The impact can also be achieved by strengthening rural support for changes in state or national policies that affect both rural and urban strategies and outcomes (Moskalenko and Yevsieieva 2015). In addition, this impact can also be achieved by strengthening rural support for changes in state or national policies that affect both rural and urban strategies and outcomes (Dumenu and Obeng 2016). Hubs and investors are taking care of measures or investments that will improve the entire region today and put them on a better path for the future (Jiroudkova et al. 2015).

Nevertheless, in spite of all the issues mentioned above, it is important to attempt to design and implement a development strategy that leverages the dynamic synergies between agriculture and industry (Barrie et al. 2017; or Coomes et al. 2019). In the long term, booming industrial and service sectors are needed to sustain the momentum of the entire economy and to achieve poverty eradication in rural and urban areas. Agriculture is inherently limited as a driver of long-term growth, while industry has greater potential to bring about technological innovation, achieve dynamic economies of scale, and create external economies that can further support agricultural development and support the country's continued development. In order to achieve a sustainable economic development process, not only resources from agriculture have to be shifted to industry. It requires a development strategy that creates a dynamic interaction between the two sectors (Janda et al. 2013).

For example, in South Korea and Taiwan, the state was instrumental in the creation, extraction and transfer of agricultural surpluses into industry (Iskan 2018). It created the conditions for productivity growth in agriculture as well as ensuring the transfer of much of this growth to the industrial sector through mechanisms such as taxation and manipulation of trading conditions in favor of industry. In order to meet the future demands of economic productivity, in addition to the necessary economic conditions and sufficient investment for new innovations, training and education of workers is essential. Some scientists stress that it is essential for the

development of human capital to tackle the existing inequality in education between rural and urban areas (Pi and Zhang 2017).

Some countries (for example China) have a large rural sector that calls for modernisation. Regarding China's future economic growth, Wang (2019) pointed out that action would soon have to be taken to strengthen human capital and thus the education system in rural areas. Rural places and populations have tremendous individual, social and cultural capital and potential. However, they face chronic divestments, weak infrastructure, limited financial capital, and a lack of sustainable, productive links to electricity, critical resources, and funding flows. Structural racism, poverty and low opportunities deprive a region of the future talents needed for the revival of rural America and other rural areas (see e.g. Lichter and McLaughlin 2010).

Conversely, changes in agricultural productivity in Latin America required scarce capital resources and often required more foreign exchange. In contrast, in South Korea and Taiwan, technological change in agriculture among peasants has been widespread as a result of redistributive agrarian reform and the active promotion of improved technologies by the state. Rural spending has been paid far more egalitarian, and the state has made far greater investments in rural infrastructure, such as irrigation and roadbuilding, compared to Latin America.

## 2. Rural development and agriculture in developed and developing countries

Given the prevalent economic view that industrialization is the engine of growth, many developing countries are developing strategies aimed at improving the urban industrial sector rather than the agricultural sector, and this may be in view of the fact that the majority of industrialized countries occupy the income and growth-distorting rural agricultural sector (Abrham et al. 2015). In summary, the structural change hypothesis assumes that the process of development takes place in an economy, when dependence on the agricultural sector becomes a more complex and competitive industrial sector, serving as a catalyst for economic growth.

With the majority of developing countries still dependent on agricultural income, the industrial sector needs to be developed further to increase the income of the poor and provide food and raw materials to the industrial sector. In addition, public sector intervention, capital market development and land inequality are likely to be relevant factors in the development of both sectors. As most citizens live in rural areas and participate in agriculture in a developing economy, it has been shown that the development of this sector promotes economic development. An emphasis on the agricultural sector leads to income increases for the lowest percentile, while food and other commodities are provided to other domestic sectors and, if possible, to the international economy.

The role of the agricultural sector in development should not be underestimated. Notwithstanding these facts about the agricultural sector, however, many developing-country governments believe that the sector remains a viable target sector for tackling growing youth unemployment. Nevertheless, the % shares of both rural population (measured as a % of the total population) as well as employment in agriculture all across the world are slowly but gradually declining (see Figure 1 that follows).

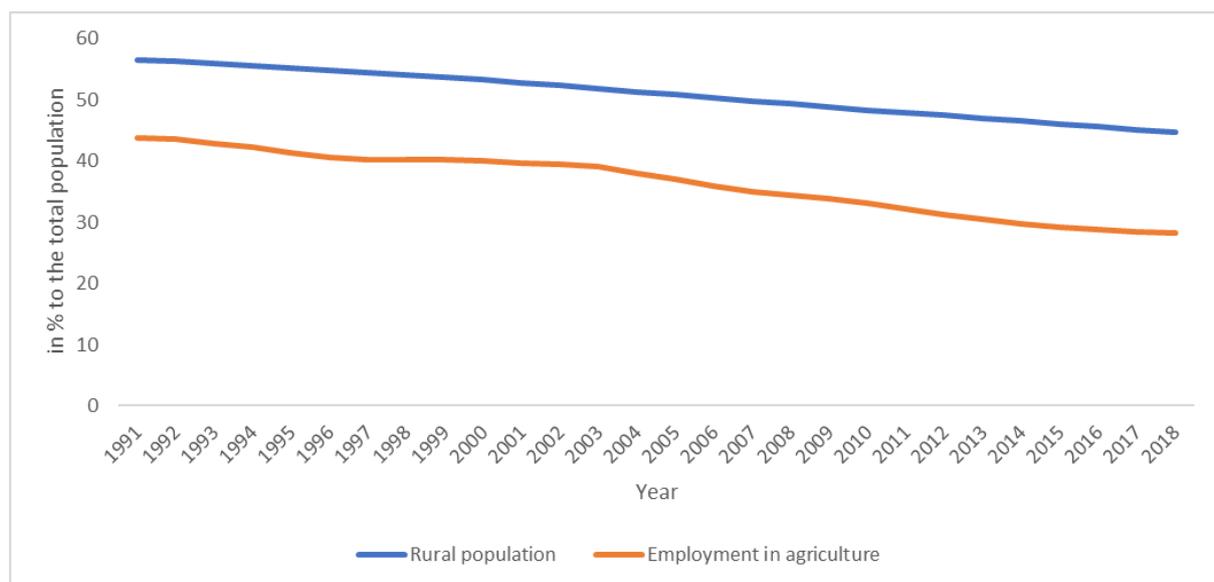


Fig. 1. Rural population and employment in agriculture in the world (1991-2018)  
Source: World Bank (2019)

The added value of the population and the agricultural sector rises twice as fast as the value added of the manufacturing sector. Growth rates in manufacturing and agriculture are positive in North Africa and Southern Africa and negative in Central, East and West Africa. The combined Africa and Middle East region has the highest population growth rate in all regions of the world and is expected to deliver strong economic growth over the next 10 years. However, it is expected that the growth of agricultural production in the region will lag behind the increase in consumption. Strong political support for domestically produced meat will also stimulate growth in feed grain and protein meal imports, especially in countries where land restrictions or agro-climatic conditions limit the expansion of crop production. The agrarian revolution changed the way the agricultural sector would affect the overall economy of a country. Agricultural development has greatly promoted industrialization in countries such as the US and Japan, as evidenced by the significant progress made by these countries. The agricultural industry plays a major role in promoting an economy that is an important source of raw materials. As trading conditions for primary products on the international market deteriorate, the prospects for higher export earnings are rather limited. Agricultural development thus contributes to the improvement of social welfare, especially in rural areas.

The theory of change, which drives much of international agricultural aid, suggests that appropriate technologies with relatively low investment in research can make a big positive contribution to developing countries. It has become clear that plant genetic improvements are fast, beneficial, and beneficial to them and consumers for many farmers. The general aim is to help developing countries produce their own new agricultural knowledge for their own conditions, often in partnership with others. History shows that increasing agricultural productivity was the key to economic growth and development in every country that was once poor and where a large proportion of its population depended on agriculture

### **3. Innovations in rural development**

In all countries around the world, especially in developing countries, sustainable development considerations must be included in the analysis and planning of agricultural policy. The lack of a coherent national policy framework for sustainable agriculture and rural development (SARD) is widespread and not limited to developing countries. All countries need to fully assess the impact of such a policy on food and agricultural performance, food security, rural well-being and international trade relations in order to identify appropriate countervailing measures.

A special approach to assessing the sustainability and suitability of agricultural innovation for rural peasants taking into account environmental sustainability, economic viability and social sustainability as well as technical sustainability should be developed. This can be achieved by designing indicators that help small farmers and local advisors make decisions that are locally adapted, sustainable, and resilient.

Innovative technologies and practices for sustainable land management (SLM) can help combat land degradation and improve livelihoods in the countryside but are generally not applied on a larger scale.

In general, it is important to look at factors that limit the introduction of SLM innovations and identifies the main incentives to introduce them: access to markets, credit and extension, and secure land use rights. Agriculture needs to be stepped up to meet future demand for raw materials and avoid further expansion to peripheral areas and interference with fragile ecosystems. The increased use of external resources and the development of specialized production and farming systems increase susceptibility to environmental pressures and market fluctuations. There is therefore a need to intensify agriculture by diversifying production systems to maximize the efficiency of using local resources while minimizing environmental and economic risks.

Today, we are at the dawn of a new era of scientific innovation for agricultural systems. Further studies on the root crop of crops and grasses reveal new ways to fight rhizobes, to catalyze rapid plant growth and suppress pests and diseases. New methods to track the movement of certain molecules through the watershed enable the targeted disposal of agricultural waste.

For more than 50 years, the main directions for agricultural development have been set in the national capitals and in the meeting rooms of major food and agricultural enterprises. A wide range of public actors are involved in formulating and implementing policy objectives and supporting public funds for the Westerkwartier. Similarly, a wide range of public and private actors and agencies can promote rural learning and innovation in the Westerkwartier. The leaders of the associations created a collaboration between farmers that reconciled the different interests of nature and agricultural stakeholders. The state forestry man had the ability to create a common interest and vision in the Westerkwartier for nature and landscape management.

In general, it becomes apparent that multi-level action is required for all the functions of innovation systems, but the fulfillment of specific functions requires the strategic involvement of specific stakeholders at specific levels. The review of research projects highlights the role of leaders in collaboration, mutual reflexivity, capacity building, and the creation of border interactions that support learning and innovation. The Europe-wide case studies of rural areas support the assumption that successful local leadership can combine different interests

and overcome ties by hindering or disabling institutionalized processes, creating a collaborative spirit and inspiring learning environment. To this end, we will examine the Westerkwartier area, which was examined in the context of the above-mentioned DERREG project, in order to clarify the role of the local leadership in establishing institutional arrangements. European policies for social cohesion (EC 2010a) and territorial cohesion (EU 2011) and development strategies and practices for the post-2013 EU programming period. Following on from the challenges of achieving the Lisbon objectives and the Europe 2020 strategy, Europe 2020 (EC, 2010b) puts more pressure on places and regions to achieve smart, sustainable and inclusive growth based on their specific characteristics and dynamics. And while the OECD (2015) has analyzed the relevance of leadership in local economic development in cities, more attention needs to be paid to the role of leadership in rural areas.

#### **4. Agriculture and international trade**

The estate was originally intended for the sale of goods, including agricultural products. However, many exceptions and exemptions for agriculture made it possible to continue protectionist policies in the agricultural sector. As a result, international agricultural trade has been distorted by the use of political instruments such as import quotas and export subsidies. The agreement then provides that tariff rates will be gradually reduced over a period of several years

The liberalization and promotion of agricultural trade is a goal of the sadc. The Trade Protocol calls for liberalization of trade, removal of barriers to trade, import and export duties and harmonization with WTO and SPS trade practices. One of the main tasks of the Directorate for Food, Agriculture and Natural Resources is to promote trade in agricultural products.

It also promoted the liberalization of trade by reducing protectionist policies. Countries that were members of GATT had developed an international trade system in a series of trade negotiations or rounds. The United States Trade Representative Bureau (USTR) is responsible for the development and coordination of the USA. International trade, commodities and direct investment policy, and oversight of negotiations with other countries. The USTR consults other government agencies on trade policy issues through the Trade Policy Review Group (TPRG) and the Trade Policy Staff Committee (TPSC). The final stage of the mechanism of the trade negotiation policy is the National Economic Council (NEC) chaired by the President. The Foreign Agriculture Service (Fas) is an agency within the United States that works to improve the agricultural exports of the United States. The FAS tracks market developments, negotiates trade agreements, collects statistics, manages a number of agricultural foreign aid programs and establishes contacts with the international community and organizations. The FAS employs agricultural consultants, attachés, trade officials, analysts and negotiators worldwide. The global economy is driving demand for food and agricultural products and is the foundation of the United States. Agro-trade. As a result, the composition and pattern of U.S. agricultural exports and imports are shifting to reflect changes in trade policy, world population and world income, and economic growth.

Other factors affecting U.S. agricultural trade include global supply and prices, exchange rate changes, and government support for agriculture. The ability to import capital goods and machinery for industrial development depends crucially on the export earnings of the agricultural sector. If agricultural exports are not sufficiently increased, these countries will be forced to face a severe balance of payments deficit, leading to a serious foreign exchange problem. However, primary goods are facing falling prices in the international market, and the prospects of increasing their export earnings are limited. For this reason, big developing countries like India (with potential for industrial development) are trying to diversify their production structure and promote the export of manufactured goods, although this requires safeguards in the first planning phase.

A common market arises when the integration of a group of economies goes beyond the level of a customs union by adopting a common economic policy and facilitating the free movement of capital and labor. In essence, all member countries trade freely with all economic resources rather than restricting free trade to goods and services. Member States may also adopt common policies for key industries such as the Common Agricultural Policy (CAP). A prime example of a common market is the European Union (EU), which, through its progressive integration, also foresees the elimination of physical barriers, often referred to as the single market.

#### **5. Conclusions**

At present, world agribusiness is centered around productive resources such as feed, seeds, fertilizers, equipment, energy, pesticides, machinery, etc., and agricultural commodities such as raw and processed foods and fiber. The process of modernizing the whole food chain in the world has already begun. The world's total food production is expected to double over the next decade.

However, this goes hand in hand with the declining employment in rural areas and the shrinking rural population that is leaking to the large hubs represented by large cities. Rural-urban migration has taken unprecedented forms and dimensions in some countries such as India or China. This constitutes a serious threat

for the rural areas and rural development that need some forms of governmental support in order to overcome this human drain.

Our results demonstrate that rural development in its novel forms and realms might become the successor of traditional agriculture and agricultural production. It might help to generate new jobs in the rural sector such as small and medium production in enterprises, crafts, or tourism.

All in all, our analysis that is based on the comprehensive review of sources and literature as well as own considerations and outcomes very well confirms that in today's changing world, rural development can become a leading factor in economic growth.

## Acknowledgments

This research was supported by the Russian Foundation for Basic Research in the framework of the project 20-010-00089-A "Formation of the organizational and economic mechanism for the balanced innovative development of agricultural production".

## References

- Abrham J, Strielkowski W, Vošta M, Šlajs J (2015) Factors that influence the competitiveness of Czech rural small and medium enterprises. *Agricultural Economics-Zemедельска Ekonomika* 61(10):450-460. doi: 10.17221/63/2015-AGRICECON
- Barrie J, Zawdie G, João E (2017) Leveraging triple helix and system intermediaries to enhance effectiveness of protected spaces and strategic niche management for transitioning to circular economy. *International Journal of Technology Management & Sustainable Development* 16(1):25-47. doi: 10.1386/tmsd.16.1.25\_1
- Coomes OT, Barham BL, MacDonald GK, Ramankutty N, Chavas JP (2019) Leveraging total factor productivity growth for sustainable and resilient farming. *Nature Sustainability* 2(1):22-28. doi: 10.1038/s41893-018-0200-3
- Dumenu WK, Obeng EA (2016) Climate change and rural communities in Ghana: Social vulnerability, impacts, adaptations and policy implications. *Environmental Science & Policy* 55:208-217. doi: 10.1016/j.envsci.2015.10.010
- Iscan TB (2018) Redistributive Land Reform and Structural Change in Japan, South Korea, and Taiwan. *American Journal of Agricultural Economics* 100(3):732-761. doi: 10.1093/ajae/aax093
- Janda K, Rausser G, Strielkowski W (2013) Determinants of Profitability of Polish Rural Micro-Enterprises at the Time of EU Accession. *Eastern European Countryside* 19(1):177-217. doi: 10.2478/eec-2013-0009
- Moskalenko V, Yevsieieva I (2015) Effective leadership conflict management in food technology enterprises. *International Economics Letters* 4(2):91-102. doi: 10.24984/iel.2015.4.2.4
- Niño-Amézquita J, Dubrovsky V, Jankurová A (2017) Innovations and competitiveness in regional development: a comparison of Latin America, Europe, and China. *Czech Journal of Social Sciences, Business and Economics* 6(1):28-36. doi: 10.24984/cjssbe.2017.6.1.4
- Jiroudkova A, Rovná LA, Strielkowski W, Šlosarčík I (2015) EU Accession, Transition and Further Integration for the Countries of Central and Eastern Europe. *Economics and Sociology* 8(2):11-25. doi:10.14254/2071-789X.2015/8-2/1
- Lichter DT, McLaughlin DK (2010) Changing Economic Opportunities, Family Structure, and Poverty in Rural Areas. *Rural Sociology* 60(4):688-706. doi: 10.1111/j.1549-0831.1995.tb00601.x
- Pi J, Zhang P (2017) Rural-urban human capital disparity and skilled-unskilled wage inequality in China. *Review of Development Economics* 22(2):827-843. doi: 10.1111/rode.12370
- Selyanskaya G, Finogenova Y, Strielkowski W (2018) Factor Analysis of Economic Leadership Peculiarities of Countries and Regions Around the World. In: Strielkowski W., Chigisheva O. (eds) *Leadership for the Future Sustainable Development of Business and Education*. Springer Proceedings in Business and Economics. Springer, Cham, pp. 213-222. doi: 10.1007/978-3-319-74216-8\_22
- Wang S (2019) Social capital and Rotating Labor Associations in rural China. *China Economic Review* 53:243-253. doi: 10.1016/j.chieco.2018.09.013
- World Bank (2019) *Agroculture and rural development*. <https://data.worldbank.org/topic/agriculture-and-rural-development> Accessed on 20 November 2019