

Concept of Agricultural Commercialization

We can differentiate farming system into three categories- subsistence system, semi-commercial system and commercial system. The primary purpose of subsistence system is to produce to maintain food household self sufficiency, while in case of semi-commercial system the objective is focused towards generation of marketable surplus. Thus, semi-commercial system, farmers give priority not only on maintaining household food-security but also on maintaining some surplus to sell in the near-by market. In commercial system, profit maximization is the main motive of the entrepreneur.

Commercialization of agricultural system leads to greater market orientation of farm production, progressive substitution out of non-traded inputs in favor of purchased inputs, and gradual replacement of integrated farming system by specialized enterprises. Generally, non-traded inputs like human and animal power is substituted by traded input like mechanical power and farmyard manure by chemical fertilizer. Thus, agricultural commercialization involves the gradual substitution of complex farming system by specialized enterprises for crop and livestock in which every farm decision depends on the market signal. Three important factors that drive commercialization are economic growth, urbanization and withdrawal of labor from the agricultural sector.

As level of commercialization increases, there is a gradual but definite movement out of subsistence food crop production to a diversified market oriented production system. We should not be confused with the terminology like diversification and intensification in the path of commercialization. There will be crop intensification at a farm level while diversification takes place at national or regional level. Thus, commercialization, while leading to an increase in the diversity of marketed products at the national level leads to increasing farm level specialization. One of the reasons for diversification is a slowdown in income-induced demand growth for staple foods and shift of diets to higher valued foods such as meats, fruits and vegetables.

What are the impacts of commercialization?

Welfare- generally, it is said that commercialization leads to the adverse effect on the poor farmers. However, many researchers refute the idea. Researcher like von Braun (1995) believes that commercialization of agriculture benefits the poor by directly generating employment and increased agricultural labor productivity. But he cautioned that agricultural commercialization accompanied with failures of institutions, policies or markets can be more damaging and thus, advocates the strong role of government to facilitate the transformation process from subsistence to commercial one.

Regional income distribution- It is argued that agricultural commercialization that proceeds in certain region but not in others can worsen regional disparities. The widening productivity gap between commercializing region and subsistence region may trigger not only inequality but also cause an increase of absolute poverty. However, researchers like Von Braun (1995) argue that the more mobile the labor force, the more the benefits from commercialization will spread across the economy and other regions. So, generally, it is believed that inter-regional labor migration from unfavorable to favorable regions tended to equalize wages across regions, allowing landless labor and small farmers in unfavorable areas to benefit also. Thus, the key to the interregional spread of benefits of commercialization is the existence of well-functioning product and factor markets.