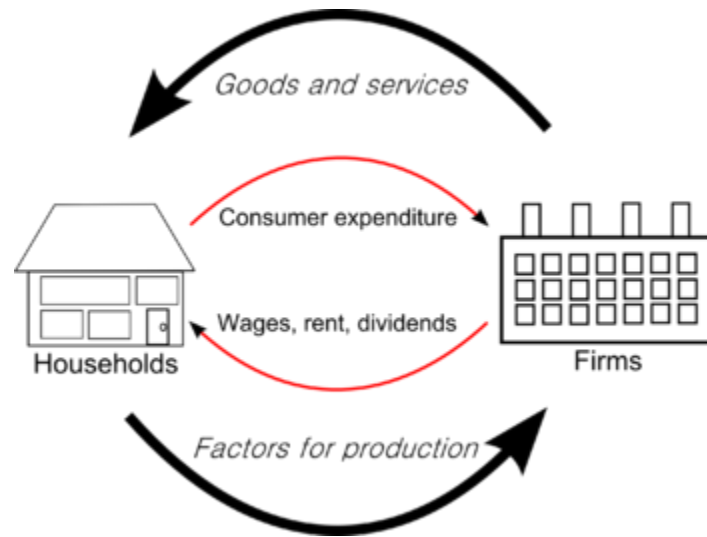


LECTURE 1

THE ROLE OF AGRICULTURE IN ECONOMIC DEVELOPMENT

The role of agriculture in economic development can be analysed through two different approaches. These are:

1. Using models of closed economies where foreign trade is assumed absent while final demand linkages and input-output relations ensure a perfect complementarity in production between agriculture and industry. The two sectors are assumed to produce only goods for domestic consumption which for one reason or another cannot be subjected to international trade.



2. Using models that assume exports and imports being large enough to offset the relation between domestic demand and supply of major commodities. In a simplified form, it can be stated that all agriculture and industrial goods are internationally traded.

In this context we use the first approach that is we take agriculture as existing in closed economy for purposes of emphasizing the importance of the agricultural sector in an economy of a developing economy that has strong agricultural base and a weak or non existing industrial sector as is the case with Tanzania.

Basic contributions of Agriculture

In general agriculture's main contributions to the overall economic growth may be stated as follows:

1. Contribution to overall economic growth, through growth of agricultural and food production, in line with the growth of internal and external demand.
2. Contribution through the transfer of resources (labour and capital) from agriculture to the other sectors of the economy, transfers which contribute to the overall growth if (and only if) the productivity of the transferred factors is higher in the non-agricultural sectors.

3. Contribution to the earning of foreign exchange and to a stable balance of payments, in so far as agriculture and food exports exceed imports. The currency earned by net exports can make it possible to import capital goods needed for the modernization of the economy.
4. Contribution to industrialization either through the provision of raw materials to the agricultural and food industries or through the purchase of industrial goods, thus stimulating industrial growth.

Importance of agriculture to the economic development

When we say that a country is developed, we usually judge its development in two sectors; agriculture and industry. Normally these are the most productive of most countries. Their development entails progress in the rest of the remaining sectors including education, health, communication, transport, construction, financials services, tourism, mining, etc.

Economies of most developing countries have developed primarily through the growth of exports of primary products.

If agriculture is neglected. Opportunities for progress will be very much restricted.

Increased agricultural output and productivity contributes to the overall economic development of a developing country in the following ways:

1. It provides food for the entire population

Economic development is partly characterised by a substantial increase in the demand for agricultural products.

The increase in the numbers of urban dwellers who no longer grow their food because they have joined the urban and industrial sectors, coupled with the increasingly sophisticated type of people with relatively high incomes and more nutritional demands that place more and more strain on the agricultural sector.

Failure to expand food supplies in place with the growth of national demand can seriously impede the country's economic development.

Unless agriculture can supply an adequate amount of food required, the country will be forced to import food or run a serious risk of inflation or both and possibly famine.

But importation of food from outside causes increased drain of foreign exchange which is badly needed for importing capital goods.

2. It provides increasing agricultural exports

In developing countries, expansion of exports of agricultural products is one of the most promising means of increasing national income and foreign exchange earnings, particularly during its early stages of development.

The foreign exchange enables the country to acquire basic imports necessary for economic growth particularly for industrialization.

Exploitation of natural resources such as tanzanite, gold, diamonds, tin, copper, etc. would have provided the quickest answer to economic development of any developing country like Tanzania. Tanzania does not have the “*ability to exploit them*” and consequently is dependent on the ecologically suitable crops both raw or processed, as major foreign exchange earners.

3. Its is the supplier of labour

In developing countries, at the initial stages of development, agriculture is the only sector operating.

Most of the population live in rural areas.

As the country develops, initial economic sectors draw their labour requirements from agricultural sector.

4. It is the biggest employer

Agriculture is a sector that employs the majority of the Tanzanian (*even worldwide*) population.

This includes all those people doing the actual farming and those processing the agricultural products.

5. It is a supplier of raw materials for domestic industries

For the agriculturally based economies to go industrial, they have to start with less capital demanding industries that use local materials as inputs.

Agro-allied industries are the first to be established in such countries.

Tanzania had several of them but due to mismanagement almost all were closed!!

Reading assignment

“Agricultural development theories”