AN ASSIGNMENT

ON

THE ROLE OF AGRIBUSINESS IN A RECESSED ECONOMY

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What is Agribusiness

Agribusiness is the business of agricultural production. The term was coined in 1957 by Ray Goldberg and John Davis. It includes agrichemicals, breeding, crop production (farming and contract farming), distribution, farm machinery, processing, and seed supply, as well as marketing and retail sales. All agents of the food and fiber value chain and those institution that influence it are part of the agribusiness system.

Within the agricultural industry, "agribusiness" is used simply as a portmanteau of agriculture and business, referring to the range of activities and disciplines encompassed by modern food production. The UN's Food and Agriculture Organization (FAO) operates a section devoted to agribusiness development which seeks to promote food industry growth in developing nations.

In the context of agribusiness management in academia, each individual element of agricultural production and distribution may be described as agribusinesses. However, the term "agribusiness" most often emphasizes the "interdependence" of these various sectors within the production chain.

Examples

Examples of agribusinesses include seed and agrichemical producers like Dow agroscience, DuPont, Monsanto, and Syngenta; AB Agri (part of Associated British Foods) animal feeds, biofuels, and micro-ingredients, ADM, grain transport and processing; John Deere, farm machinery producer; Ocean Spray, farmer's cooperative; and Purina Farms, agri-tourism farm.
Definition of Economic Recession

Economic recession is a period of general economic decline and is typically accompanied by a drop in the stock market, an increase in unemployment, and a decline in the housing market. Generally, a recession is less severe than a depression. An economic recession is typically defined as a general decline in gross domestic product (GDP) for two or more consecutive quarters and when it persist for years it results to economic depression.

GDP is the market value of all goods and services produced within a country in a given period of time. GDP growth rate measures how fast the economy is growing. It does this by comparing one quarter of the country’s economic output (GDP) to the last.

The GDP is driven by four components, the most important driver of GDP growth is personal consumption, which involves retails sales, GDP growth is also driven by business investment which include; consumption and inventory levels.

Government spending is the third driver of growth, its sometimes necessary to jumpstart the economy after recession.

Last but not the least is the import and export. Exportdrives growth but increase in import have a negative impact.

However, the GDP growth rate is the most important indicator of economic health. When the economy is expanding, the GDP growth rate is positive, if is growing so will business, jobs and personal income grow. If is slowing down, then business will hold off investing in new purchase and hiring new employees, waiting to see if the economy will improve. That in turn, can easily further depress the economy
and consumer have less money to spend on purchase. Hence if the GDP growth rate turns negative then the country’s economy is heading towards recession.

**Factors that Causes Recessions**

**High interest rates** are a cause of recession because they limit liquidity, or the amount of money available to invest.

**Another factor is increased inflation:** Inflation refers to a general rise in the prices of goods and services over a period of time. As inflation increases, the percentage of goods and services that can be purchased with the same amount of money decreases.

**Reduced consumer confidence:** Is another factor that can cause a recession. If consumers believe the economy is bad, they are less likely to spend money. Consumer confidence is psychological but can have a real impact on any economy.

**Reduced real wages**, another factor, refers to wages that have been adjusted for inflation. Falling real wages means that a worker's paycheck is not keeping up with inflation. The worker might be making the same amount of money, but his purchasing power has been reduced.

**Effects of Recession**

Some of the possible effect of economic recession include;

- **slump in the stock market.** This is when goods and services are difficult to sell when consumers' purchasing power is reduced. Therefore, business earnings fall along with their stock market price
- **An increase in unemployment** is another recession effect. Business reduce production because consumer spending slows. Therefore, employees lose their jobs as businesses cut back on production.

- **Possible depression is another effect.** Specifically, a recession can become a depression if it persists for a long time, during recession government spends money it does not have to bail out businesses. Such increases in the national debt means that the government will spend less money on development.

**Roles of Agribusiness in a Recessed Economy include:**

1. **Contribution to National Income:**

   The lessons drawn from the economic history of many advanced countries tell us that agricultural prosperity contributed considerably in fostering economic advancement. It is correctly observed that, “The leading industrialized countries of today were once predominantly agricultural while the developing economies still have the dominance of agriculture and it largely contributes to the national income. In India, still 28% of national income comes from this sector.

2. **Source of Food Supply:**

   Agribusiness is a portmanteau of Agriculture hence act as the basic source of food supply of all the countries of the world—whether underdeveloped, developing or even developed. Due to heavy pressure of population in underdeveloped and developing countries and its rapid increase, the demand for food is increasing at a fast rate. If agriculture fails to meet the rising demand of food products, it is found to affect adversely the growth rate of the economy. Raising supply of food by agricultural sector has, therefore, great importance for economic growth of a country.
3. Pre-Requisite for Raw Material:

Agriculture and agribusiness advancement is necessary for improving the supply of raw materials for the agro-based industries especially in developing countries. The shortage of agricultural goods has its impact upon industrial production and a consequent increase in the general price level. It will impede the growth of the country’s economy. The flour mills, rice shellers, bread, meat, milk products sugar factories, wineries, jute mills, textile mills and numerous other industries are based on agricultural products.

4. Provision of Surplus:

The progress in agricultural sector provides surplus for increasing the exports of agricultural products. In the earlier stages of development, an increase in the exports earning is more desirable because of the greater strains on the foreign exchange situation needed for the financing of imports of basic and essential capital goods.

Johnson and Mellor are of the opinion, “In view of the urgent need for enlarged foreign exchange earnings and the lack of alternative opportunities, substantial expansion of agricultural export production is frequently a rational policy even though the world supply—demand situation for a commodity is unfavorable.”

5. Creation of Infrastructure:

The development of agricultural businesses requires roads, market yards, storage, transportation railways, postal services and many others for an infrastructure creating demand for industrial products and the development of commercial sector hence making it possible for farmers and other small entrepreneurs to become well equipped and vast with various agricultural applications to follow while running their businesses.
6. Helpful to Reduce Inequality:

In a country which is predominantly agricultural and overpopulated, there is greater inequality of income between the rural and urban areas of the country. To reduce this inequality of income, it is necessary to accord higher priority to agriculture and agricultural businesses. The prosperity of agriculture would raise the income of the majority of the rural population and thus the disparity in income may be reduced to a certain extent thereby improving the standard of living of the rural populace.

7. Create Effective Demand:

The development of agricultural sector would tend to increase the purchasing power of agriculturists which will help the growth of the non-agricultural sector of the country. It will provide a market for increased production. In underdeveloped countries, it is well known that the majority of people depend upon agriculture and it is they who must be able to afford to consume the goods produced.

Therefore, it will be helpful in stimulating the growth of the non-agricultural sector. Similarly improvement in the productivity of cash crops may pave the way for the promotion of exchange economy which may help the growth of non-agricultural sector. Purchase of industrial products such as pesticides, farm machinery and improved seedlings etc. also provide boost to industrial dead out.

8. Helpful in Phasing out Economic Depression:

Recession is a period of general decline in the economic growth of a country and when it persist for a long time results to economic depression. During depression, industrial production can be stopped or reduced but agricultural production continues as it produces basic necessities of life. Thus it continues to create effective demand even during adverse conditions of the economy.
9. Source of Foreign Exchange for the Country:

Most of the developing countries of the world are exporters of primary products. These products contribute 60 to 70 per cent of their total export earning. Thus, the capacity to import capital goods and machinery for industrial development depends crucially on the export earning of the agriculture sector. If exports of agricultural goods fail to increase at a sufficiently high rate, these countries are forced to incur heavy deficit in the balance of payments resulting in a serious foreign exchange problem.

However, primary goods face declining prices in international market and the prospects of increasing export earnings through them are limited. Due to this, large developing countries like India (having potentialities of industrial development) are trying to diversify their production structure and promote the exports of manufactured goods even though this requires the adoption of protective measures in the initial period of planning.

10. Employment Opportunities for Rural People:

Agribusiness provides employment opportunities for rural people on a large scale in underdeveloped and developing countries. It is an important source of livelihood. Generally, landless workers and marginal farmers are engaged in non-agricultural jobs like handicrafts, furniture, textiles, leather, metal work, processing industries, and in other service sectors. These rural units fulfill merely local demands. In India about 70.6% of total labour force depends upon agriculture.

11. Extension of Market for Industrial Output:

As a result of agricultural progress, there will be extension of market for industrial products. Increase in agricultural productivity leads to increase in the income of
rural population which in turn leads to more demand for industrial products, thus development of industrial sector.

According to Dr. Bright Singh, “Increase in agricultural production and the rise in the per-capita income of the rural community, together with the industrialisation and urbanisation, lead to an increased demand in industrial production.” In this way, agricultural sector helps promote economic growth by securing as a supplement to industrial sector

**Important facts about agribusiness**

1. Agribusiness is the world’s oldest, largest, and most important industry. It is the business that enables the world to grow, trade, and feed everyone to utilize the earth’s finite resources.

2. Agribusiness encompasses half the world’s labour force, half the world’s assets, and 40% of modern consumer purchases. It drives the public policy issues in economic development, food security, trade, nutrition, natural resources, protecting plant and animal diversity, genetics, and economic, social and environmental priorities.

3. Today agribusiness has an image problem caused by its own success. The wider urbanized, public perceive agriculture as ‘just farming’, just raising livestock and growing crops. Yet, agribusiness is a complex system involving a whole constellation of activities and supporting businesses that move food and fibre from where it is produced to where it is consumed. Societal expectations about the methods of production increasingly impact the industry.
4. Agribusiness accounts for a third of nearly every country’s economy, and yet less than 2% of agricultural employment opportunities are on farms. Less than 1.5% of students entering universities choose agriculture as a career, and there is a growing shortage in the global supply of graduates to fill industry vacancies to meet future challenges. Education levels are directly connected to productivity improvement.

5. Agribusiness and agriculture are too important to ignore; and both are far too important for partisanship, the rising multi-lateral problems to society demand unity of purpose and action.

CONCLUSION

Agribusiness productivity is a must for the economic development of a recessed country. Even developed countries lay emphasis on agricultural development. According to Muir, “Agricultural progress is essential to provide food for growing non-agricultural labour force, raw materials for industrial production, saving and tax revenue to support development of the rest of the economy, to earn foreign exchange and to provide a growing market for domestic manufactures.”