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PREREQUISITES FOR THE DEVELOPMENT OF THE FOOD INDUSTRY*

Summary of introduction to a film presentation
concerning an integrated agro-industrial approach

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PREREQUISITES FOR THE DEVELOPMENT OF THE FOOD INDUSTRY

I. Introduction

1) Agriculture is the predominant sector in the economic structure of most developing countries and has been regarded by many as a base from which to launch the process of industrialization and rapid economic growth. The current food crisis, however, has exposed the invalidity of such thinking and it is now realized that neither industry nor agriculture can proceed very far without parallel and balanced development of the other. Growth of agricultural output is usually a critical determinant of the rate at which industrialization can proceed. Conversely, insufficient industrial support for agriculture and lack of manufacturing facilities to process agricultural output represent a major constraint to output and productivity in agriculture. In other words, the interdependence of industry and agriculture is represented by the commodity flows between the two sectors, either in the form of industrial support of agriculture (fertilizers, pesticides, agricultural machinery, tools, implements, etc.) or industrial processing of agricultural raw materials (food processing and non-food processing). It is this last aspect of industry/agriculture interdependence which is the purview of this paper.

2) Industries using raw materials in the form of renewable resources from farms, grassland, forests, and the sea may be classified into food processing and non-food processing industries. The former include processing of wheat, rice, barley, pulses, oil-seeds, maize, sorghum, sugar, meat and dairy products, fruit and vegetables, coffee, cocoa, tea, fish, etc.

3) Food-processing industries increase the quantity and quality of food through reduction of waste, preservation of perishable products, and utilization of by-products for animal husbandry and in this way satisfy a larger final demand for food from a given unit of land and other resources. That is of particular value in the current world food situation.

4) Non-food industries mainly satisfy human needs for clothing and shelter and produce such commodities as natural fibres, cotton, jute, wool, kenaf, coir and allied fibres for the textile industry, as well as rubber, wood and wood products, paper products, and leather and leather goods. Almost all of the non-food agricultural raw materials lend themselves to a higher degree of processing than food raw materials and thus the proportion of value added in this type of processing tends to be higher than in food processing. Another feature is that non-food industries are facing competition from synthetics and from man-made fibres used in combination with natural raw materials.

5) Processed food and non-food agricultural products generally exhibit lower price elasticities than agricultural raw materials, since quality and marketing considerations tend to reduce the relative importance of price as a demand factor. Processed agricultural products therefore exhibit greater price stability than agricultural raw materials and producing them allows developing countries to obtain greater value added than exporting the corresponding raw materials. Their production also catalyzes farmers' participation in commercial markets and in this way contributes to transforming subsistence agriculture into commercialized agriculture.

6) In spite of wide variations in the pattern of development it does appear that industries using raw materials from agriculture possess the following characteristics that make them especially suitable for developing countries:

- a) High labour intensity;
- b) Many employment linkages;
- c) Modest capital and skill requirements;
- d) Prospects for rural development;
- e) Prospects for export-led growth.

They can thus perform an important function in stimulating production, productivity and diversification in the primary sector and can be strategic elements in the process of development. Many of these resource-based industries have proved to be pioneer industries in developing countries, as they were in industrialized countries several generations ago.

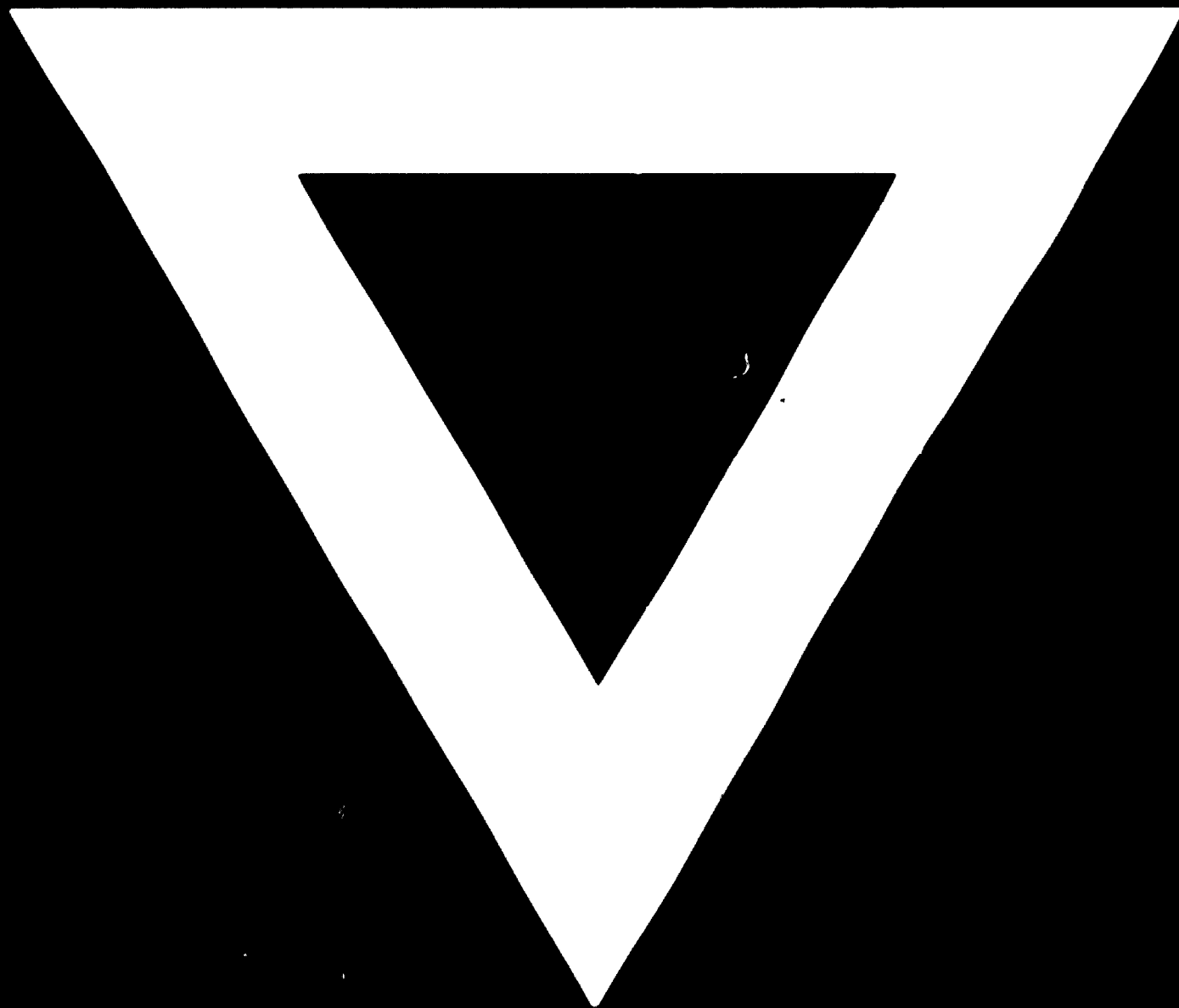
II. The Integrated Agro-Industrial Complex Approach

7) The integrated agro-industrial approach involves the vertical integration of the whole production process of food, or other agriculture-based consumer goods, from the field to the final consumer. Vertical integration means that all stages of the process and their planning are managed, or perhaps owned, by a single market-oriented authority having an industrial approach and applying a policy suited to market demands. Such an authority would have profitability as the only acceptable criterion for success and would endeavour to produce and process acceptable products using an industrial approach that would improve agricultural performance.

8) Such an approach catalyzes its own growth through the reinvestment of profits partly in enlarging its own capabilities, and partly in direct and indirect reconstruction of the rural area in which it is applied. It evokes a chain reaction of socio-economic development including road building, improvement of water supplies, housing, credit facilities, as well as training, educational and even cultural activities. Its chances for diversification of industrial activities would be quite substantial.



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