CHAPTER FOUR

« Chapter Four analyzes the Place of Agricultural Sector in Iran’s economy »
4. Introduction

The share of agricultural growth to economic development varies significantly from country to country and from one time period to another within the same economy. For example, in a developed country where agriculture has a very small share in GDP, the role of agriculture may not be important. In a developing economy where agriculture is usually a major production sector and accounts for a large proportion of GDP, the role of agriculture is very important.

The agricultural sector in Iran is one of the most important economic sectors of the country, and water is the most limiting factor for production. More than 90 percent of the renewable water in the country is used in agriculture, but its production is insufficient to meet the country’s demand.

Overall, Iran's soil is not well suited for large scale agriculture. And about 31 percent of the country's total land area of 1,648,195 km² is cultivated. After revolution, commercial farming has replaced subsistence farming as the dominant mode of agricultural production and wheat, rice and barely is the country’s major crops. Based on this introduction, let us now start the main discussion briefly.
4.1-Role of Agriculture in Economic Development:

If we study the economic history of most the development countries, we will see that it was great variations in the agricultural sector that gave up to fundamental changes in their industrial sector.

The significance of agriculture in the economic development of any country, lower development, developing or development, is proved by the fact that it provides the basic necessaries for the existence of human societies and also provides most of the raw materials.

In brief, we can mention the importance of agriculture in the economic development of countries as under:

1. Supplier of substantial food and raw materials.

2. In addition to supplying food, it provides many of the raw materials for industrial sector.

3. To import of capital goods, it produces and exports surpluses in order to earn the foreign exchange.

Finally, it is a supplier of production factors such as capital, labor and land for industrial sector.

Land and labor are the basis of agriculture. In general, all kinds of production especially all agricultural production depend on land and labor and production in agricultural sector without being Land and labor is impossible.
Land as a factor of production has some important characteristics that they are:

- The law of diminishing returns is related to land;
- To supply of land is limited; and
- In the end, it is not homogenous in quality.

Labor as a factor of production in agricultural sector composes one of the most important factors of production as machine and in spite of the importance technological advance; labor has directly or indirectly played a crucial role in this sector. It does not have perfect substitution in the agricultural sector.

4.2-The Role and Place of agriculture in Iran’s Economy:

We can discuss and study the role and place of agriculture in Iran’s Economy under the following:

1. Share of Agriculture in national Income/GDP;
2. Supplier of Real Food Fodder;
3. Agriculture As a Source of livelihood;
4. Agriculture As a Source of Employment;
5. Agriculture and Industrial Development; and
6. Role of Agriculture in the Field of International Trade;
Let us go back to explain each other of the mentioned above cases and determine the Share of Agricultural Sector in G.D.P. (Gross Domestic Product) in Iran’s Economy.

4.2.1- The Share of Agriculture in Gross Domestic product:

The agricultural sector in Iran should further develop in respect of production, both for the domestic market and exports. At the same time, as is the case in many advanced countries, the agricultural sector should be brought to the centre of the economy as it accounts for a large share of GDP, employs a large proportion of the labor force, represents a major source of foreign exchange earnings, supplies the bulk of basic food required by the population and provides subsistence and other income for large rural populations.

Thus, significant progress in promoting economic growth, reducing poverty and enhancing food security cannot be achieved without realizing more fully the productive potential of the agricultural sector and its contribution to overall economic development.

In view of the overriding role of agriculture in developing economies such as Iran, enhancing the domestic capacities of the sector is crucial for

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their socio-economic development. The share and place of agriculture in Gross Domestic Product is shown in Table 4.1.

Table 4.1: Composition of G.D.P.- Percent (at 1997 Prices)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>14.8</td>
<td>15.9</td>
<td>14.5</td>
<td>14.3</td>
<td>13.5</td>
<td>14</td>
<td>14</td>
<td>13.7</td>
<td>14.2</td>
<td>14</td>
</tr>
<tr>
<td>Industry</td>
<td>14</td>
<td>13.9</td>
<td>13</td>
<td>13.4</td>
<td>11.5</td>
<td>11.1</td>
<td>11.8</td>
<td>11.5</td>
<td>11</td>
<td>10.6</td>
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<tr>
<td>Oil Sector</td>
<td>20</td>
<td>18.7</td>
<td>20.1</td>
<td>21</td>
<td>22.4</td>
<td>23.5</td>
<td>23.7</td>
<td>24.5</td>
<td>24.7</td>
<td>25.3</td>
</tr>
<tr>
<td>Services</td>
<td>52.4</td>
<td>52.5</td>
<td>53.5</td>
<td>52.4</td>
<td>53.6</td>
<td>52.5</td>
<td>51.5</td>
<td>51.4</td>
<td>51.3</td>
<td>51.5</td>
</tr>
<tr>
<td>Less *</td>
<td>1.2</td>
<td>1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.3</td>
</tr>
<tr>
<td>G.D.P</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Iran’s central Bank  *Less: Imputed Bank Service Charge

The above table reveals that the share of agricultural sector has declined since 1998-2004, and then it has increased in 2005, only 0.3 percent, and once more it is decreased again in 2006. Finally, this sector comprises 14.0 percent of Iran’s GDP in 2006. This situation is shown in Figure 4-1. One of the main reasons of this situation, on the one hand, is intervention of government in economy’s activates. On the other hand, investment in Iran’s economy especially in agriculture sector is low. Of course, we will study this situation on the next chapter in detail.
4.2.2- Supplier of Real Food Fodder:

The agricultural sector supplies us the main necessities of life. Much of the arable land is used to grow wheat and barley. These are staple foods and are the main sources of protein in an Iranian diet. Iran has become more or less self-sufficient in the production of certain fruits, vegetables and livestock. Other major agricultural outputs are nuts, cotton, dairy products, wool and caviar and etc. This sector is also providing all the fodder that is needed to sustain livestock and animals. Livestock raising methods in Iran are generally unsophisticated.
4.2.3- Agriculture as a Source of livelihood:

As against the commercial nature of agricultural operation in the developed countries, farming in Iran still remains as a source of livelihood for most farmers in Iran. It provides livelihood to a vast majority of people who are living in the country. This fact reflects the importance of agriculture and lesser development of other sectors of the economy.

4.2.4- Agriculture as a Source of Employment:

Despite the obvious dominance of oil sector, agricultural sector has always been a key economic employer in Iran. It occupied about 25% of the labor force in 2004. The inhabitants of the Zagross heights and the central region are mostly farmers. They depend on farm and livestock products as their main source of income.

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industries*</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>26.1</td>
<td>30.6</td>
<td>43.3</td>
</tr>
<tr>
<td>2001</td>
<td>24.8</td>
<td>29.6</td>
<td>45.6</td>
</tr>
<tr>
<td>2002</td>
<td>21.9</td>
<td>30.7</td>
<td>47.4</td>
</tr>
<tr>
<td>2003</td>
<td>22.9</td>
<td>30.1</td>
<td>47</td>
</tr>
<tr>
<td>2004</td>
<td>24.9</td>
<td>30.4</td>
<td>44.7</td>
</tr>
<tr>
<td>2005</td>
<td>23.5</td>
<td>31.7</td>
<td>44.8</td>
</tr>
</tbody>
</table>

Source: Statistical Center of Iran [www.amar.org.ir](http://www.amar.org.ir)  * Including oil and gas
According to Table 4.2 and Figure 4.2, employment in agricultural sector and Services sector are in reverse. But the level of employment in industries (Including Water, Electricity, Oil & Gas supply, Construction, Transportation & Communication) sector is almost steady during 2000-2005. Table 4.3 shows a composition of productivity of agricultural, Industrial and Oil & Gas sectors in Iran’s Economy.

Table 4.3: a composition of productivity of agricultural, industrial and Oil & Gas Sectors in Iran’s economy

<table>
<thead>
<tr>
<th>Sector</th>
<th>Year →</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td></td>
<td>97</td>
<td>100.4</td>
<td>95.3</td>
<td>101.2</td>
<td>103.7</td>
<td>101.7</td>
<td>104.2</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td>92.8</td>
<td>96.4</td>
<td>103.7</td>
<td>109.9</td>
<td>112.8</td>
<td>115.5</td>
<td>114.8</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td></td>
<td>93.3</td>
<td>98</td>
<td>82.1</td>
<td>83.5</td>
<td>95.7</td>
<td>94</td>
<td>91</td>
</tr>
</tbody>
</table>

Source: Iran’s central Bank

The above table reveals that the productivity of agricultural sector has declined in 2001, thereafter it has increased till 2003, and once more it is
decreased again in 2004, whereas, the productivity of industry sector was always increasing (1999-2004). This situation can be shown from a comparison between the productivity of agriculture and industry between 1999 and 2004 by the Figure 4.3.

Productivity is generally considered from two angles-(i) productivity of land, and (ii) productivity of labour engaged in agriculture.

As is clear table 4.3 and figure 4.3, there has been a slow and steady rise in productivity during 2001 to 2005.
4.2.5- Agriculture and Industrial Development:

As it was told before, the study of the economic history of most the development countries shows that it was great variations in the agricultural sector that gave up to fundamental changes in their industrial sector. In fact, prerequisite for industrial progress is usually an agricultural development. Increasing agricultural productivity defends and sustains industrial expansion and development in many ways\(^2\).

Agricultural sector offers labor and raw materials to industries. It also provides a large market for industrial products. Unfortunately, there is not a close relationship between agricultural and industrial sectors in Iran’s Economy. As we pointed before, Iran’s economy has been shaped by oil export, so that industry, service and agricultural sectors are dependent to oil incomes. However, most of industries depend on agriculture for their raw materials. Sugar, textile, cotton and etc. are directly depend on agriculture and other industries like paper-mill, leather, dairy, cannery, matches, and etc. are directly or indirectly depend on allied activities of agriculture like forestry, animal husbandry, fisheries and so on.

4.2.6- Role of Agriculture in the Field of International Trade:

In chapter five, this part of research will explain in detail. So, we only point out the share of agriculture in international trade briefly. According to the FAO’s report\(^3\), agricultural goods like Pistachios, Raisins, Spices, Oil of Soya Beans, Chick-Peas, Dates, Apples, Tomato Paste, Fruit Fresh, Watermelons, Kiwi Fruit and etc. constitute a main items of exports of Iran. This sector includes about 20 percent\(^4\) of Iran’s non-oil export, 13.7 percent of GDP and 25 percent of occupation in 2004. After oil export, Iranian agriculture has been an earner of valuable foreign exchange for the country. In general, concerning share of agriculture in GDP; supplier of real food fodder; agriculture as a source of livelihood; agriculture as a Source of employment; role of agriculture in industrial development; and role of agriculture in the field of international trade; we can conclude that after oil sector, the agricultural sector plays an important role and occupies a major place in Iran’s economy.

\(^3\) Food and Agriculture Organization of the United Nations, 2004
References


3. Canadian Trade Commissioner Service - Market Information on Iran:
   http://www.infoexport.gc.ca


7. Statistical Central of Iran www.amar.org.ir