IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

The Significance of Agriculture in Economic Transformation

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Abstract:

Agriculture still plays a major role in economic change, especially in developing nations where it provides jobs, food, and industrial expansion. This paper examines how agriculture may change structures by increasing productivity, income, poverty reduction, and long-term economic growth. Recent research is examined to determine how agricultural growth affects economic growth. This theory holds that increasing agricultural output gives more raw materials for industrialisation. This boosts rural economies, exports, and employment. New technologies, climate-smart farming, digital farming, mechanisation, and supportive government policies are making agriculture a growth driver for everyone, according to the study. Agriculture has achieved great progresses, but climate change, resource depletion, inadequate funding, inefficient markets, and poor infrastructure remain. These issues must be addressed by wise investments, regulatory changes, and new technologies to sustain the economic transformation. The review concludes that agriculture is needed to achieve the Sustainable Development Goals (SDGs), provide enough food, reduce income inequality, and develop strong economies. Balanced agriculture modernisation and industry and service development can make long-term economic change more inclusive and stable.

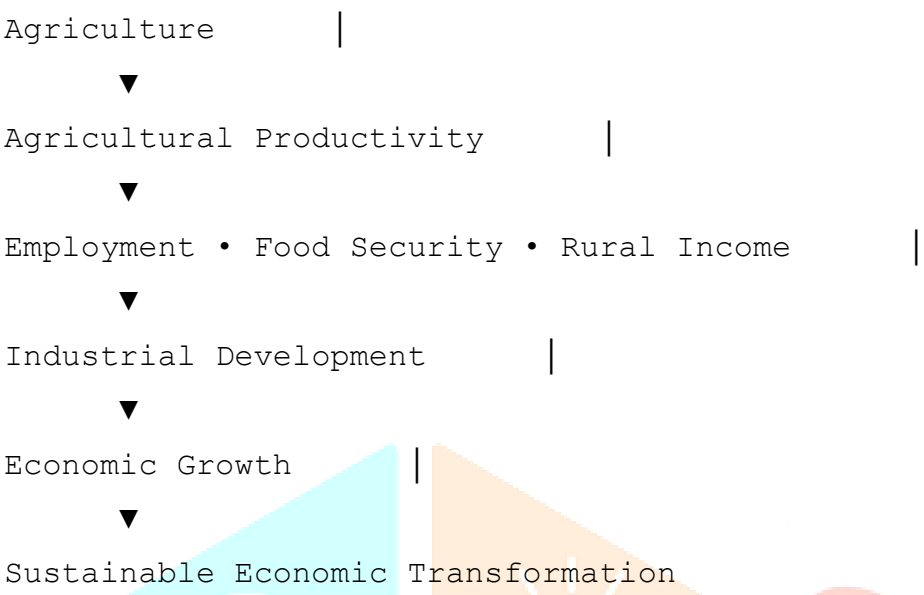
Key Words: Agriculture, sustainable development, agricultural productivity, rural development, structural change, economic growth.

Introduction:

Agriculture has long been known to be the key to economic growth, and it still plays a major role in changing economies around the world. Even though technology and industry are changing quickly, the agricultural sector still makes a big difference in creating jobs, making money, growing food, and reducing poverty, especially in developing and rising economies (World Bank, 202GƆ). World Bank (2024) says that agriculture is the main source of income for millions of rural households and the main way that almost a quarter of the world's population makes a living. Figure 1 shows that increases in agricultural productivity

lead to more jobs, better food security, higher incomes in rural areas, and faster industrial growth, all of which help to change the economy in a way that lasts.

Figure 1: A conceptual framework for agriculture and economic change



When an economy changes from being based on agriculture to being more diversified and based on manufacturing and services with higher levels of income and productivity, this is called economic transformation (Lewis, 1954). Some economists who study classical development said that agricultural development is necessary for industrialisation to work because it creates jobs, provides raw materials, and raises domestic demand for industrial goods (Johnston & Mellor, 1961; Schultz, 1964). Long-term growth in agriculture also encourages the creation of capital, the mobility of labour, and technological progress, which speeds up structural change and national economic growth (Mellor, 1976).

In the last few decades, the connection between farming and changes in the economy has changed a lot. No longer just seen as a way to make a living, agriculture is seen as a dynamic industry that can encourage new ideas, protecting the environment, and local business ownership (Timmer, 2009). Technological advancements, including precision agriculture, artificial intelligence, biotechnology, remote sensing, digital marketplaces, and climate-smart farming, have significantly improved agricultural output while encouraging the sustainable use of natural resources (FAO, 2023). These new technologies have helped farmers make their crops more productive, lower their costs, and adjust to changing weather conditions.

Agriculture is also very important for making sure there is enough food and improving nutrition. The need for safe, healthy, and long-lasting food systems has grown around the world because of growing populations, fast urbanisation, and changes in how people eat. The FAO (2023) says that increasing agricultural output is now necessary to meet future food needs while also protecting the environment. Several Sustainable Development Goals (SDGs) can be reached directly with sustainable agriculture. These include SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 8 (Decent Work and Economic Growth), SDG 12 (Responsible Consumption and Production), and SDG 13 (Climate Action) (United Nations, 2015).

A number of emerging economies, such as India, China, Vietnam, Brazil, and Ethiopia, show how modernising agriculture can help the economy change. The World Bank (2024) and the OECD (2023) both say that investments in things like irrigation, mechanisation, rural infrastructure, digital technologies, and institutional reforms have raised agricultural productivity, strengthened value chains, grown agro-processing industries, and invited more farmers to trade on both domestic and international markets. Because of these changes, more jobs have been created, poverty in rural areas has gone down, and industrial growth has sped up.

Even with these successes, agriculture still has to deal with big fundamental problems that limit its ability to change things. More problems like climate change, less fertile soil, scarce water, ecosystem loss, broken up landholdings, bad rural infrastructure, limited access to institutional finance, and unstable markets still make it hard for agriculture to grow in a way that is sustainable (IPCC, 2023; FAO, 2023). Coordinated policy changes, more funding for agricultural research and innovation, farming methods that are resistant to climate change, better extension services, and stronger public–private partnerships are all needed to solve these problems.

Classical ideas of development are combined with modern empirical evidence in this paper to look at the role of agriculture in economic change. It looks at how agriculture helps the economy grow, create jobs, develop industries, make sure there is enough food, reduce poverty, protect the environment, and change the way things are built. In addition, it looks at the new chances and policy problems that will shape the future of farming in a world economy that is becoming more connected, tech-driven, and climate-sensitive.

Literature Review:

In development economics, the link between farming and changes in the economy has been talked about a lot. Early researchers said that farming is what makes industrialisation and long-term economic growth possible. Lewis suggested in 1954 that extra workers from agriculture could be moved to the industrial sector to boost output and the country's income. In the same way, Johnston and Mellor (1961) said that agriculture helps the economy grow by giving food, raw materials, labour, capital, and foreign exchange. Schultz (1964) also said that spending money on agricultural technology, education, and study makes rural incomes and productivity go up by a lot.

Agriculture's important part in sustainable development is still being studied today. Timmer (2009) said that increasing agricultural productivity leads to structural change by lowering poverty, making food security better, and boosting industrial growth. The Food and Agriculture Organization (FAO) said in 2023 that climate-smart farming, digital technologies, and precision farming all make farming more productive and better for the earth. In the same way, the World Bank found in 2024 that growth in agriculture is better at reducing extreme poverty than growth in many other areas, especially in developing countries.

Recently published research (IPCC, 2023; OECD, 2023) says that climate change, land degradation, lack of water, bad infrastructure, and limited access to funds are the main things that make it hard for agriculture to change. Overall, the research shows that sustainable agricultural development is still important

for meeting the Sustainable Development Goals (SDGs), food security, and economic growth that benefits everyone.

Aims of the Research:

The point of this study is to look at how important agriculture is to changing the economy by looking at how it affects things like job creation, economic growth, food security, and long-term growth. These are the exact goals:

1. To look into how agriculture affects economic growth and changes in the structure of the economy.

Second, to look into how crops can help create jobs and lower poverty.

3. To figure out how agricultural productivity and industrial growth are related.

4. To figure out how important new technologies and environmentally friendly farming methods are for changing the economy.

5. To figure out the biggest problems that are holding back agricultural development and suggest ways to fix them so that agriculture can make a bigger contribution to national economies.

Research Methodology:

A lot of secondary data was used to make this study's research design, which is both qualitative and descriptive. The data came from peer-reviewed journal articles, books, and reports from the World Bank, the Food and Agriculture Organization (FAO), the Organization for Economic Co-operation and Development (OECD), the International Fund for Agricultural Development (IFAD), and other international groups. Recent scholarly literature from 2018 to 2025 has been looked at to understand how agricultural transformation is changing right now.

The study uses theme analysis to put together what is already known about how agriculture has changed the economy. Productivity in agriculture, jobs, food security, industrialisation, protecting the environment, and new technologies are all given a lot of attention. The results are explained using structural transformation theory and sustainable development, which gives us a full picture of the many ways that agriculture affects economic growth.

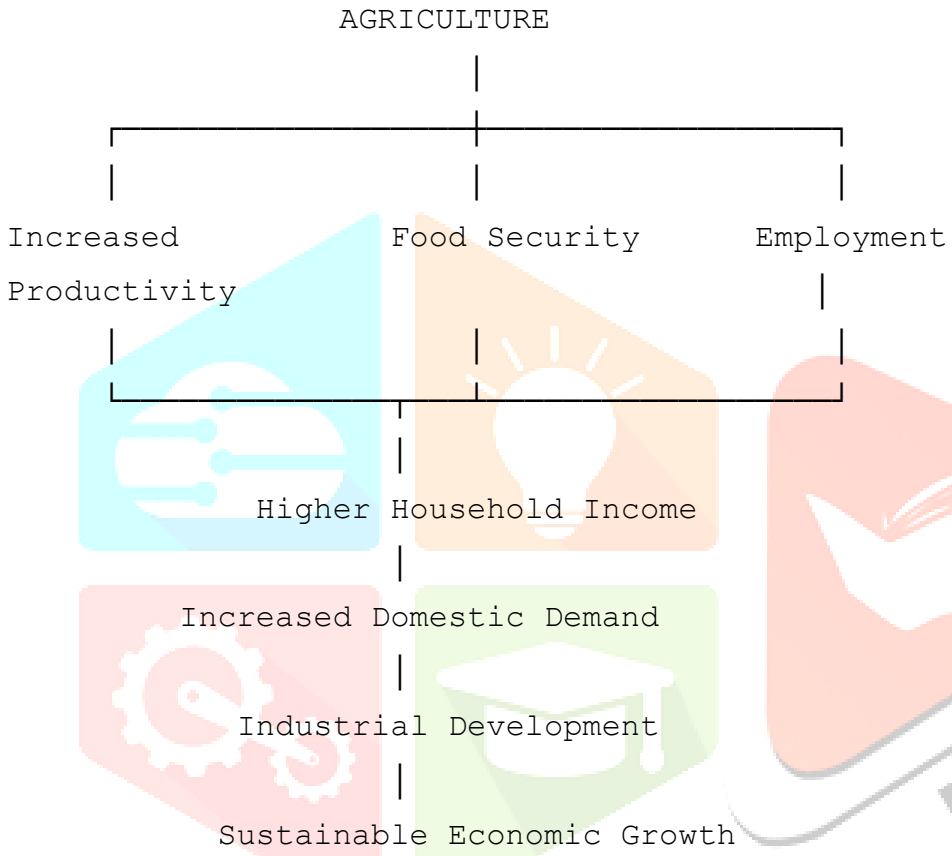
Importantance of agriculture in changing the economy

Agriculture and Economic Growth

Agriculture is still one of the main things that makes developing economies grow. It creates jobs, brings in money, makes sure there is enough food, and helps industries grow. When agricultural productivity goes up, farmers' incomes go up, household demand goes up, and investment in the manufacturing and service sectors goes up. This is especially true in countries where agriculture still uses a large portion of the workforce (World Bank, 2024; Food and Agriculture Organization [FAO], 2023): higher agricultural output directly correlates with GDP.

Improving agricultural productivity is often the first step in changing an economy. This is because more food production frees up labour and capital that can be invested in manufacturing and services. Johnston and Mellor (1961) say that agriculture allows industrialisation to happen by providing food, labour, savings, foreign cash, and markets. Agricultural reforms happened before rapid industrialisation and urban growth, as shown by data from East Asian countries. The World Bank (2024) says that China and Vietnam were able to speed up economic modernisation by a large amount by implementing rural changes that worked.

Figure 1: A conceptual diagram of agriculture and how the economy has changed

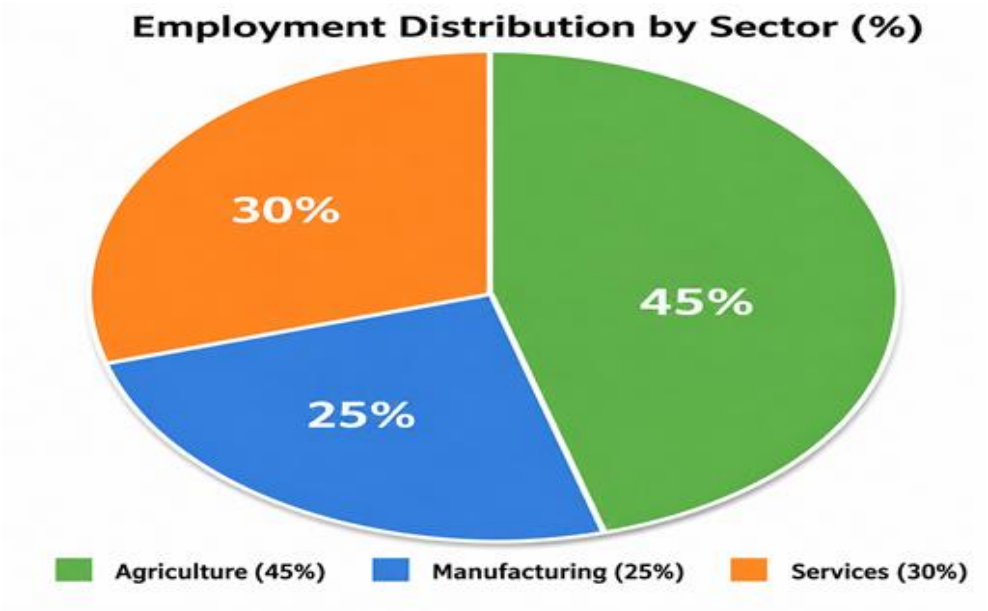


Source: Adapted from Johnston and Mellor (1961); FAO (2023)

Making jobs available and reducing poverty

A lot of people in low- and middle-income countries make their living in agriculture. Aside from direct farm jobs, agriculture also creates jobs in logistics, storage, food processing, marketing, retailing, and support services for agriculture. The FAO (2023) says that these forward and backward links make rural economies stronger and encourage growth for everyone.A lot of people agree that agricultural growth is one of the best ways to reduce poverty in rural areas. Productivity growth raises household income, makes it easier to buy things, and opens up business possibilities for small businesses and people in rural areas. The World Bank (2024) says that investments in things like irrigation, rural roads, agriculture extension services, mechanisation, and market infrastructure create more jobs and lower income inequality.

Figure 2. Employment Generated by Agriculture



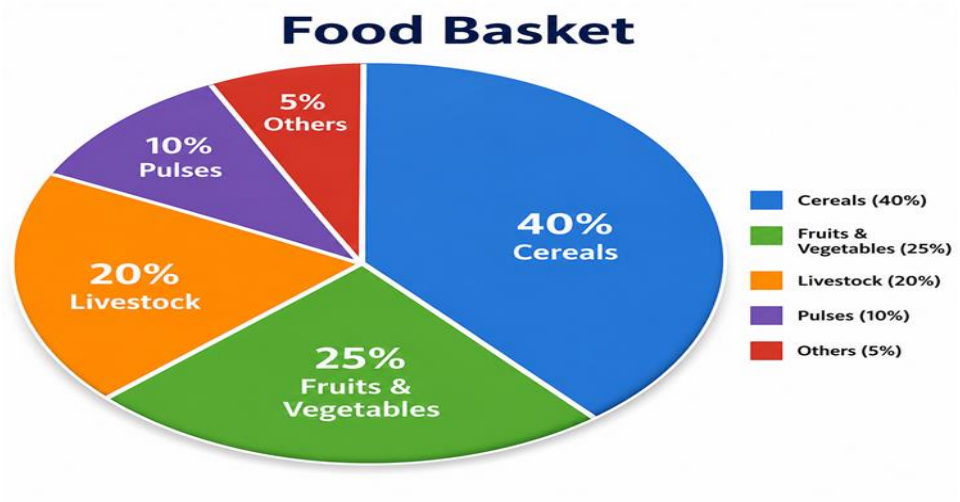
Source: World Bank (2024).

Nutritional growth and food security:

Food security is one of the most important parts of long-term economic change. Agriculture makes sure that food sources are stable, easy to get to, affordable, and available. Sustainable agricultural production is becoming more and more important to meet nutritional needs and make sure there will always be food available (FAO, 2023) as the world's population continues to rise.

As a result of growing cereals, pulses, fruits, vegetables, dairy products, and livestock, diverse agricultural systems improve the quality of food. According to the United Nations (2023), better food security leads to healthier populations, higher labour productivity, better educational outcomes, and stronger human capital. All of these things support long-term economic growth.

Figure 3. Agricultural Contribution to Food Basket



Source: FAO (2023).

Agriculture and the growth of industry:

Agriculture and industry have a relationship that helps each other. Industries like textiles, sugar, food processing, paper, drinks, medicines, and biofuels get their raw materials from agriculture. (OECD & FAO, 2023) say that growing agro-based businesses creates jobs, boosts value addition, and makes exports more competitive. On the other hand, industrial growth helps agriculture by making tools, fertilisers, irrigation systems, better seed varieties, technologies for renewable energy, and digital farming tools. This connection makes a cycle where progress in one area leads to growth in the other, speeding up the process of economic change (World Bank, 2024)

Figure 4. Flow Diagram: Agriculture–Industry Linkages

Agriculture

▼

Raw Materials

▼

Agro-Based Industries

▼

Employment Generation

▼

Higher Income

▼

Economic Growth

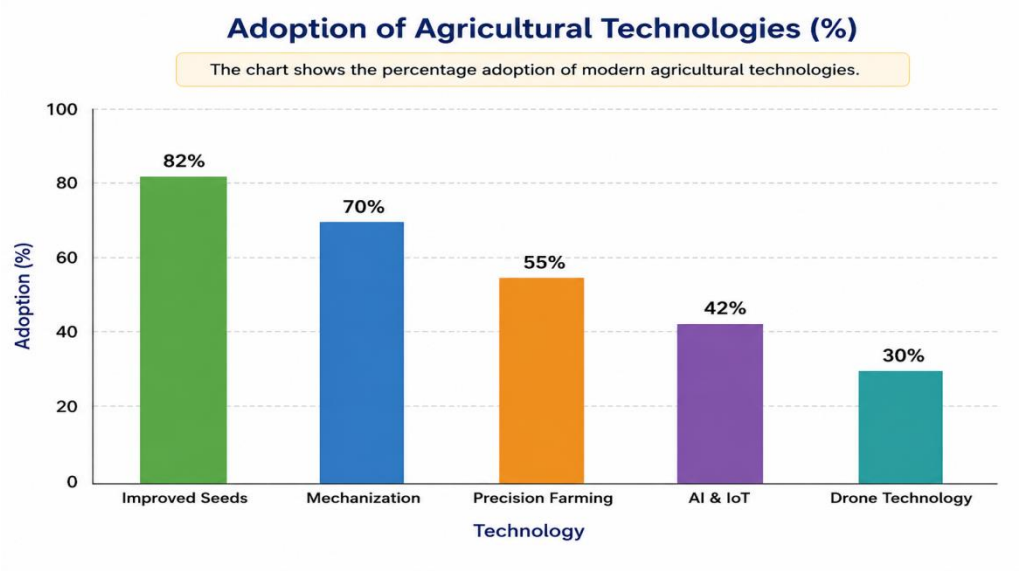
Innovation in technology and long-term growth:

Agriculture has become a knowledge-intensive field thanks to new technologies. According to FAO (2023), precision agriculture, AI, satellite monitoring, drone technology, blockchain, big data analytics, and Internet of Things (IoT) apps help farmers increase production while lowering costs and protecting natural resources.

Adapting to climate change is easier with climate-smart agriculture, which uses conservation agriculture, drought-resistant crop varieties, renewable energy technologies, and better soil management to make the process easier. The Intergovernmental Panel on Climate Change (IPCC) says that these innovations make people more resilient while also cutting down on greenhouse gas pollution and damage to the environment.

Digital platforms have also made it easier for farmers to get weather forecasts, market prices, financial services, crop insurance, and services that help farmers grow their crops. And because of this, digital agriculture has become a major force for modernisation, sustainability, and economic transformation that benefits everyone (World Bank, 2024)

Figure 5. Adoption of Modern Agricultural Technologies

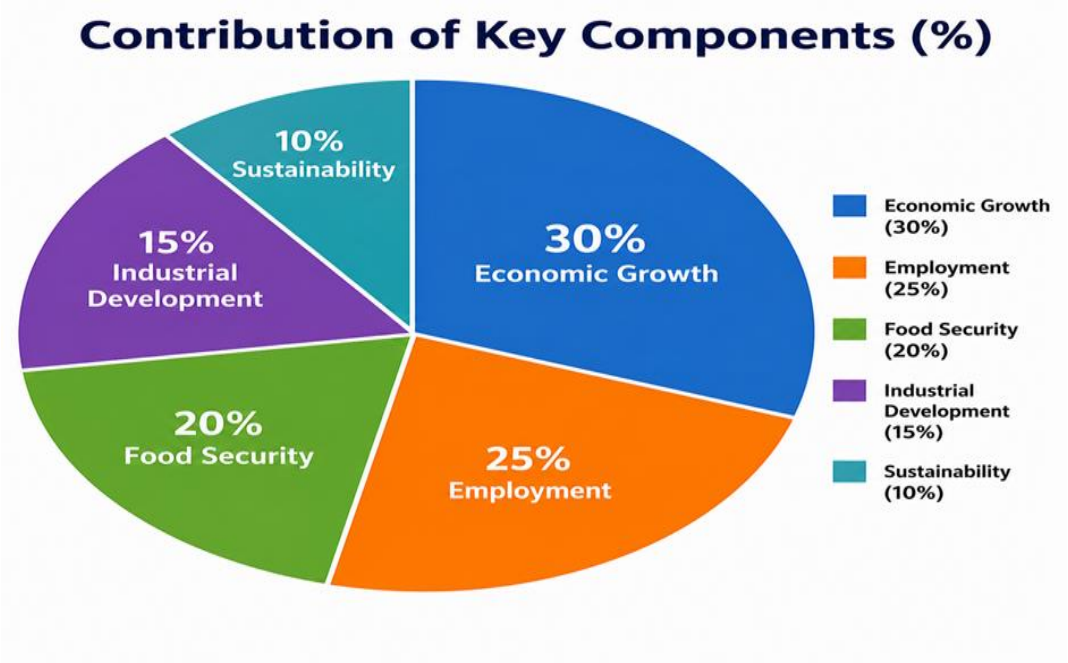


Source: FAO (2023); World Bank (2024).

Economic Benefits of Agriculture:

Agriculture is one of the most important parts of economic change because it helps with many aspects of national growth. The agricultural industry does more than just grow food. It also helps the economy grow, makes jobs, improves food security, provides raw materials to other industries, and encourages the responsible use of natural resources. When agricultural productivity goes up, farmers' incomes go up, domestic demand goes up, and businesses are urged to spend in manufacturing, transportation, and services. These connected effects have a bigger effect on the economy as a whole, which leads to growth that benefits everyone and less poverty. Improvements in infrastructure, better farming technology, and helpful government policies have all made the sector even better at changing the way things are structured. Because of this, agriculture is still an important part of long-term economic growth, especially in developing countries where a lot of people depend on farming and related jobs to make a living. Figure 4 shows the different ways that agriculture helps the economy. It shows how agriculture contributes to job creation, economic growth, food security, industrial development, and ecology.

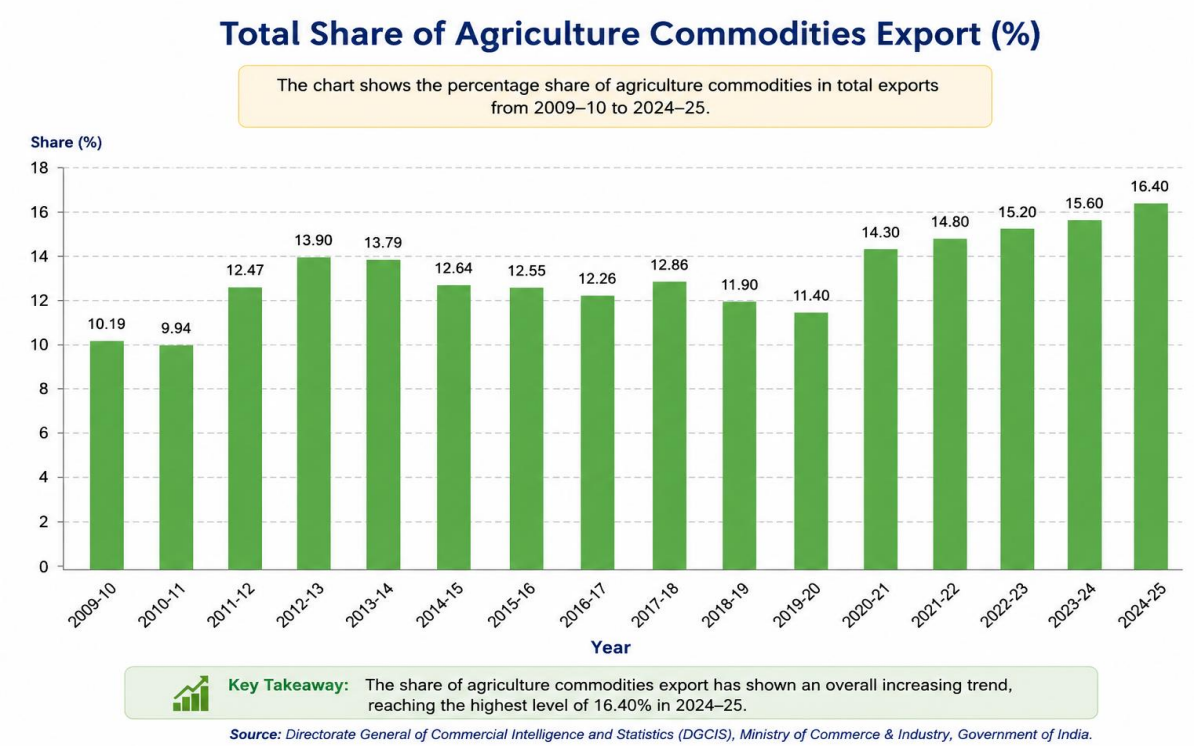
Figure 6. Contribution of Agriculture to Economic Transformation



Agricultural Commodities in India

The fact that agricultural goods are becoming a bigger part of overall exports shows that agriculture is no longer just about making sure there is enough food for everyone; it has become a major force in changing the economy. Agricultural exports that go up bring in foreign currency, raise farmers' incomes, create jobs in rural areas, support agro-processing industries, and make connections between the agricultural and manufacturing and service sectors stronger. These changes help change the structure of things by making it easier to spend, raising the national income, lowering poverty in rural areas, and encouraging growth that benefits everyone. Hence, the steady rise in agricultural exports highlights the important role that agriculture plays in speeding up India's economic growth and making it more competitive in global markets.

Figure 7



From 2009–10 to 2024–25, Figure 7 shows the amount of India's total exports that were made up of agricultural goods. The figures show that the share of agricultural exports changed over the first ten years, going from 9.94% in 2010–11 to 13.90% in 2012–13. The contribution stayed about the same from 2014–15 to 2019–20, at about 11–13%. This shows moderate growth despite uncertainty in world trade. After 2020–21, there was a clear upward trend. The share rose from 14.30% to 16.40% in 2024–25, which was the highest level seen during the study period. This steady rise shows that agriculture is becoming more important to India's exports. This is because of higher production, better export competitiveness, government programs, and rising demand for agricultural goods around the world. Overall, it looks like India's agriculture is continuing to make a bigger difference in its foreign exchange earnings and economic growth.

Discussion:

A lot of research has shown that agriculture is the key to changing structures, especially in the early stages of economic growth. Increasing agricultural output leads to food surpluses, income in rural areas, higher domestic demand, and easier movement of workers to manufacturing and service sectors. All of these things work together to help the national economy grow.

Rather than just adding more land for farming, modern economic change rests more and more on long-term agricultural growth. Innovation, research, education, and investments in infrastructure that make people more productive have long-term economic benefits while protecting natural resources. Adding agriculture to global value chains has made exports more competitive and encouraged people in rural areas to start their own businesses.

At the same time, climate change, lack of water, biodiversity loss, and unstable markets are putting pressure on farmland in ways that have never been seen before. To deal with these problems, policymakers need to work together and focus on new technologies, making institutions more flexible, and promoting regional development that benefits everyone.

Overall, the data shows that agriculture is still necessary for a more inclusive economic transformation to happen. Long-term national growth is most likely to happen with a well-balanced plan that includes modernising agriculture, growing industries, protecting the environment, and including everyone in society.

Challenges

Even though agriculture is a key part of changing the economy, it faces many problems that make it less productive and less sustainable in the long run. Climate change has become one of the biggest threats because it causes flooding, droughts, and more pests and diseases. It also causes unpredictable rain and temperature rises. These changes in the environment hurt farmers' wages, lower crop yields, and put food security at risk. Agriculture isn't very productive in many developing countries because land ownership is spread out, soil quality is going down, water is scarce, and irrigation systems aren't up to par. It's also hard for farmers to get affordable loans, modern equipment, good seeds, fertiliser, and cutting-edge technologies, which keeps them from trying new ways to farm. Problems with the market, like unstable prices, broken supply chains, not enough storage space, and limited access to markets, can make farming less profitable and discourage investment. Also, rapid urbanisation, labour migration, and an ageing farming population have made rural areas short on workers, and better farming methods are hard to implement because there aren't enough agriculture extension services and research isn't shared widely enough. The damage to the environment caused by using too many chemical fertilisers, pesticides, and farming methods that aren't sustainable also puts wildlife and natural resources at risk. To solve these problems that are linked, we need to change policies, invest in farming that can survive in harsh climates, come up with new technologies, build better infrastructure, help more people get access to money, and make sure that agriculture keeps being a driver of long-lasting and inclusive economic growth.

Tips for Making Policies

To get the most out of agriculture's role in changing the economy, governments should make policies that encourage productivity, sustainability, and rural development. For better crop varieties, climate-smart technologies, and modern farming methods to be developed and spread, the government needs to put more money into agriculture research, education, and extension services. Adding more irrigation systems, remote roads, storage facilities, and internet connections will make it easier for people to get to markets and cut down on losses after harvest. Policymakers should make it easier for farmers to get institutional credit, crop insurance, and other financial services at prices they can pay. This will allow farmers to invest in new technologies and machines. Strengthening agricultural value chains with agro-processing industries, producer cooperatives, and effective marketing systems can help farmers make more money and create jobs. To make national agricultural policies more resistant to environmental risks, climate adaptation strategies

should be included. These include ways to save water, use renewable energy, practise conservation agriculture, and manage land in a way that doesn't harm it. Modernisation and entrepreneurship can also be sped up by encouraging public-private partnerships, digital agriculture, precision farming, and young people to work in agriculture. To make the world more competitive, people should also be urged to work together, make trade easier, and invest in new ideas for farming. By coordinating these policy steps, agriculture can become more productive, resilient, and environmentally sustainable. This will make a big difference in the long-term transformation of the economy and the growth of the whole country.

Conclusion:

In order to support economic growth, job creation, industrial development, food security, and reducing poverty, agriculture stays an important part of economic transformation. The evidence in this study shows that long-term increases in agricultural productivity create strong connections with the service and manufacturing sectors. These connections make structural change and widespread economic growth easier. Modern technologies, climate-smart practices, digital innovation, and institutional changes have made agriculture much more capable of dealing with today's problems and protecting the environment. Still, problems that won't go away, like climate change, resource loss, bad infrastructure, limited access to money, and inefficient markets, keep getting in the way of agricultural growth. To get the most out of the sector, smart investments must be made in areas like research, innovation, rural infrastructure, human capital, and long-term resource management. It is important for governments, foreign groups, private businesses, and farming communities to work together to make policies that make agriculture more resilient and competitive. Agriculture will continue to be important for achieving the Sustainable Development Goals, making sure there is enough food and nutrition for everyone, reducing inequality, and promoting resilient, inclusive, and long-lasting economic transformation as the world's economies change.

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