

# Agricultural trade and decent rural employment

## Why is agricultural trade important for decent rural employment?

**Given the significance of agriculture to rural livelihoods, agricultural trade has the potential to significantly impact rural employment and incomes.**

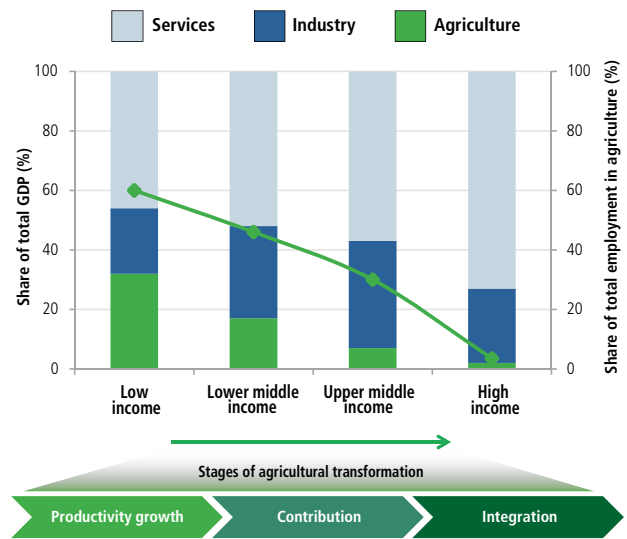
Agriculture is the largest employer of the world's poor, most of whom live in rural areas. As developing economies grow, and undergo structural transformation, employment tends to shift away from agriculture into other sectors, such as industry or services, as shown in Figure 1.

Along the path of structural transformation, agricultural trade can speed up shifts in economic activity from agriculture to other sectors, resulting in asymmetries between sectors in terms of output growth and incomes, thereby posing both risks and opportunities for decent rural employment in developing countries.

## What are the linkages between agricultural trade, employment and poverty?

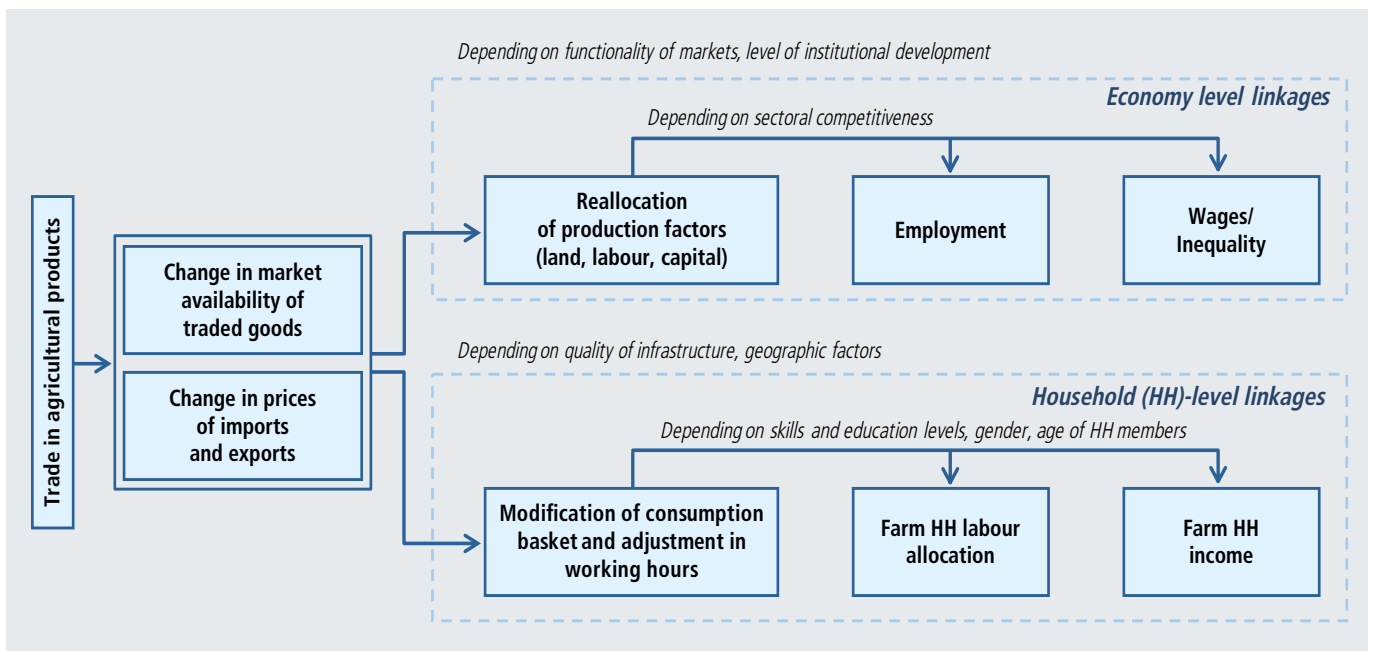
**The linkages between agricultural trade and economic variables such as employment and income can be**

Figure 1 | Stages of structural transformation



**conceptualized at both, the economy-level and the household level.** As summarized in Figure 2, these linkages are complex, as agricultural households are both producers and consumers of goods, and suppliers and users of labour.

Figure 2 | Linkages between agricultural trade, employment and income



### Economy-level linkages

Trade can lead to changes in the prices of imports and exports that, given the availability of institutions, technology and an enabling environment, are expected to initiate a process whereby factors of production (such as land, labour and capital) are reallocated from non-competitive activities, to activities in which they will be used more efficiently. In the short to medium term, the net impact of trade on employment depends on the magnitude of jobs created through the growth of competitive firms and sectors, those lost in import-competing firms and sectors, as well as those lost due to improvements in productivity. Over the long term, as countries get richer, increases in income bring proportionally smaller increases in the demand for food, thereby slowing the growth of the agriculture sector, and leading to declines in agriculture employment. During this process, trade can also impact wages, depending on the type

of labour demanded and their relative skill level, as well as persisting gender norms in the region. In accelerating the process of growth and structural transformation, trade can therefore impact both the quantity and quality of employment in an economy.

### Household-level linkages

The extent to which households and businesses experience price changes induced by trade depends on the quality of infrastructure and other geographic factors. As the changes in relative prices of traded goods trigger structural transformation in the economy, individual members of households may modify their consumption basket, adjust their working hours and change their occupation, depending on their skill levels, their age, and their gender. Hence, trade can impact both the employment incomes and the consumption expenditures of rural, farm households, with distributional implications within the household.

## What are the potential opportunities and challenges of agricultural trade for decent rural employment in developing countries?

While the direction and magnitude of the impact of agricultural trade on decent rural employment is dependent on a host of country-specific factors, some key opportunities and challenges for developing countries are described in Table 1.

Table 1 | Opportunities and challenges of agricultural trade for developing countries

Opportunities	Challenges
<ul style="list-style-type: none"> <li>• <b>Improved access to new markets</b> can increase farm incomes, such that they are adequate for meeting basic living requirements;</li> <li>• <b>greater competition and exposure to new technologies</b> can trigger agricultural productivity improvements;</li> <li>• <b>trade openness can improve agriculture labour productivity</b> by driving the reallocation of some agricultural labour to other sectors, especially if access to technical and vocational training is promoted;</li> <li>• <b>trade openness can catalyze structural change</b>, allowing countries to expand production and create jobs in other sectors of the economy, that can provide more and better employment opportunities beyond farming;</li> <li>• <b>trade can create employment opportunities for youth and women</b> in labour-intensive sectors, improving employment and income security at the household level.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>High levels of domestic agriculture support in developed countries</b> can make it difficult for producers in developing countries to compete, thereby reducing their employment security and stability;</li> <li>• <b>lack of basic infrastructure and institutional capital</b> can impede inclusive structural transformation, with a large share of the workforce remaining in the agriculture sector while its output share declines;</li> <li>• <b>low skill levels and lack of access to finance</b> can become barriers to mobility for agricultural workers, particularly women, leading them into the informal sector where employment may involve excessive working hours and occupational safety and health may be compromised;</li> <li>• <b>women's decent employment opportunities in new sectors may be additionally weakened</b> due to persisting discriminatory gender norms that limit their assets and skills.</li> </ul>

### What is FAO's role?

In view of the many challenges and opportunities presented by trade in agricultural products, **FAO conducts research at country-level to identify policy options in favour of decent rural employment** by improving the understanding of the drivers of agricultural productivity and market participation, and the potential impact of trade liberalization

on poverty and inequality. Such evidence informs FAO's technical support in **mainstreaming trade in national development strategies, while advising countries about the possible policy strategies and instruments at each stage of agricultural development.**

*This brief was prepared by Ishrat K. Gadhok.*