

TRADE POLICY BRIEFS

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Agricultural trade and employment: links, evidence and policy implications

SUMMARY

- The linkages between agricultural trade and employment are complex, and often discussed in the context of structural transformation
- Evidence of the impact of trade on employment varies for different countries; more context-specific research and policy recommendations are needed
- Effectively managing the process of trade reforms, particularly through the implementation of appropriate complementary measures, is key to achieving positive economic growth and employment outcomes

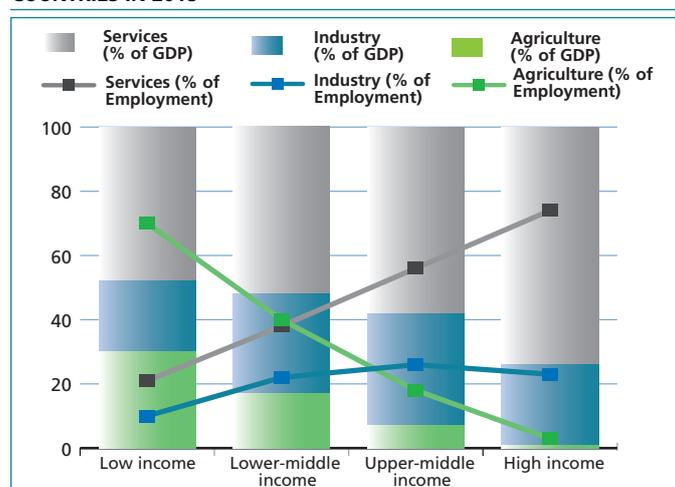
Introduction

It is generally recognized that open economies tend to grow faster than closed economies, and that economic growth is an important determinant of employment and incomes (McCulloch, Winters and Cirera, 2001).¹ It is also generally accepted that freer trade implies that some sectors stand to benefit from greater market access, while others may lose due to greater import competition (Winters, McCulloch and McKay, 2004). The magnitude of these impacts often depends on conditions such as market structure and the level of institutional development (McCulloch, Winters and Cirera, 2001). With agriculture accounting for roughly 70 percent of employment and 30 percent of gross domestic product (GDP) in low-income countries (see Figure 1), trade in agricultural products has the potential to affect rural employment, incomes and poverty by changing food prices, labour demand and wages in this sector. Expectations of the impact of trade liberalization on employment, particularly on low-skilled rural employment, can therefore affect a country's willingness to engage in trade liberalization, and its negotiating position.

Linkages between agricultural trade and employment

The standard view of structural transformation suggests that countries at low levels of development start from a position of having a large, non-commercial agriculture sector, accounting for a large proportion of their GDP and an even larger proportion of employment (FAO, 2015). As economies develop, both GDP and

FIGURE 1. GDP AND EMPLOYMENT DISTRIBUTION BY SECTOR ACROSS COUNTRIES IN 2015



Sources: GDP from World Bank World Development Indicators; Employment from ILO Estimates and Projections Series.

employment tend to shift away from agriculture into other sectors such as industry and services. Figure 1 shows shares of agriculture in total GDP and employment for countries with different levels of income, using national income level as a proxy for level of development. Opening to trade can speed up shifts in economic development, benefiting those sectors in which a country has a comparative advantage, but also potentially hurting sectors where this is not the case. As trade liberalization also changes relative prices within traded goods and relative to non-tradeables, individual members of a household modify their consumption basket, adjust their working hours and/or change their occupation, depending on their skill levels, their age, and their gender.

¹ The literature often notes that the results observed depend on the way in which the concepts of "trade" and "growth" are defined. In particular, openness to trade is considered to involve complex interrelationships between trade and other policies, such as openness to FDI and maintaining market-oriented exchange rates, which can make it difficult to isolate the impacts of trade policy alone. For a discussion of the literature, see Baldwin, 2000.

Box 1

Impact of trade liberalization on employment

Much of the literature assessing the impact of trade on employment focuses on economy-wide liberalization, rather than specific reforms in agriculture. Some relevant findings on the impact of trade liberalization on employment are as follows:

- **Multilateral liberalization is likely to result in employment and output gains**, but is concentrated in countries that are competitive exporters of certain commodities (ILO and UNCTAD, 2013);
- **Unilateral agricultural liberalization may reduce agricultural employment**, especially where there is limited intra-industry and intermediate trade² in food and agriculture products; however, employment in industrial sectors tends to rise (ILO and UNCTAD, 2013);
- **Employment for women workers in developing countries has been seen to increase in labour-intensive export-oriented sectors** (UNCTAD, 2013; AFDB, 2014). However, women are more likely than men to be in casual and seasonal work in these sectors (IANGWE, 2011);
- **Intra-African trade has been associated with reduced youth unemployment in Africa**; however, other contributing factors (e.g. secondary education, economic growth, institutionalized democracy and greater investment rates) are also important (AFDB, 2014).

Evidence of the impacts of agricultural trade on employment

National experiences of the impact of agricultural trade on employment vary, with the direction and magnitude of the impact depending on a number of factors, including a country's stage of development, relative factor endowments, labour market characteristics, national institutional settings, and the design and speed of implementation of trade policies that shape exports, imports, trade openness or integration.

Policy implications

Both theory and evidence point to several implications for the design and implementation of policies that promote positive employment outcomes from trade:

Ensuring appropriateness of policies for a given stage of (agricultural) development. Achieving positive growth and employment outcomes requires a package of agricultural, trade and other related policies that is tailored to a country's specific context, including its stage of agricultural development (FAO, 2015; UNCTAD, 2013). At early stages, when production systems are rudimentary and input and output markets are fragmented, support to farmers can help reduce production risks and provide the stability needed for producers to react positively to incentives (FAO, 2015). Once producers are able to generate surpluses for markets, some level of import protection, coupled with specific measures targeting improvement in market functioning (e.g. establishment of market information systems and provision of risk management mechanisms) may be required to facilitate improvements in productivity and farmers' access to markets. Eventually interventionist approaches can become increasingly costly or outright detrimental to development (FAO, 2015). At all stages, trade and agriculture strategies should be informed by a dialogue with the private sector to identify enabling policies that can promote private investment and create decent jobs.

² Exports and imports within the same industry are generally labelled as intra-industry trade.

Providing adequate and appropriate trade adjustment assistance:

Generally available adjustment measures, such as social safety net programmes, play an important role in reducing the vulnerability of workers in those sectors that are negatively affected by import competition (Kubota, 2007). Other measures include targeted assistance to specific sectors. The effectiveness of targeted labour market programmes has been mixed in different country contexts, with key success factors including: policy packages that are comprehensive, carefully targeted and oriented to labour demand (Betcherman, Olivas, and Dhar, 2014); and providing measures that are time-bound, decoupled from production and aimed at re-integrating displaced workers into the workforce (Kubota, 2007).

Linking trade agreements to labour rights: It is becoming common for regional trade agreements to include provisions dealing with labour rights (e.g. the Dominican Republic-Central America Free Trade Agreement, the North American Free Trade Agreement, and the European Union Agreements with Chile and with African, Caribbean and Pacific (ACP) countries). However, labour is not part of multilateral trade negotiations (Dolumbia-Henry and Gravel, 2006). Linking trade agreements to labour rights is a debated issue. On the one hand, it is seen as a vehicle to promote the adoption of international labour standards to enhance living conditions of workers; on the other, it is seen as a non-tariff measure that drives up the cost of production and erodes the comparative advantage of labour in developing countries (Dolumbia-Henry and Gravel, 2006). In either case, there is a recognition that standards should be appropriate for a country's level of development, such that they are viable to enforce, and that they benefit rather than hurt the poor.

Key challenges

- To understand the structure of rural labour, and input and output markets, and design policies that are appropriate for the country's level of agricultural development
- To effectively manage the adjustment costs of trade liberalization through social security programmes and carefully designed trade adjustment programmes
- To improve trade negotiation capacities of government representatives, strengthen their dialogue with the private sector during negotiations to take into account the possible employment effects, and coordinate with ministries responsible for complementary policies.

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