



Trade and related policies for decent rural employment

The issue

The agriculture sector accounts for the majority of employment and output in most developing countries. Trade in agricultural products has the potential to significantly impact rural employment, incomes and poverty, by affecting the availability and price of food, as well as wages in this sector. The appropriateness of trade and related policies, domestic agricultural policies, or a combination of the two, in achieving positive growth and decent rural employment outcomes depends on the level of agricultural development and stage of structural transformation in an economy.¹

What does the evidence say?

National experiences of the impact of agricultural trade on employment and income have been highly variable. They require country-specific research and policy recommendations.^{2,3,4} The direction of the impact of trade depends on:

- **The country's specific circumstances:** its stage of development, relative factor endowments, national institutional settings, trade positions;

- *To achieve positive growth and employment outcomes, development strategies should involve improved consideration of both agricultural trade policies, and domestic agricultural policies*
- *A key consideration in designing the optimal policy package should be the stage of development of country's agriculture sector*

- **The trading partners:** their comparative advantages, domestic support policies, trade policies;
- **The trade measures:** the design and implementation of trade and related policies that shape exports, imports, trade openness or integration, and trade liberalization (unilateral, multilateral, and regional).

Much of the literature assessing the impact of trade on employment focuses on trade liberalization as a measure of trade, and economy-wide liberalization, rather than specific reforms in agriculture. Some of the findings from research on liberalization are relevant from a rural employment perspective and differences between export-oriented and import-competing sectors are found, as summarized in Table 1.

Table 1 | Impact of trade liberalization on employment in export-oriented and import-competing sectors in agriculture

Export-oriented Sectors	Import-competing Sectors
<ul style="list-style-type: none"> • Multi-lateral agricultural trade liberalization is likely to result in significant employment and output gains, but concentrated in countries that are competitive exporters of agricultural commodities, like Argentina, Brazil, India and Thailand;² • employment for women workers in developing countries increases in labor-intensive export-oriented sectors such as horticulture.^{4,5} However, women are more likely to be in casual and seasonal work in these sectors than men;⁶ • intra-African trade reduces youth unemployment in Africa, with secondary education, economic growth, institutionalized democracy, and greater investment rates also contributing positively to this effect.⁵ 	<ul style="list-style-type: none"> • Unilateral trade liberalization tends to reduce agriculture employment, as there is limited intra-industry and intermediate trade in food and agriculture;² • a significant amount of workers displaced in import-competing sectors do not move into exporting sectors, but instead, end up in lower-paid services occupations;³ • trade liberalization of a country's own market is not a necessary condition for integration in the world economy at the outset, and complimentary measures, such as education, social protection and export promotion are important to realize the employment benefits of trade.⁴

What are the policy options?

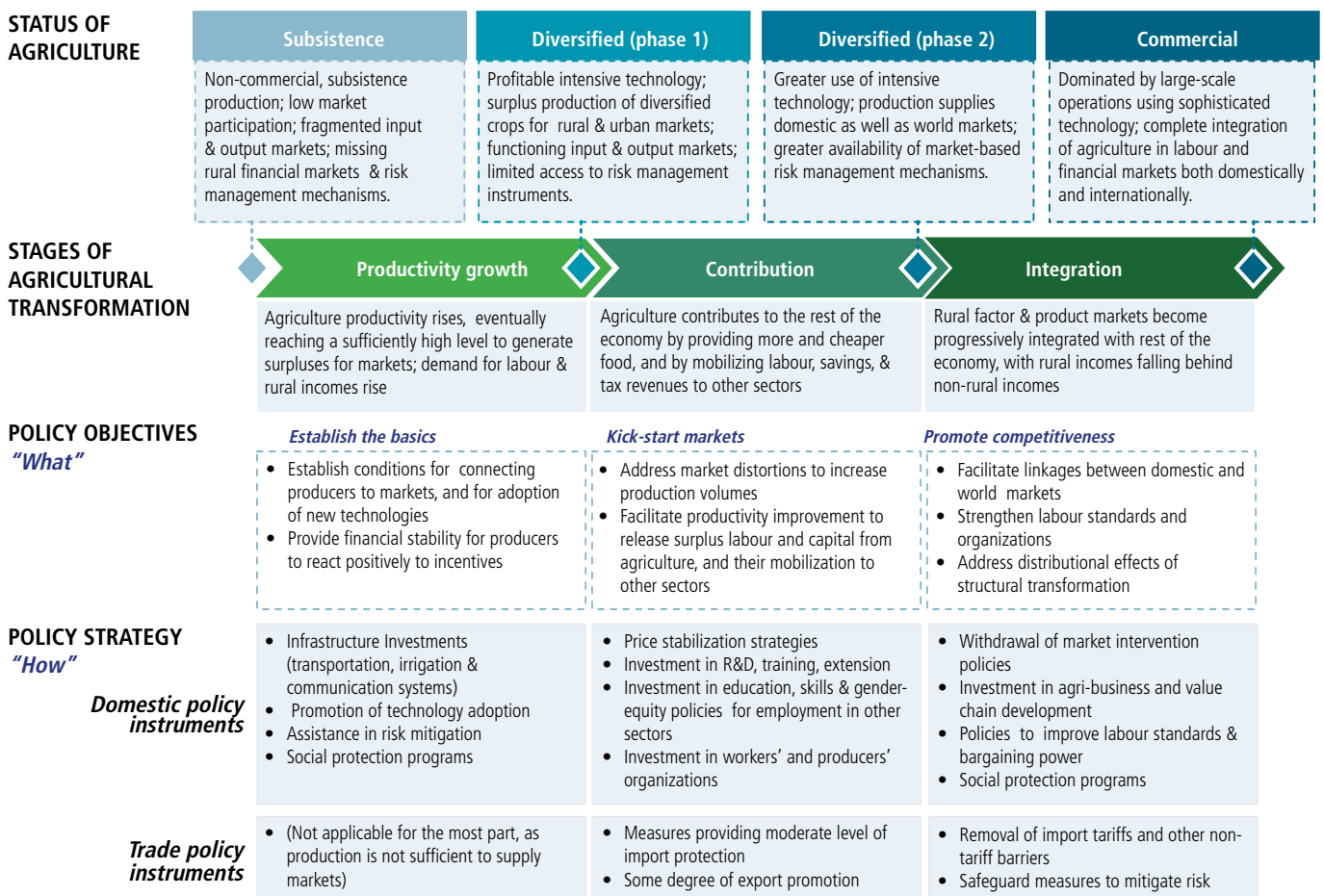
Achieving positive growth and employment outcomes requires a package of both trade and domestic policies that is tailored to the country's specific context, including the stage of agricultural development.

At earlier stages of development, when agricultural production systems are rudimentary, critical infrastructure is absent, and producers have limited recourse to risk management instruments, investments in infrastructure and technology adoption are key to establishing the basic

conditions for agricultural productivity to rise. Once farmers are able to generate surplus production for markets, some level of price stabilization, coupled with trade measures providing moderate level of import protection and export promotion may be required, in order to 'kick-start' markets i.e. increase production volumes, enhance productivity further and initiate a process of mobilizing labour and capital from agriculture.¹ Support for price stabilization and export promotion may not necessarily take the form of subsidies, but rather, of market information systems and trade facilitation respectively. As markets begin to function

better and the economy becomes progressively integrated, policy objectives shift to facilitating the absorption of labour and capital released from agriculture into other sectors, and promoting overall competitiveness. At this stage, the economic case for state support is reduced and the role of trade policy diminished.⁴ Figure 1 below presents an illustrative set of policy objectives and strategies that may be used, by stage of agricultural transformation. In practice, the optimum policy design will depend on individual country circumstances, and attaining desirable outcomes will depend on adequate implementation capacities.

Figure 1 | Stages of structural transformation



In practice: what FAO does

FAO's expertise in trade is delivered by generating evidence, developing capacity, and promoting dialogue across countries on trade and related policies, and their implications for food security, poverty and labour markets. FAO's work on agricultural trade and rural employment includes:

- **Country-level technical analysis:** to strengthen the evidence on the impact of trade and related policies on employment and poverty;

- **Mainstreaming trade into national poverty reduction strategies:** to facilitate the preparation of mutually consistent strategies for trade, poverty reduction and rural development;
- **Supporting countries' participation in trade agreements:** analysis to strengthen the evidence of the impacts of trade agreements, and to facilitate a neutral dialogue between Members away from the negotiating table.

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