EXECUTIVE SUMMARY

Rural wages in Asia

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Key points

- Rural wages are rising across much of Asia, and in some cases have accelerated since the mid 2000s.
- The two main drivers are a slow-down in the growth of the rural labour force, probably mainly from lower fertility rates, and the growth of manufacturing that attracts workers from rural areas.
- Most people on very low incomes in Asia work in agriculture: rising wages promise to lift most of them out of extreme poverty.
- Higher rural wages are driving up the cost of food production, thereby creating opportunities for other countries to export to Asia.
- They also contribute to higher wages in manufacturing. As costs rise in China, for example, it is likely that some plants will relocate to low-income Asia and to Africa.

Rural wages in developing countries matter. Rural wages not only directly affect the welfare of many of the (very) poor, but also affect the welfare of others through their impact on costs of food production and hence food prices. Since manufacturing in low-income countries often recruits labour from the countryside, rural wages set the minimum level of factory wages necessary to attract labour, and hence costs of production and thereby the growth of manufacturing.

Reports indicate that rural wages in parts of Asia, in countries such as Bangladesh, China and India, have been rising since the mid-2000s, and probably at a faster rate than before: see figure A, overleaf.

Hence this study: to check how rural wages are changing for other countries in (East, South and Southeast) Asia; to look at potential causes; and to consider the implications. Specifically, the following questions are posed:

- What trends can be seen in rural wages in Asia during the 2000s? How much is there a common pattern across the region?
- What factors are driving the increases seen? Above all, do they stem from increased agricultural production and productivity, from changing demography, or from urbanisation and industrialisation? To what extent do they reflect public policy such as minimum wages and public employment schemes? What may be expected in terms of trends in rural wages over the next five to ten years?

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- If rural wages are rising, then what are the implications for rural development and poverty, for food prices and food security and for economic growth, both in Asia and in other parts of the developing world?

Rural wages can be seen as influenced primarily by supply and demand in labour markets – albeit with imperfections – or as one side of a dual economy, where labour in a traditional (largely rural) economy works at low productivity, separated from the labour markets of a more productive modern sector. Dualism may have contributed to Asian industrialisation by providing a pool of very cheap labour from the countryside, but increasingly probably does not apply in the 2000s.

Recent literature, both descriptive and analytical, reports similar findings in several countries of Asia:

- In Bangladesh, China, India and Indonesia, rural wages are rising, apparently faster in the second half of the 2000s than before.
- Growth in manufacturing and jobs off the farm, especially construction in cities, is drawing labour off the fields.
- For China, at least, the pull of the city is coinciding with reductions in the labour force as the low fertility of the past 30 years comes into play.
- It is less clear to what extent the growth of the rural non-farm economy or increases in agricultural productivity have led to increased demand for labour in rural areas.
- Although public employment programmes may contribute to higher rural wages, they may not drive them as strongly as economic growth. That said, the Indian Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme may be disproportionately valuable to female workers and to those in economically lagging regions.

Data on rural wages, agricultural labour productivity, growth of manufacturing and rural working population were collected from secondary sources for the 13 most populous countries of East, South and Southeast Asia, for the 2000s. Rural wage series were incomplete in several cases, so only for six countries was it possible to look at changes in wages in the early and late 2000s.

Results

Rural wages rose in the 2000s in almost all cases observed. In several countries, including China and India, the rise accelerated from the mid-2000s. For example, in Bangladesh, the average (male) rural wage rose in real terms by 45% between 2005 and 2010, in India by 35% between 2005 and 2012 and in China by 92% between 2003 and 2007. Similar trends can be seen for other countries where data are available, such as Indonesia and Vietnam.

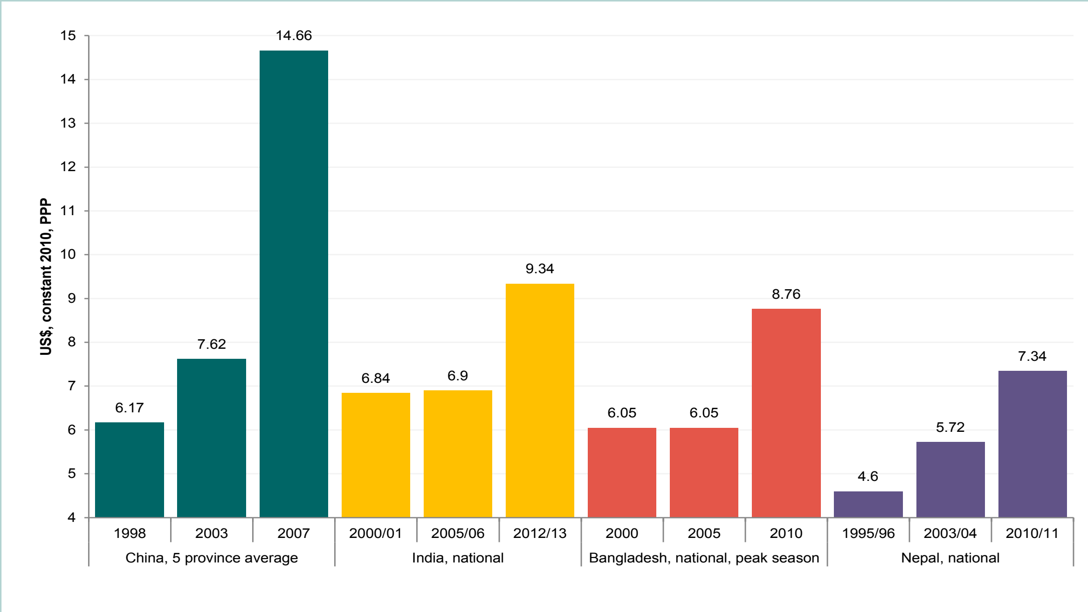
Despite growth, levels of pay still remained low in the early 2010s, with few countries seeing more than $5 a day paid. Rural wages for women were in most cases between a quarter and one-third less than those paid to men, although in most countries the gap has narrowed.

For potential drivers of rural wages, the following patterns were seen:

- **Agricultural labour productivity** rose in all cases except Pakistan in the 2000s, in most countries faster in the latter half of the decade, with seven countries seeing average growth of 2.5% a year or more.
- **Manufacturing output** grew rapidly across most of the region in the 2000s. Growth of manufacturing accelerated between 1997-2004 and 2005-2012 for China, India, Indonesia, Bangladesh, the Philippines and Sri Lanka. In five cases, growth slowed, although for the Republic of Korea and Vietnam rates remained high.
- In the mid-1990s, **rural working populations** rose in all cases other than the Republic of Korea. By 2012, numbers were falling in China, Malaysia, Thailand and Sri Lanka – with Indonesia rising slightly after several years of falls. In these cases, a turning point has been passed. Another group has seen rural working population rising throughout the period: Burma/Myanmar, Philippines, Vietnam and South Asia.

What explains changes in rural wages? A cross-country regression suggests rural wages rise as rural working populations decline, and as manufacturing output grows. Changes in agricultural labour productivity may be associated with higher wages, but the estimate proved insignificant and low in the presence of these two main drivers. Wages, the analysis indicates, grew slightly faster in the second half of the 2000s, independently of change in other variables. Demography plays a significant role, more so than might have been expected. Indeed,

Figure A: Changes in real daily wages for agricultural labour (US$ constant 2010 PPP) in four Asian countries



the largest differences between countries arise in the rural working population, with a sharp distinction between those countries where the rural workforce is now shrinking and those where it continues to increase. Changes in rural working population may be the single most powerful driver, but, since migration is incorporated within the variable, it is not a purely exogenous driver. As manufacturing grows, it is expected that some factory workers will be recruited from the countryside, so the migration component is linked to manufacturing.

Implications

Will rural wages in Asia continue to increase in the future? They will if the two main drivers continue along recent trends into the future. Falling fertility rates since the 1970s across Asia more or less lock in reduced rural populations for the future, and it is hard to imagine that manufacturing will cease to grow. Hence, it seems rural wages can be expected to rise in the future.

This could have profound implications for poverty, agriculture and food prices and manufacturing.

Rising rural wages will put a floor to low rural incomes – at least for those able to work – and, indeed, probably to incomes throughout the economy, since rural wages have tended to mark the lowest returns to labour on offer. Hence, rising rural wages should greatly reduce poverty for most households that have working members. That said, rural wages in many countries are still low and need to rise – perhaps to double in some cases – before households that depend on them can escape poverty.

Rising rural wages will push up costs of production in agriculture – already increased by the effect of higher oil prices seen since 2007 – and spur on mechanisation for those tasks where machinery is cheaper than the increased cost of manual operations. That may lead to larger farm sizes as well. Asian food prices will rise, limited to some extent by the possible lower cost of imports from the world market – moderated by the willingness of governments to allow imports of cheap food that might threaten farmers' incomes. Rising food prices threaten access of those on low incomes to food, but, given that even those on low incomes do not spend all their incomes on food, the benefit of higher wages should outweigh the hardship of higher food costs.

Perhaps the **most intriguing implication is for manufacturing**. As rural wages rise, so manufacturing wages will have to increase to recruit new workers. This effect is already being seen strongly in China, where both phenomena are linked to a national workforce that is now shrinking every year. Manufacturers have two options as their costs rise: to mechanise and thereby economise on labour; or to relocate to regions and countries with lower labour costs. Given the scale of its manufacturing, China's decisions will be critical. If the most frequent answer is relocation, then it is likely that plants in coastal China will not only move inland to less prosperous areas with lower wages, but also relocate outside of China. Neighbouring countries in Asia with low wages may be the first to benefit from this, with Bangladesh, Burma/Myanmar, Cambodia and Vietnam clear candidates.

There is, however, a further prospect: that of companies **moving to Africa** in search of lower wages. The World Bank reports Ethiopian factory wages for unskilled labour as being one-quarter those of Chinese wages. Logistics costs are higher, but overall costs are lower. Outside Addis Ababa, the first pioneer wave of relocated Chinese plants can be seen. Now these have broken the ice, how many more will follow? Lin (2014, in Wonacott, 2014) speculated that 85 million factory jobs could leave China in the coming years. If half of those came to Africa, it would transform a continent where there is a surge in youth entering the labour market. Of course, relocation to Africa will only happen if roads, power supplies and ports are adequate and if there is political stability.

Africa's economic underperformance has since the 1970s been far greater in manufacturing than in farming. If the right conditions can be created, renewed growth of manufacturing in Africa led by Asian industrialists promises prosperous urbanisation with vibrant markets for those farmers staying on the land. That would be welcome news all round, including for agriculture.

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