



## More evidence for falling poverty in Asia, linked to falling birth rates Plus a possible boost for manufacturing in Africa...

Jane Carter, *October, 2014*

### **New report analysing trends in rural wages in Asia**

A new ODI report by two economists, Steve Wiggins and Sharada Keats, suggests that rural wages have been rising steadily in most Asian countries since the mid 2000s – and that the speed of this trend is probably increasing (1). The authors made a comprehensive analysis of available figures from 13 East, South and Southeast Asian countries, with particular focus on Bangladesh, China, India and Indonesia – where, of course, populations are particularly high. The increase in rural wages that they find is striking. For example, the average rural wage for a man in Bangladesh rose in real terms by 45% between 2005 and 2010, in India by 35% between 2005 and 2012, and in China by a massive 92% between 2003 and 2007. This is accompanied by an overall increase in agricultural labour productivity - but this is insufficient to explain the wage increases. Instead, they make the link to urban employment, and the rapid growth of manufacturing output. Since the early 1970s, fertility rates in Asia have been falling. Whilst the labour for Asia's booming manufacturing industries was originally drawn from rural areas, there is no longer a steady supply of such cheap labour. Demand is outstripping supply, and work is still needed on the farms - with the result that urban and rural labour are in competition, driving up wages in both agriculture and manufacturing.

### **Falling fertility**

For Swiss voters conscious of the upcoming Ecopop initiative (which seeks to divert 10% of development assistance funds to family planning) (2), the changing demographics in Asia and their implications are of particular note. Fertility rates have plummeted from the 1960s, when country rates clustered around the average mark of 5.5 to just over 7 children per woman, to an average of between 1.2 and 3.3 per woman today. Clearly family planning has already happened. Several countries (not only China, but also those that have followed a less authoritarian approach to birth control) are now below the rate of 2.1 children per woman, the rate needed to sustain the population in the long term. Most of the transition in fertility rates took place between the early 1970s and late 1990s, but some countries were more rapid than others – with the result that, according to Wiggins and Keats, there is a “sharp distinction” between countries in which the rural workforce is already shrinking, and those in which it is still growing. The former are in East Asia, whilst the latter are in South Asia. Yet it can be confidently predicted that a contraction of the rural workforce will also hit them in the second half of this decade, once the drop in births works through to the working-age population.

### **Implications for poverty**

Wiggins and Keats claim that their findings are good news for poverty reduction in rural Asia, even though it will take some time for wages to rise to a point, they suggest around the level of US \$ 10/day, “that lifts a typical working household comfortably out of poverty”. Currently the level averages around US \$ 3 to 5, although varying considerably by location within and between countries. This is the wage for men; for women, the rate is generally reported at a quarter to one third less. Not all the countries studied collect gender-disaggregated data, but for those that do, the gap between women's and men's wages seems to be decreasing, at least in China and Bangladesh – and just slightly in India.

The “elephant in the room” in the whole analysis appears to be the cost of food. If agricultural wages rise, food prices will also rise – but this potentially ominous trend is dismissed in the study in a single short paragraph. “Given that even those on low incomes do not spend all their incomes on food – 70% at most – then the wages effect should outweigh that of higher food costs.” This is perhaps a rather blithe assumption, given that the rising cost of food is often enough to bring down governments; much is likely to depend on how the situation is managed politically.

## The exception that proves the rule...Pakistan

The country that “bucks the trend” in the rural wages analysis is Pakistan. It is the only country that over the past decade has experienced a marked *decrease* nationally in rural wages, and no increase in agricultural productivity. Supporting the link between demographic changes and wages, Pakistan’s fertility rate is reducing at a markedly slower rate than the other countries in the sample. Although the study does not explore the link between progress in gender equality and dropping fertility rates, it does note that Pakistan has the greatest gender disparity in wages amongst all the countries analysed. In 2012, women’s agricultural wages in Pakistan were less than half those of men.

## Good news for Africa?

Wiggins and Keats conclude their study with the observation that “perhaps the most intriguing implication” of their findings is for manufacturing. Confronted with rising wage costs, manufacturers have two options: to mechanise and thus reduce labour costs, or to relocate to somewhere with lower costs – within the country, the region, or beyond. Manufacturers in China, where the national workforce is now shrinking annually, are already facing this choice. What they do may thus be pivotal, and it is this implication of the study that has attracted particular comment (3). Already in 2010, one study by economists based at the University of Addis Ababa showed that investment by Chinese firms in the Ethiopian manufacturing sector had grown significantly over the previous five years, and anticipated further growth due to favourable Chinese-Ethiopian relations (4). The outskirts of Addis Ababa is heralded as one place to watch an evolving trend take hold. In the enthusiastic words of Steve Wiggins (reported by Reuters) (5) “This could be a game-changer for African countries, and they need to ensure they have a trained workforce and basic infrastructure in place, otherwise they might miss this boat.”

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## References

- (1) Steve Wiggins and Sharada Keats (2014) Rural wages in Asia Overseas Development Institute Report, October 2014. <http://www.odi.org/publications/8747-rural-wages-asia>
- (2) Agricultural Development Policy Report (2014) Rural Wages in Asia. London, October 2014 <http://www.admin.ch/ch/d/pore/vi/vis406t.html>
- (3) Duncan Green (8 October, 2014; sourced 27 October) <http://oxfamblogs.org/fp2p/a-wage-revolution-could-mean-the-end-of-extreme-poverty-in-asia-and-massive-knock-on-effects-for-africa/>
- (4) Alemayehu Geda and Atenafu G Meskel (2010) Impact of China-Africa Investment Relations: Case Study of Ethiopia <http://www.africportal.org/dspace/articles/impact-china-africa-investment-relations-case-study-ethiopia>
- (5) Rising rural wages in Asia will reduce extreme poverty: report (1 October, 2014; sourced 27 October) <http://www.reuters.com/article/2014/10/01/us-foundation-asia-wages-poverty-idUSKCN0HQ5B720141001>