

Rural wages are rising in Asia - and Africa could also reap benefits

As demographics, migration and manufacturing drive up wages, particularly in China, poverty will fall - but food costs will rise

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Quietly but steadily something remarkable is happening in Asia. Rural wages are rising. For decades, if not centuries, labour in densely settled areas of Asia has been abundant, so wages for agricultural labouring have been very low - resulting in deep poverty.

Now that's changing. Reports from rural Bangladesh say landlords are having trouble getting enough labour, so they are looking to mechanise. Across Asia, rural wages have increased - in real terms by 45% in Bangladesh between 2005 and 2010, by 35% in India between 2005 and 2012, and by 92% in China between 2003 and 2007. Similar trends can be seen in Indonesia, Vietnam and other countries. Furthermore, in several countries - including China and India - increases have accelerated since the mid-2000s.

What explains rising rural wages? The strongest driver seems to be demographic: the rural labour force is growing ever more slowly. Indeed, in some countries, such as South Korea, Malaysia, Indonesia and - most notably - China, the rural labour force is shrinking. Migration out of rural areas explains some of this, but much comes from major falls in fertility since the 1980s. The other notable driver is growth of manufacturing - and urban jobs in general - drawing labour out of agriculture.

Slower population growth and expansion of manufacturing are likely to persist, so we can expect rural wages to continue to rise. Three potentially momentous implications could follow.

Higher rural wages promise to greatly reduce extreme poverty. The very poor are still concentrated in the countryside, many of them depending on agricultural labour and paid (very) low wages. Higher wages will do much to improve their welfare. However, it's not the end of chronic poverty for an unfortunate minority: there remain those who cannot work on account of age, illness and serious disability.

Food costs will rise. In China, rice cost 70% more to produce in 2010 than it did in 2005. More than 40% of that increased cost came from higher wages, most of the rest from higher prices for fertiliser and fuel. As domestic costs rise, imported food becomes more attractive. Asia may well become an expanding market for food produced in other regions at lower cost. To date, South America - with its soybean exports - has taken advantage of this. Other parts of the developing world may benefit as well. Given investment, parts of Africa have the potential to produce surpluses of vegetable oils and animal feed for export to Asia.

Higher rural wages will tend to push up manufacturing wages and costs as it will no longer be possible to attract labour from rural areas on low pay. China's coastal factories have seen big

increases in wages over the past 10 years, largely because they can no longer get cheap labour from the villages. Factory owners may relocate. Inland China is one possibility, as are the (ever fewer) remaining low-income countries in Asia, including Bangladesh, Burma and Cambodia.

Relocation may go further, with Africa being a possibility. The World Bank reports that Ethiopian factory wages for unskilled labour are a quarter of Chinese wages. Logistics costs are higher, but overall costs lower. Outside Addis Ababa, the first wave of relocated Chinese factories can be seen in their industrial estates, marked by the red flag and gold stars. How many more will follow? Justin Lin, former chief economist at the bank, said in May that 85m factory jobs could leave China in the coming years. If half of those came to Africa, they would be welcome in a continent where there is a surge in young people entering the labour market, thereby allowing Africa to reap its demographic dividend.

Africa's economic underperformance has always been far greater in manufacturing than in farming. Renewed growth of manufacturing in Africa promises prosperous urbanisation with vibrant markets for the farmers staying on the land.

The good news may be Asian, but potentially it's also good news for Africa.

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