



CAPSA Flash

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Short Article

Rural-urban Inequality in Asia

In Asia and throughout the developing world, rural incomes lag behind those in urban areas. The urban to rural income ratio in most Asian countries has been estimated to be between 1.3 and 1.8, with outliers Indonesia at around 2, the Philippines at 2.2 and China at over 3 (these figures ignore regional price differences and are likely to be overestimates). According to the latest Millennium Development Goals progress report, inequality generally is on the rise in Asia, particularly East Asia, and rural-urban inequality is often a large component of overall inequality, contributing about half of the overall inequality in China, about one quarter in Indonesia (a higher proportion than the much-discussed inter-provincial inequality in that country) and a sizeable component of inequality in Viet Nam (Kanbur & Zhang, 1998; Sicular *et al.*, 2007; Nguyen *et al.*, 2007).

Some analysts have expected that welfare in rural and urban areas will converge over time, largely for two reasons. Firstly, in wealthier countries such a convergence has already taken place, implying that with development and the associated increasing labour and capital mobility, information and education will reduce rural disadvantage. That developing countries should follow this trend would be consistent with the Kuznets hypothesis, as well as evidence on the structural transformation that shows that as the importance of the agriculture sector in the overall economy declines, rural and urban incomes converge (Timmer, 2006). Secondly, the gap between rural and urban productivity has narrowed over the last couple of decades, a phenomenon that has also already occurred in rich countries, and theoretically incomes should reflect productivity.

However, to the contrary of these expectations there has been a slight divergence in rural-urban incomes over the last two decades in Asia. For example, in India, although there has been little change in expenditure inequality over the last four decades, there has been some divergence in the risk of falling into poverty. In Bangladesh, the gap increased up to the mid-nineties, mainly due to a rise in urban incomes, while in Sri Lanka inequality fell as urban incomes fell, while rural incomes were relatively unaffected, demonstrating the importance of urban growth as a driver of rural-urban inequality. In Thailand the gap increased, at least over the 1990s (Eastwood & Lipton, 2004). The case of China is instructive as overall inequality has been high when agriculture and rural areas were neglected by policy. There, rural-urban inequality increased dramatically with the promotion of heavy industry at the expense of agriculture during the fifties and sixties, fell in the late seventies with land reform, and increased again after 1984 as the focus of policy shifted back to the urban sector. Globalization and openness are

also oft-cited factors contributing to the recent increase in inequality in China (Kanbur & Zhang, 2004).

What explains the persistence of rural-urban inequality in Asia? Some answers are provided by decomposing rural-urban inequality into two elements: inequality between the characteristics of rural and urban residents such as the level of education, age and household demographics, and inequality in the returns to these characteristics. In the case of Viet Nam, the gap is mostly caused by inequalities in the endowments of urban and rural residents, particularly the level of education (Nguyen *et al.*, 2007). In contrast, in China household and individual characteristics contribute about half to the rural-urban gap, the other half explained by differing returns to those characteristics (again education is dominant, inequalities in education alone explaining about one quarter of the rural-urban income gap). The significance of returns to characteristics in China may be due to restrictions on labour mobility in China, meaning that workers are unable to migrate in search of higher wages, as well as low levels of rural investment (Shorrocks & Wan, 2005). This evidence supports conventional approaches to poverty reduction focusing on increasing the personal capabilities of the poor in both countries, and in China increasing the ability of the poor to use these capabilities through rural investment and labour migration.

However, knowing the causes of inequality is one thing, knowing exactly how to address those causes is another, as the process of development and structural transformation is complex and non-linear. For instance, in the long term, education levels are endogenously determined, and household investments in education are partly determined by other characteristics such as family size and composition, and the opportunity costs of education (Sicular *et al.*, 2007). The immediate results from increasing education investment may be disappointing if the returns to education are lower for the poor due to other barriers obtaining well-paid employment.

Worryingly, evidence shows that over time the level of GDP at which rural and urban income convergence takes place has been increasing, meaning that the reduction in inequality associated with development will occur later for developing countries than it did for developed countries. This suggests an opening for pro-active policy. China's recent history shows that policy matters, particularly the balance of urban and rural investment. ■

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(References available upon request)

Flash **BREAKING****Field 'Schools' Help Farmers Become Sustainable**

Vector-borne diseases, such as malaria and dengue fever, are a major public health problem in South-East Asia and agricultural practices can contribute to the health risk, says the WHO. Use of pesticides increases mosquito resistance and destroys mosquito predators, leading to an increase in mosquito numbers and leaving toxic residues in food crops. In June 2006, Henk van den Berg and co-authors evaluated 'farmer field schools', initiated in Sri Lanka on a large scale in 2002. The schools aim to help farmers manage both agricultural pests and insect disease vectors, such as malaria-carrying mosquitoes, with less emphasis on chemical methods. They found that the project brought positive changes to the farming communities in terms of their agricultural practices and also possibly their health.

Majid, Sahar, 2007. Field 'Schools' Help Farmers Become Sustainable. Science and Development Network, <http://www.scidev.net/> (16 July 2007).

Farming Too Risky for Banks

Development in rural Kyrgyzstan depends on farmers gaining access to banking services and loans, but the financial risks in agriculture are too great unless the government underwrites them. The high-risk nature of agricultural financing creates a 132 million dollar shortfall in available loans every year. Commercial bank loans depend on pledges and state insurance for agriculture, but given the current state of the national budget, there will be no such insurance in the near future. Analysts add that the lack of decent roads and communications and the absence of state registries and notary offices in the countryside also hinder the development of banking and financial services.

NBCentralAsia, 2007, Farming Too Risky for Banks, <http://www.iwpr.net/> (1 August 2007).

Pakistan to Allocate Rs 2.53 Billion More for Rural Development

The Government of Pakistan has allocated an amount of approx. US\$ 153 million for rural development. The government has adopted a comprehensive approach, including agriculture, social and physical infrastructure. The policy aims to empower local government, involve communities in development activities and reduce poverty through a set of coherent policies including social mobilization of the poor and increasing their access to microfinance. The government is stressing the development of agriculture as well as rural industrialization under its annual plan for the year 2007-2008. Under the plan, the government will also provide basic and technical education in rural areas.

OneWorld South Asia, 2007. Pakistan to Allocate Rs 2.53 Billion More for Rural Development, <http://southasia.oneworld.net/> (17 August 2007).

Agriculture Poses Tough Challenge for PNG

With 80 to 85 per cent of the population living in rural PNG, gains made in agriculture have the potential to lift millions of people out of poverty. A National Agriculture Development Plan, 2007 to 2016, was launched on March 2007 to enhance and improve the quality of life for over 87 per cent of the rural population in 89 districts and 19 provinces. Besides the challenges presented by infrastructure and marketing, the government needs to consider a strategy of promoting investment and growth in highly fertile parts of the country. Less than 1 per cent of total land area is classified as

high quality land' while almost 60 per cent is classified as 'low' or 'extremely low' quality land.

East-West Center, 2007. Agriculture Poses Tough Challenge for PNG, <http://pidp.eastwestcenter.org/> (27 July 2007).

In China, Farming Advances Lie Fallow

China's vast network of food research centres and laboratories churns out mountains of papers on the latest farming techniques and technology. Little of this research reaches farmers. In recent months, Guangdong has been the source of pesticide - or additive - laced shipments of plums, lemons, starfruit, kumquats, scallions and ginseng blocked by the US Food and Drug Administration. In late June, food-safety authorities in the Netherlands found genetically modified rice protein, banned in the European Union, in a shipment from China, even though genetically engineered rice is not approved for commercial production or human consumption in China. In 2003, the Chinese academic journal "Feed Review" published an article with information on how to boost the protein content of animal feed by mixing in unconventional industrial ingredients such as melamine recommended for animals with more than one stomach, such as cows, that can convert such substances into protein. But chemical dealers may have promoted the practice for pet food, even though cats and dogs do not have that ability. The way farmers practice is mostly passed down from parents and grandparents. The only other source of information is the pesticide salesmen. Research projects are set up by the state or by the scientists without effective communications with the farmers. Furthermore, because scientists aren't judged on real-world results, they are more interested in the foresightedness and theoretical creativeness of a project and ignore practicality. With concern mounting over the safety of its exports, Beijing in recent weeks has promised to reform its farming, processing and monitoring systems. ■

Based on Cha, Ariana Eunjung, 2007. In China, Farming Advances Lie Fallow, <http://www.washingtonpost.com/> (6 August 2007).

New Approaches Needed to Reduce Poverty and Hunger in Rural Asia

New approaches to promote agricultural and rural growth, along with innovative social protection measures, are needed to help the poor. Inclusive growth is a must and inclusive growth requires rural development. By 2015, Asia will still be home to half of the world's poor and three-quarters of these will live in rural area. At the same time Asia is projected to contribute nearly half of the world's gross domestic product. In the decades ahead, agricultural and rural development will play as critical a role as ever in alleviating poverty and hunger. However, new strategies will be essential to address emerging challenges and opportunities in the region. Accelerating rural employment is one of the key ways to reduce rural poverty and can be achieved through innovation in technology and institutions. Now more than ever attention needs to be paid to nutrition and productive safety nets to improve rural livelihoods in Asia. Strategies that should be taken into account are: a) ensuring good governance in decentralized rural political systems; b) investing in infrastructure and communication systems to foster closer urban-rural linkages; c) providing productive safety nets and financial tools for the most vulnerable; and d) developing ecosystem services for meeting the challenges of water and climate change. ■

Based on IFPRI, 2007. New Approaches Needed to Reduce Poverty and Hunger in Rural Asia, <http://www.ifpri.org/> (9 August 2007).

LDCs 'Must Embrace Innovation', UN States

The world's least developed countries (LDCs) must place more emphasis on using scientific knowledge and technological innovation if they wish to escape the poverty and growing unemployment they currently face. This warning comes from the report –“The Least Developed Countries Report 2007: Knowledge, Technology Learning and Innovation for Development”– published July 19th by the United Nations Conference on Trade and Development (UNCTAD). The report says that too many of the LDCs are seeking to achieve economic growth, e.g. through higher commodity prices, without asking how effective the growth is to meet important social targets, such as raising agricultural productivity or tackling unemployment. It recommends a range of measures for reversing this situation, from encouraging ‘technological learning’ in both ‘farms and firms’, to making better use of international legislation on intellectual property rights, and encouraging donors to increase support for what it describes as ‘knowledge aid’. Also donor aid has not focused enough on science, technology and innovation. LDCs require both capital and knowledge to build up their productive capabilities. They need to adopt policies to stimulate a technological catch-up with the rest of the world, or they will continue to fall behind other countries technologically. According to the report, too little attention is given to technological support in the multi-year plans that are drawn up LDCs to seek funding from donors such as the World Bank. ■

Based on Dickson, David, 2007. Anti-poverty Strategies ‘Must Embrace Innovation’, Science and Development Network, <http://www.scidev.net/> (20 July 2007).

Rich Growing Richer Faster Than Poor in Developing Asia

The rich are growing richer faster than the poor in developing Asia according to the latest edition of “Key Indicators 2007”, an annual statistical publication of the Asian Development Bank. The report warns that in societies where wealth is concentrated in the hands of a few, there is a danger of policy levers being captured by the rich for their own benefit and a weakening of the institutional foundations of the growth process. The reason for growing inequality, according to the report, is unevenness in growth in incomes across urban and rural areas, leading and lagging sub-national regions, and differences in education. Some of the unevenness in growth is a natural outcome of the development process and is to be expected. The process of economic development is unlikely to start in every part of an economy at the same time and rising inequality is not unusual during periods of rapid growth and major structural change. However, weaknesses and imbalances in policy have also been at play. In several cases, slow growth in rural incomes has resulted from weaknesses in public investments in rural infrastructure and a policy environment that has kept private investment away. Meanwhile, growth in urban areas has been insufficient to absorb surplus labour from rural areas. Instead, new opportunities generated by urban growth in developing Asia have favoured the highly educated, further aggravating the earnings gap between the rich and poor. ■

Based on ADB, 2007. Rich Growing Richer Faster Than Poor in Developing Asia, <http://www.adb.org/> (8 August 2007).

Flash EVENTS



3rd International Conference on Agriculture Education and Environment

4 - 7 November 2007

Nueva Ecija, Philippines

Abstract Deadline: 30 June 2007

Info:

<http://apeaen080597.blogspot.com>

Business, Environment, International Competitiveness and Sustainable Development of Asia Pacific Economies

3 - 4 December 2007

Selangor, Malaysia

Info:

<http://www.solutioniser.com/conference/asiaeconomies/>

IAEC2007: Cutting Edge Technologies and Innovations on Sustainable Resources for World Food Sufficiency

3 - 6 December 2007

Asian Institute of Technology, Bangkok, Thailand

Abstract Deadline: 30 June 2007

Info:

<http://www.aaae.ait.ac.th/iaec/index.html>

International Conference on Sustainable Forest Management and Poverty Alleviation: Roles of Traditional Forest-related Knowledge

17 - 20 December 2007

Kunming, China

Abstract Deadline: 31 August 2007

Info:

<http://www.iufro.org/download/file/1928/3500/kunming07-tftfk-1st-announcemt-call.doc>

Flash EDITORIAL CONTACTS

Book Review

Agricultural Diversification and Smallholders in South Asia

PK Joshi, Ashok Gulati and Ralph Cummings Jr. (eds.), Academic Foundation and International Food Policy Research Institute (IFPRI), New Delhi, India, 2007. ISBN 81-7188-551-9.

New lifestyles and tastes, stimulated by increasing incomes, spreading urbanization and expanding globalization, are mushrooming in South Asia. The region is one of the fastest growing areas in the world with a GDP growth rate of 5.6 per cent, surpassing the world average of 2.6 per cent. Per capita cereal consumption is gradually declining, while that of high-value commodities is rapidly increasing. Even the poor are changing their diets and eat more high-value foods, such as fruits, vegetables, milk, meat, eggs, and fish. A change in consumption translates directly to a change in demand of agricultural commodities. This potentially creates opportunities to increase income and alleviate poverty, as poor smallholders do most of the farming in South Asia. But can the agricultural sector in South Asia diversify production at the same pace as its demand? What kind of policies could contribute to a more diversified agricultural production? And how can smallholders benefit from this? These are the questions discussed in this book.

The chapters of the book are selected presentations of two workshops organized by the International Food Policy Research Institute (IFPRI) and co-sponsored by the governments of India and Bhutan, related to agricultural diversification towards high-value commodities and vertical co-ordination in Paro, Bhutan and New Delhi, India. The book is divided in six parts and twenty chapters. At the beginning of each part a short introduction to its content is given.

The first part gives a good introduction into the topic and into the book itself. It presents a detailed synthesis on issues related to agricultural diversification in South Asian countries; including changes in consumption/production, drivers of change, and empowering smallholders through innovative institutional arrangements. The rate of agricultural diversification in South Asia has been slower than for instance in South-East Asia. The chapter argues that this is the result of the strong focus on self-sufficiency of staples, but that cereals will no longer continue to be an important source of income.

Part two and three give more insight in the nature of agricultural diversification in South Asia in general as well as presenting country-specific information from Bangladesh, India, Nepal, Pakistan and Sri Lanka. Demand for high-value commodities is increasing rapidly in all South Asian countries. From the case studies, it appears that diversification of agricultural production is also occurring, although somewhat more slowly and with considerable variation in its speed and nature across countries. Common drivers behind diversification are rising income, changing

consumption pattern, growing urbanization, increasing export demand and improved infrastructure. Constraints include poor access to technology and information, weak linkages between production, marketing and processing, and the high transaction costs associated with smallholder production.

In part four the necessary conditions to promote agricultural diversification for effective participation on the global market are documented. This entails for example strengthening farm to firm links and improving product quality. Some specific case studies are used as illustration such as sanitary challenges in India and safety and quality issues in the Bangladesh shrimp industry. Part five concerns the empowering of smallholders required for their participation in high-value agriculture. It states that in order to empower 100 million smallholders in South Asia existing models that integrate NGOs, ICT, and financial institutions are needed. This would require modifying or amending age-old marketing acts that discourage the participation of the private sector in local infrastructural investments and inhibits NGOs in organizing producers and facilitating financial institutions.

The multitude of topics that are discussed in the first 19 chapters all come together in the last chapter that constitutes the last part of the book. This chapter describes a roadmap to reach more participation of smallholders in high-value agriculture through agricultural diversification. It describes the importance of the three I's, namely Incentives, Institutions and Investments.

The size of the book (626 pp.) might seem a bit overwhelming at first, but the clear set up makes the book easily accessible. The book is a great source of information with much data on the current state of smallholders' diversification and issues involved to increase diversification for the benefit of smallholders. The minor and major constraints for smallholders to enter the market of high-value agriculture are clearly stated, but in general the book is optimistic. Although the book focuses on smallholders, they play a minor role in the book. As an example, the discussion of steps to increase participation of smallholders in high-value agriculture focuses mainly on organizational, governmental and institutional changes, with no mention of the part that smallholders themselves can play! I missed some refreshing pro-active steps for the smallholders to diversify their systems themselves. ■

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