



Invited Article

Does non-farm sector employment reduce rural poverty and vulnerability? Evidence from Vietnam and India



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ABSTRACT

The present study examines whether rural non-farm employment has any poverty and/or vulnerability-reducing effect in Vietnam and India. To take account of sample selection bias associated with it, we have applied treatment-effects model. It is found that log per capita consumption or log mean per capita expenditure significantly increased as a result of access to the rural non-farm employment in both Vietnam and India – which is consistent with its poverty reducing role of accessing – with the aggregate effect larger in Vietnam than in India. Access to the rural non-farm employment significantly reduces vulnerability too in both countries, implying that diversification of household activities into non-farm sector would reduce such risks. When we disaggregate non-farm sector employment by its type, we find that poverty and vulnerability reducing effects are much larger for sales, professionals, and clerks than for unskilled or manual employment in both countries. However, because even unskilled or manual non-farm employment significantly reduces poverty and vulnerability in India and poverty in some years in Vietnam, this has considerable policy significance as the rural poor do not have easy access to skilled non-farm employment.

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1. Introduction

Across the developing world, it is well recognised that rural economies are not purely agricultural and farm households earn an increasing share of their income from non-farm activities. Traditionally, rural non-farm economy (RNFE hereafter) was considered to be a low-productivity sector diminishing over time where agricultural households simply supplemented their income. But, since the late 1990s, its role in economic growth and poverty reduction began to be increasingly recognised given the growing share of RNFE across developing countries (e.g. Reardon, Stamoulis, Lanjouw, & Balisacan, 2000; Lanjouw & Lanjouw, 2001; van de Walle & Cratty, 2004; Haggblade, Hazell, & Reardon, 2010; Himanshu, Lanjouw, Murgai, & Stern, 2013). The share of income from RNFE in total rural income varies – from 34% in Africa, to 47% in Latin America and 51% in Asia (Thapa, Gaiha, Kaur, Kaicker, & Vashishtha, 2013), but it is recognised that RNFE is becoming increasingly important in terms of its share and growth as well as potential roles in poverty reduction in Asia, particularly in

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emerging countries, such as China and India. Although most of the low and middle-income Asian countries traditionally relied on agriculture, they have undergone structural changes in recent years, due to industrialisation and globalisation as well as commercialisation of agriculture.

Within Asia, the share of income from RNFE varies from over 70% for the Philippines and Sri Lanka to below 40% for China, India and Nepal (Thapa et al., 2013). With constraints on farm expansion and continuing growth of rural population, greater attention is thus being given to non-farm activities. Policy interest in RNFE arises not just because of its significance in generating incomes, but also because of its increasing importance in creating employment, especially for rural women and the poor.

Among Asian countries, the present study focuses on Vietnam and India, both of which experienced impressive economic growth but varying poverty reduction in recent years. These two countries are characterised by high average GDP per capita growth rate in 1990–2010 (Vietnam 5.8%; India 4.9%) and a decreasing share of agricultural value added in GDP in the same period (Vietnam 39–20%; India 29–16%) (World Bank, 2014). Poverty indices have declined during this period, but there is a variation in the speed of poverty reduction. While Vietnam experienced a faster poverty reduction in terms of headcount ratio based on US\$1.25 (64% in 1993 to 21% in 2006, further down to 13% in 2008), the speed of poverty reduction has been relatively slow in India (45% in 1994, 37% in 2005, 32% in 2009) (Himanshu & Sen, 2014). As shown by Imai, Annim, Kulkarni, and Gaiha (2012), Imai, Annim, Kulkarni, and Gaiha (2014) and Gaiha, Kaicker, Imai, and Thapa (2012); Gaiha, Jha, and Kulkarni (2014), the speed of improvement in nutritional indicators has been slow in India in recent years despite the country's economic growth. There is a need for investigating the reasons for diverse progress in income and non-income poverty focusing on household's livelihood strategies, including the choice of farm and non-farm employment. The present study aims to provide insights into varying pace of poverty reduction and vulnerability in these two countries.

The main hypothesis we examine is whether access to rural non-farm employment reduces poverty and vulnerability – defined as a probability of falling into poverty in the next period – in rural areas in Vietnam and India. We focus only on rural areas because rural economy is distinct from urban economy in its structure and rural poverty is still predominant in these countries. We will use Vietnam Household Living Standards Survey (VHLSS) in 2002, 2004 and 2006 for Vietnam and National Sample Survey (NSS) Data in 1993–4 and 2004–5 for India. Given the sample selection bias associated with access to RNFE or non-farm sector employment and the data structure where only large cross-sectional data are available and the panel data are not available,¹ we will apply treatment effects model, a variant of Heckman two-step sample selection model (Heckman, 1979). We also examine whether the effect of reducing poverty and vulnerability is different among different types of non-farm sector employment, namely, “unskilled manual work”, “production”, “sales”, and “professionals/clerk”.

While the farm or agricultural sector has played a central role in these countries, the share of non-farm activities has increased significantly in recent years. However, detailed empirical studies estimating the direct and/or indirect effects of rural non-farm income or employment on poverty remain limited and the present study seeks to fill this gap.

Our empirical analysis of the role of rural non-farm employment in reducing household poverty can be placed in a large literature of growth and development theories. Our basic assumption is that overall economic growth is beneficial for the poor and their escape from poverty can further promote overall economic growth (e.g. Dollar & Kraay, 2002). This basic assumption can be theoretically justified as follows.² First, the poor – typically the unskilled labour – can benefit from the increase in wage rate, which is enabled by physical capital accumulation by the rich during the growth process. The poor can then invest in assets and education, which further reinforces development (Galor & Moav, 2004). Furthermore, an increase in the amount of skilled labour increases the wage rate of unskilled labour, strengthening the positive correlation between ability and intergenerational mobility (Maoz & Moav, 1999). Non-farm employment – particularly skilled – can thus have a substantial poverty-reducing effect. The second justification can be made in terms of the connection between the division of labour and the economic growth, which originated in Adam Smith's (1776) emphasis on the role of the division of labour in the increase in labour productivity or its further extensions. For instance, Becker and Murphy (1992) examined the process of specialisation and the division of labour and showed that a more extensive division of labour raises productivity. Kim (1989) in a similar vein analysed the impact of human capital investment decisions on the depth and breadth of skills and showed that workers invest more in skill depth than skill breadth as the size of the labour market increases. Our empirical results on the role of skilled employment in RNFE are in line with these studies.

The rest of the paper is organised as follows. The next section reviews extant studies of the effects of non-farm sector on poverty in Vietnam and India. Section 3 briefly summarises the data sets we will use. Sections 4 and 5 discuss the specification of econometric models and results, respectively. Concluding observations are offered in the final section.

2. Literature review

While the farm or agricultural sector has played a central role in Vietnam and India, the share of non-farm has increased significantly in recent years. However, formal empirical studies to estimate the direct and/or indirect effects of income or employment in non-farm sector employment on poverty are still few. On the direct effects, van de Walle and Cratty (2004)

¹ It is possible to construct a small panel based on the intersections of different rounds of household cross-sectional data of VHLSS in Vietnam, but attrition bias is serious as only a small subset of the total households were revisited.

² We are grateful to one of the reviewers for this valuable suggestion.

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