The agricultural sector of Asian middle-income countries is changing rapidly in line with an overall structural transformation of the economy brought about by economic growth. Dr. David Dawe of FAO discussed the changes taking place throughout Asia related to this agricultural transformation in his keynote address at the ReSAKSS-Asia event entitled “Agriculture and Rural Transformation in Asia: Past Experiences and Future Opportunities”. This brief summarizes some of the main points of his presentation while a more detailed discussion can be found in his earlier FAO working paper (Dawe, 2015).

Agriculture and farming are decreasing in importance as a share of rural households’ total income and there are fewer households who are specializing exclusively in agriculture in Asia today. For example, the percentage of rural households specializing in farming has decreased from 44% to 25% in Vietnam, 27% to 19% in Nepal and 35% and 16% in Indonesia between the period 1992 and 2004 (Davis et al 2017). Most rural households are finding income off the farm from a variety of sources including casual farm and non-farm labor, salaried employment, and non-farm self-employment. Even though most households no longer specialize in agriculture, it remains an important source of livelihoods, especially of the poor. And while the agricultural sector is decreasing in the economy, it remains 10-15 percent or more of overall GDP in most countries and many still find employment in the sector (30-45 percent). So, while agriculture may not be the primary driver of economic growth, the sector remains large enough that its performance matters. If agriculture does not perform well, it will not bode well for poverty reduction and may have implications for political stability.

**Figure 1: Percentage of rural households specialized in farming**

Source: Davis et al (2017)

Growth in the agricultural sector across most of Asia has generally come through improved labor productivity through three means. First, rural wages in much of Asia have risen notably over the last 25 years, with signs of accelerating in some countries since the mid-2000s (Wiggins and Keats, 2015). To combat the increased costs of labor, most smallholders are using mechanization hired-in from rural service providers.
Mechanization of agriculture is generally necessary to improve the efficiency of farmer operations, and policy makers can support farmers access to mechanization by reducing transaction costs for the import and adaptation of machines and helping to fill knowledge and capacity gaps around the development and use of new technology, equipment repair, and service provision business models. That said, casual farm labor is still an important part of rural livelihoods, especially among the poor. Policy makers will need to support those replaced by machines, especially older people, as they transition into other types of employment both in rural and urban areas, especially in the absence of comprehensive safety net programs.

Second, as incomes increase and consumer preferences shift, many farmers are moving into more valuable outputs by diversifying away from staple foods. In China, the crop area harvested for fruits and vegetables as well as maize (as a feed source for livestock) is higher than that of rice or wheat. At the regional level, since 2000, the annual growth rate of rice area in Asia has been relatively flat (.55%) whereas fruits and vegetables as well as maize are growing at 2.5-3% per year. Other countries such as Malaysia and Indonesia continue to expand area for other high-value crops such edible oils.

Lastly, some countries are taking advantage of greater efficiency in international trade to improve labor productivity in farming. Many countries are specializing in crops for which they have a comparative advantage while importing those which they do not. Government policy has supported this transition with limited protections or interference to shape the profitability of certain commodities. There remains a few countries that continue to pursue policies of self-sufficiency in certain staple crops even though they are not competitive. While these policies sustain farm income in the short-run, they limit future opportunities to increase productivity by maintaining inefficient production of crops that are not competitive globally. Distortions to agriculture production can also create a "high-cost" economy that is unable to diversify into various industrial activities where labor productivity is higher than in agriculture, leading to economic stagnation.

Asian farm sizes are likely to remain quite small for the foreseeable future so ensuring continued productivity growth will be essential to maintain competitiveness and growth in farm incomes. Investments in agricultural R&D will spur farmer innovation that is needed to sustain this growth. Farm management in the future will also become more complex as new, more knowledge-intensive technologies are applied and if farmers are unable to use these technologies, they will struggle to compete and likely exit farming.

REFERENCES


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