



ELIMINATING POVERTY THROUGH DEVELOPMENT IN CHINA

China Development Research Foundation



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Eliminating Poverty through Development in China

In recent years China has achieved impressive economic growth, and also made remarkable progress in human development. However, contemporary China is still faced with the great challenge of widespread poverty. This not only constitutes a barrier against China's pursuit of sustainable economic growth, but also poses a potential threat to China's attempts to construct a harmonious society in the future. The report, directed by the China Development Research Foundation, one of China's leading think-tanks – and drawing on the research of over twenty of China's top scholars in this field, including chief authors Wang Xiaolu, Li Shi and Wang Sangui – three renowned poverty-reduction experts – examines China's efforts to eliminate poverty through development. It analyses all of the key issues, providing a review of China's past record in poverty alleviation, comparing this with the experiences of other countries, identifying the new characteristics and trends in poverty in recent years, and discussing the factors responsible. It assesses the objectives and success of the poverty alleviation policies adopted by the Chinese government in a comprehensive way, and puts forward suggestions for policy makers. Overall, this report is a valuable account of China's own thinking on its problems of poverty, and the best ways to tackle it and achieve sustainable economic development.

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Foreword

窗体底端

Over the last three decades, China has made historic progress in poverty alleviation. The number of rural poor has dropped from 250 million people in 1978 to about 20 million today, with the poverty incidence rate declining from 31 percent to 2.5 percent in that period. Culture, education and medical care have developed differently across China. By and large the productivity and living conditions of the rural poor have improved, while poor urban residents have mostly had their subsistence guaranteed. China's accomplishments in poverty elimination are immensely laudable.

China is a developing country, and her economic situation today is well off, but still at a low level with some inconsistencies and imbalances. Since the start of the twenty-first century, when China entered a development stage featuring concerted efforts to build a well-off society, anti-poverty initiatives have confronted changing new circumstances and, consequently, have involved new tasks. Tens of millions of Chinese people in rural and urban areas remain in poverty, even as China's economic growth and social advancement mean the yardstick for identifying poverty is undergoing corresponding changes. Today, emerging from poverty is not just dependent on having enough food and clothing. Instead, people need the capabilities to embrace development on their own, eliminating both the causes and the effects of poverty.

China's burgeoning economic strength today allows it to exert more efforts to support poverty-stricken populations and regions to escape poverty and cultivate wealth. New socioeconomic circumstances require better poverty alleviation strategies, however. These involve eliminating subsistence poverty by setting up and improving the social security system for rural and urban areas, and emphasizing the need to embrace development, including by enhancement of the capabilities of the poor and acceleration of socioeconomic development in impoverished regions. In today's China, where each and every resident contributes to building a well-off society, effective poverty alleviation policies are of gigantic significance for the sake of realizing common prosperity.

The *China Development Report* is a comprehensive research report compiled and released regularly by the China Development Research Foundation,

based on its research efforts. The report touches upon themes of importance to China's economic and social development. This report, based on the 2007 report, is entitled *Eliminating Poverty through Development in China*, which not only shows the need to regard the elimination of poverty as an important goal of economic development, but also indicates that the ultimate solution for poverty elimination is the pursuit of development. China's development in the current phase has met those requirements.

The Report is based on the findings of in-depth research. It describes China's accomplishments in poverty reduction and the poverty situation today. Many of the report's conclusions touch upon the root causes of poverty and the means for reducing it. Overall, the contents are thought-provoking and worth much reference. I believe this Report is helpful for China's further implementation of her poverty alleviation programme, and also for the international community's understanding of China's progress and experience in poverty alleviation.

I would like to thank all the experts who have participated in the research efforts on which this report is based for their diligent input and sharp wisdom. I would also like to thank the China Development Bank and the Ford Foundation for their generous support.

Wang Mengkui

Former President of the Development Research Center of the State Council
and Chairman of the China Development Research Foundation

Authors' Foreword

Eliminating Poverty through Development in China addresses the theme of poverty, briefly describes the history and status quo of the poverty issue in China, introduces other countries' experiences in poverty alleviation, analyses the characteristics of poverty in China today and the various reasons behind it, reviews and assesses various poverty alleviation policies in China and their effects, studies governmental practices in anti-poverty work, and puts forward multiple suggestions for policy makers based on data and analysis.

The Chinese nation is now undergoing a historically unprecedented renaissance of immense significance. On its path leading to prosperity and modernism, China needs to mobilize all its citizens to make concerted efforts to stride forward. Development is not the only objective; the goal of a harmonious society is equally significant. Both poverty elimination and economic growth are essential to this process.

In the past 30 years, China's anti-poverty efforts have achieved stunning results. Almost a quarter of a billion people have been lifted out of poverty; the provision of education, health care and other services has vastly improved across the country. China's amazing achievements have been widely acknowledged in the international community, while some other developing countries now see China as a role model. In the final analysis, China's anti-poverty accomplishments are credited to its fast economic growth and active poverty alleviation policies.

China today, however, still shoulders a heavy task in continuing its progress in reducing poverty, which has a number of causes. Economic growth, *per se*, will not make poverty vanish automatically. It is necessary to conduct further research on effective strategies, and mobilize people from all walks of life to make joint efforts to eliminate poverty entirely.

This report has made some new contributions towards this end.

First, in view of the latest developments in China and in line with the evolution of global thinking on poverty reduction, we calculate that the original rural poverty line used to assess whether or not subsistence needs are met does not adequately reflect the needs of rural residents to develop their own capabilities (principally with respect to health care, education, etc.).

Hence, this report puts forward a concept of a developmental poverty line that covers basic needs for health care and education. This concept covers more ground than the original poverty line and fits better into China's future poverty alleviation goals.

Second, as indicated by the findings of this report, poverty in rural areas increasingly stems from the lack of human capital in terms of health care and education, and the lack of related public services. In urban areas, the most obvious reason for poverty is underemployment, but limited health care, education and public services are important contributing factors.

Third, the report comprehensively analyses and assesses, for the first time, the poverty alleviation policies and measures adopted by the Chinese Government. It acknowledges that the previous development-oriented policies for poverty alleviation for some rural areas (inclusive of production and infrastructure development) have achieved marked results. The cancellation of agricultural taxes and other policies beneficial to peasants have assisted many low-income rural families. In the future, however, development-oriented poverty alleviation policies should pay more attention to human capital development, instead of just production development, and adopt such measures as support for education, job skills training and health care security to enhance the level of human capital. This will be an even more effective means of eliminating poverty, particularly if accompanied by a fully implemented social security system.

Fourth, it finds that China's constant efforts to alleviate poverty through government leadership have produced important results, but also given rise to a series of problems that have reduced efficiency in the use of poverty alleviation funds. Improving public administration will help bolster effectiveness.

Finally, suggestions are put forward in nine areas, targeting policy makers. These include issues related to poverty alleviation strategies, poverty line determination and concrete poverty alleviation measures.

Preparations for the report on which the report is based began in early 2006. The China Development Research Foundation undertook the organization of the project. Lu Mai, Secretary General for the Foundation, participated, from beginning to end, in the design of the framework for, discussions upon and amendments to the original report, making essential contributions. Wang Mengkui, former President of the China Development Research Center of the State Council and Chairman of the China Development Research Foundation, has put forward a host of important, concrete, constructive opinions regarding amendments to the draft report. Tang Min, Vice Board Chairman for the China Development Research Foundation, has taken part in amendments on the section 'Suggestions to Policy Makers'. In the course of research and compilation, many experts were involved and put forward an array of constructive suggestions. The National Bureau of Statistics of China and The Rural Economy Research Center, under the State Ministry of Agriculture, offered generous assistance in terms of data sourcing and field surveys.

Supported by the China Development Research Foundation, Chinese experts and some relevant organs offered 23 background papers for this project. Many data, analyses and opinions were integrated in the report. The papers are: 'International Theories and Practical Policies of Poverty Alleviation' (Liu Minquan and Yu Jiantuo), 'Influence of Rural Policies on the Poverty-Stricken Population' (Zuo Ting), 'Assessment of the Influence Wielded by Rural Compulsory Education Policies on Rural Poverty' (Jin Lian), 'Assessment of the Influence Wielded by Medicare Policies on Rural Poverty' (Han Jun), 'Research on Interest-Subsidized Loans for Poverty Alleviation Purposes' (Zhang Tao, Yi Cheng and Wang Tian), 'Assessment of Social Poverty Alleviation Endeavours and their Influence' (Li Zhou and Cao Jianhua), 'Report upon the Assessment of the Evolution of Industrialization Endeavours for Poverty Alleviation Purposes' (Li Zhou and Cao Jianhua), 'Immigration and Poverty Alleviation' (Li Xiaoyun and Tang Lixia), 'Assessment of the Poverty Alleviation Effect Generated by Training with Regard to the Transfer of the Labour Force' (Li Wen), 'Poverty Issues in Rural Areas of China – An Analysis into the Findings of a Survey of Rural Families' (Ma Yongliang, Zhao Changbao and Wu Zhigang), 'Report upon a Survey of Poverty in Rural Areas of East China' (Shanghai DataSea Marketing Research Co., Ltd), 'Research upon Parties Participating in the Formulation of Budgets of County and Township-Level Governments' (Beijing De Sai Si Chuang Consultation Centre), 'Influence Wielded by Minimum Livelihood Security Policies in Rural and Urban Areas upon the Poverty Scene' (He Ping), 'Institutionalization of China's Social Succor System' (Gu Xin), 'China's Urban Poverty Scene: Trends, Policies and New Problems' (Du Yang), 'Laying-off, Unemployment, Re-employment and Urban Poverty' (Cai Fang and Wang Meiyan), 'Descriptions of the Urban Poverty Scene and the Population Covered by the Minimum Livelihood Security System' (Wang Zhenyao), 'A Generation Living in a Crevice in the City' (Topical Research Group dedicated to studying the newly emerging unemployed population), 'Child Poverty in Rural Areas' (Yue Ximing), 'Nutrition, the Health of Underprivileged Children and Related Governmental Policies' (Ma Guansheng), 'Analysis of China's Urban Poverty Scene and Conditions of the Low-income Population since 1995' (Zheng Feihu and Li Shi), 'Appraisal Report upon Village-Wide Implementation Work' (Wang Sangui) and 'Structure of China's Poverty Alleviation Work' (Wang Sangui). In addition, Wang Chunhua has offered certain findings of his study in relevant documents.

To compile the original report for *Eliminating Poverty through Development in China*, the China Development Research Foundation organized a field survey of poverty in Chuxiong Prefecture, Wuding County within Yunnan Province, Hefei City, Shitai County within Anhui Province, Pingshun County, and Taigu County within Shanxi Province. The survey was conducted by the authors of this report, Lu Mai and Zhao Shukai with the China Development Research Foundation, assisted by Du Zhixin, Huang

Haili, Zhang Changdong and Chou Ting. Governmental departments in the prefectures, counties, townships, cities and provinces, and local villagers and cadres assisted the survey.

In addition, Zhao Shukai, Vice Secretary General of the China Development Research Foundation, Du Zhixin, Zhao Junchao, Huang Haili, Feng Mingliang and Zhang Changdong – all personnel with the Foundation – have undertaken many project-organizing tasks. We express our heartfelt thanks to all the organizations and individuals that have contributed to this report.

Wang Xiaolu, Li Shi and Wang Sangui

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1 Introduction

Since China began its reform and opening to the outside world, rapid economic growth has not only elevated the living standards of people in both urban and rural areas, but also sharply decreased the number of people in poverty. In the course of three decades of economic development, the numbers of the rural poor population have shrunk dramatically, according to various measurements. Based on China's official poverty line, there were 250 million rural poor people in 1978. By the end of 2005, there were only 23.65 million rural poor people. The rate of poverty fell from 31 percent to 2.5 percent in that period.¹ Even if the measurement is done according to a relatively high poverty line, such as that of the World Bank (US \$1 dollar per day per person), the size of the poor population in rural areas and the incidence rate of poverty in China have declined in a largely identical way.²

Prior to reform, the restrictions on China's economic development and system meant the rate of poverty was far beyond the average in other countries. Today, China's rate is markedly below the world's average (Chen and Ravallion 2004). Propelled by the Government's developmental poverty alleviation strategy, poor regions in the country have embraced development in terms of culture, education, health care and other social undertakings, to different extents. China has become a role model for some other developing countries due to its stunning accomplishments in poverty alleviation and the commendation it has earned from the global community.

Nevertheless, China is still faced with a rather formidable poverty alleviation task. On the one hand, the remaining poor mainly comprise people who cannot be helped out of poverty that easily. On the other hand, with social advancement and people's increasing awareness of poverty, the term 'poverty' today is not meant for inadequate income alone. It also manifests through poor capabilities. A better awareness of poverty has raised standards for poverty alleviation, while the yardstick for poverty measurement has also moved as a consequence of economic development, becoming more prone to the influence of concepts of social development. The elimination of poverty no longer means merely meeting the minimum subsistence needs of the poor population. Instead, it is necessary to provide a basic capability

2 Eliminating Poverty through Development in China

for embracing development. Chinese society is undergoing a significant transformation as far as poverty alleviation strategies are concerned.

China's victory over poverty is accredited to two factors: rapid economic growth and ambitious poverty alleviation policies. Economic growth is, in large part, due to China's economic reform and opening-up policy. Poverty alleviation policies have been fuelled by the Chinese Government's determination and committed efforts.

It is essential to sum up China's successful experiences in poverty alleviation and also to analyse influential factors. Among them, swift economic growth is the most notable but that alone is not enough. In an economic scenario featuring a widening income gap, for the sake of poverty alleviation it is of paramount importance to make the mode of economic growth more beneficial to the poor and more conducive to the income growth of low-income earners. A mode beneficial to the poor will enable those people participating in economic activities to escape poverty in the shortest time. It will, however, be less helpful to those poor families with no labour capability. The roots of subsistence poverty cannot be eliminated unless a basic social security system, comprising social relief, is established. It is even more necessary to become aware that solving subsistence poverty is simply the first goal. Alleviating and eventually eliminating capability and developmental poverty is the ultimate goal, involving elevating the quality of the labour force and the potential capabilities of humans.

In today's China, where citizens are making concerted efforts to contribute to a harmonious society, the formulation of ambitious and effective anti-poverty policies is of extraordinary significance.

A REVIEW OF CHINA'S POVERTY AND ANTI-POVERTY EFFORTS

Prior to 1949, China was an economically backward country, with an enormous population of people in poverty. At that time, China was among those countries registering the highest rates of poverty. The founding of the People's Republic of China provided an important political foundation for poverty alleviation. Over the past half century, China has achieved historic results in its anti-poverty efforts, although the story includes numerous twists and turns.

China's poverty before its reform and opening up

Before the People's Republic of China was founded in 1949, China had carried out rural land reform in some Liberation Zones. After the founding of the People's Republic of China, the country launched a nationwide land reform that ended the 2000+ years old feudal land system, thus boosting productivity in rural areas. On the basis of national economic recovery,

China started to implement the first 'Five-Year-Long National Development Programme' in 1953. In 1957, China's economy experienced a historic boom, while the size of the poor population in both rural and urban areas reached a record low.³ Nevertheless, the public ownership system, formed in the wake of the socialist transformation of ownership of the means of production in the mid 1950s, and the planned economic system established on its basis featuring a high degree of centralization, were not adapted to China's productivity level at that time. The country adopted a development mode that prioritized heavy industry, which, along with the burgeoning of people's communes and the 'Great Leap Forward' campaign, heavily jeopardized China's economic development. In the late 1950s and early 1960s, the country saw the yield of agricultural products drop sharply, peasants' incomes fell dramatically, the living standards of rural and urban residents declined markedly, and the rate of poverty rose steeply. Later, China made some adjustments to its economic system that enabled the national economy to regain steam. The rate of poverty began to fall to a level consistent with the stage of economic development at that time.

During the 10-year-long Cultural Revolution, the nominal growth of China's economy did not alleviate the roots of its poverty levels. Political movements exerted a negative impact on economic development, the population grew excessively fast, and hidebound economic and management systems gave rise to appalling wastage and low efficiency. Fast economic growth that was the result of immoderate accumulation did not benefit the multitudes in pragmatic terms. As some pertinent data indicate, the per capita income of rural residents from 1966 to 1977 was up by only RMB 18 yuan (Zhou Binbin 1991), which is less than half of the per capita income growth recorded by rural residents in 1979 alone. In that period of time, the annual growth rate of peasants' income on average was less than 1.5 percent, while the per capita food intake of rural residents did not reach 2100 calories per day (*ibid.*). When measured by the nutrition yardstick, 40 percent to 50 percent of rural residents were in a state of subsistence poverty.

China's development and the evolution of anti-poverty efforts since reform and opening up

According to the National Bureau of Statistics of China, in 1978, shortly after China adopted a policy of reform and opening up, the size of the poor population in rural areas was 250 million, and the rate of poverty was up to 31 percent (using China's officially announced poverty line, which is on the low side).⁴ Measured by the rural poverty line, the size of the poor population in urban areas could have been deemed negligible.⁵ At that time, the Chinese Government focused its efforts on rural poverty, an inevitable task.

Since then, the country's anti-poverty campaign has evolved in three stages. The first stage featured a mode of poverty alleviation principally based on