

# REFLECTIONS ON POVERTY REDUCTION IN CHINA

Bill Bikales

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Bill Bikales is a development economist who has worked in and on East Asian countries, especially China and Mongolia, for most of the last 30 years. He has co-edited and co-authored numerous reports on poverty reduction progress and challenges in those two countries, primarily on behalf of several United Nations organizations. He most recently served as Lead Economist for the United Nations Resident Coordinator in China. Bill started his studies of Chinese language, history and development as an undergraduate at Princeton in the 1970s and first visited mainland China in 1979. All views presented in this paper are his own.

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Cover: "Poverty Eradication Countdown: 576 days, 9 hours, 38 minutes and 47 seconds to go." Photo of a clock in the lobby of the Leading Group on Poverty Alleviation and Development, taken by the author in 2019.

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# FOREWORD

2020 marked the 70<sup>th</sup> anniversary of diplomatic relations between Switzerland and China. It provided the opportunity to highlight decades of mutual respect, constructively critical dialogue and close cooperation.



For China, 2020 also saw major developments in its remarkable progress in poverty reduction. In November of that year, the country announced it had eliminated extreme poverty according to its current national definition.

China's significant achievements in reducing absolute poverty and improving living conditions is of global interest. Poverty reduction is the first United Nations Sustainable Development Goal (SDG). Moreover, all cooperation and development agencies orient their programs towards improving vulnerable groups' living conditions. Thus, poverty reduction, the "Leave No One Behind" principle and social inclusion are also key pillars of Switzerland's 2021-2024 International Cooperation policy program.

Despite the progress made in recent decades, the world still faces considerable challenges regarding poverty and inequality. Ten per cent of the world's population still lives in extreme poverty. Although income differentials between countries have narrowed in recent years, socio-economic inequality within countries remains a major problem.

Switzerland is not active in China on the topic of poverty. Yet, to contribute to ongoing global discussions on this crucial issue and respond to various partners' expressed interest, the Embassy is pleased to share the work of Bill Bikales with a wide audience. Bikales' work focuses specifically on poverty reduction in China.

We don't intend to take any position on this scientific contribution or its conclusions. However, we believe the author's expertise on poverty and deep knowledge of China will be of great interest to all readers.

**Bernardino Regazzoni**  
**Ambassador of Switzerland to China**

## Acronyms and Chinese Terms

### Acronyms

<b>CCP</b>	Chinese Communist Party
<b>FYP</b>	Five-year plan
<b>IMF</b>	International Monetary Fund
<b>LGOP</b>	Leading Group on Poverty Alleviation and Development under the State Council
<b>MDG</b>	Millennium Development Goal
<b>NBS</b>	National Bureau of Statistics of China
<b>OPHI</b>	Oxford Poverty and Human Development Initiative
<b>PPP</b>	Purchasing Power Parity
<b>SDG</b>	Sustainable Development Goal
<b>SDY</b>	Sent down youth
<b>UMIC</b>	Upper Middle Income Country

### Chinese Terms

**Dibao:** the minimum living standard assistance program and the largest Chinese financial social assistance program, serving as gateway to eligibility for other smaller social assistance programs. There are distinct urban and rural dibao programs.

**Hukou:** the household registration system under which, when a birth is recorded, the newborn is assigned either urban or rural hukou status. A person's status does not automatically change if they move from rural to urban areas and it often determines their eligibility for social services. In general, rural hukou holders in urban areas are not entitled to the same public services that urban hukou holders receive.

**Xiaokang Society:** A term with origins in classical Chinese texts, generally translated as a "moderately prosperous society." In recent decades, the term was first used by Deng Xiaoping in December 1979 to describe China's relatively modest development goals. In the ensuing decades, it has been repeatedly redefined to set increasingly ambitious development goals for China. At the 16th National Party Congress of the CCP, in 2002, it was rephrased as "achieving Xiaokang society in an all-around way." Under Xi Jinping, eradicating rural poverty increasingly became the key criterion by which this all-around achievement of the Xiaokang society would be determined; less focus was placed on per capita GDP, which had previously been seen as the key yardstick. China has now announced the overall Xiaokang society goal has been achieved and that China is pursuing new long-term goals of "basically achieving socialist modernization" by 2035 and becoming a "great modern socialist power" by 2050<sup>1</sup>.

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<sup>1</sup> Xinhua News Agency, 2021.

# Executive Summary

China's poverty alleviation record since 1978 has received an enormous amount of attention — attention that is continuing to grow due to China's high-profile proclamation that it has eradicated absolute income poverty (according to the current national definition). However, the prevailing narratives are often superficial and lacking in analysis, given the complexities that inevitably need to be confronted in discussing such an important issue, such momentous developments, in the most populous country on earth, and one with a unique system of governance.

This paper provides an analysis of the historical context of poverty reduction in China, both before and after the establishment of the People's Republic of China in 1949. This includes a review of conditions as of 1978, a description of poverty reduction between 1978 and 2012, a detailed account of the "precise targeting" poverty alleviation campaign of the last seven years and a presentation regarding some new poverty challenges China faces today. It concludes with a discussion of possible lessons from China's poverty reduction experience for other developing countries and organizations supporting development.

The paper first puts the remarkable post-1949 improvements in the lives of China's poor rural population in context. These improvements are first contextualized in terms of the severe famines and upheavals that have been a recurrent feature of China's 3000 years of recorded history. Next, they are contextualized within the traditional Chinese view that ensuring the population has food to eat is a responsibility of the State so critical it determines the ruler's legitimacy. Poor people were almost always small farmers or landless farm workers. This situation continued from the Imperial Era into the Republican Era (1911-1949) — during which several severe famines occurred. The transformation of the Chinese countryside since 1949, particularly in poor interior regions, is indisputably an achievement of great historical significance.

The first three decades after the People's Republic of China was established in 1949 — the Chairman Mao Zedong years — saw some major improvements in the lives of the poor rural population. Most importantly, there was a sweeping land redistribution campaign, rectification of the previously highly unequal land ownership pattern and the provision of basic, low quality, but nearly universal health and education services to the rural poor. At the same time, those decades were marked by severe turmoil during mass campaigns launched by the Chinese Communist Party (CCP) leadership under Mao. Most notably, this includes the rapid collectivization and industrial production campaign during the Great Leap Forward from 1958-1960, which led to

what was almost certainly the deadliest famine in Chinese history and the tumultuous Cultural Revolution from 1966-1976. Maoist development ideology, embodied most fully during the Cultural Revolution, was highly egalitarian and emphasized political commitment rather than material incentives as motivating factors in production.

These first three decades were also when China established a rigid hukou system, essentially banning the rural-to-urban internal migration that has fueled development in many countries. This policy has been considerably revised but continues to affect China's rural population today.

China's situation in 1978, on the eve of the Reform and of the Opening Up era, reflected this mixed Maoist legacy. Several key preconditions for rural growth and poverty reduction were in place. For one, land distribution was equitable. And, both life expectancy and school enrollment rates had improved greatly — exceeding those of other countries with the same or greater per capita income by large amounts. An effective state bureaucracy was in place. But, as a result of Mao's income-suppressing economic ideology, poverty was very high in terms of income and the rural population still comprised over 82 per cent of the total.

For this reason, the frequent use of 1978 as a baseline to measure poverty reduction in China — and, specifically, reference to the 800+ million people lifted out of poverty — can be problematic. The implication is that this poverty reduction was entirely the result of post-78 government policy, whereas it was directly linked to the policies of the previous years in two ways. First, many conditions for poverty reduction were in place despite artificially low income, as just highlighted. Second, much of the poverty reduction in the first years after 1978 was simply a result of reversing bad Maoist policies. A great boost to rural incomes resulted from allowing peasants who worked harder to keep more of what they produced. Gradually increasing peasants' freedom to grow what they wanted — and sell it for the best price they could get — and allowing them to move from rural areas where income earning prospects were limited to new jobs in nearby or faraway urban areas exacerbated this boost. One recent estimate is that two-thirds of the poverty reduction in the first decades after Mao was simply catching up to where China should have been if better economic policies had been followed before 1978. In addition, there are methodological questions that arise in attempting to apply one line — in this case, the current official Chinese poverty line — across a period of 42 years during which China grew and changed so dramatically. China's official poverty lines were increased twice over this period as the country developed; the alternative approach of measuring poverty incidence over these years according to the lines that were used at the time gives quite different results.

Poverty reduction between 1978 and 2012 can be divided into three subperiods during which the balance between growth-driven and policy-driven poverty alleviation gradually evolved from complete reliance on growth to an increased role for policy. Rural incomes soared from 1978-1985 — rising over 160 per cent in real terms. This was entirely a result of the reversal of Maoist agricultural policies. Poverty fell by 50 per cent in those seven years although there was no

government poverty alleviation agency or agenda. At the same time, two problems emerged that are still being grappled with today: income inequality and the need for new rural health, education and other public service systems to replace the collective systems of the Mao years. By 1986, that initial surge in rural incomes faltered and growth shifted increasingly to urban areas. In 1986, the first national poverty alleviation programs were launched under the newly established Leading Group on Poverty Alleviation and Development (LGOP) under the State Council. From 1986 to 2000, the LGOP oversaw a series of rural development and poverty alleviation programs designed to boost infrastructure development and agricultural production in poorer areas. The impact of these programs on poverty reduction was positive but marginal compared to other economic factors. Remittances from a growing flow of rural-to-urban migrant workers, as China's rapid economic and export growth continued, were almost certainly the lead driver of rural poverty reduction. By the then-official line, rural poverty was reduced to 30 million by 2000. In that year, the government adjusted the national line higher — resulting in a new poverty headcount of 94.2 million — and launched their first 10-year rural development and poverty reduction program.

From 2001-2010, particularly after the 16th National CCP Congress in 2002, rural-urban and inter-regional development gaps received even greater central attention. A series of improvements in rural basic public services under the “Modern Socialist Countryside” policy, an expanded poverty reduction program and initiatives to reduce inter-regional development gaps were initiated. The role of rural development policy in poverty reduction increased notably during this period. The number of rural poor fell to 26.9 million by 2010 according to the new poverty line.

In 2010, the poverty line was raised again and a new 10-year rural development program launched. In 2012, with the selection of Xi Jinping as General Secretary of the CCP at the 18th National CCP Congress, a new phase of poverty reduction was ushered in. In 2013, Xi first used the term “precise targeted poverty alleviation.” This term became the hallmark of a new campaign: mobilizing several hundred thousand government staff to visit poor rural areas, registering all poor households and designating official poverty villages and counties. Personnel were assigned to lead the design and implementation of tailored poverty alleviation programs in each village and county according to its specific conditions. These personnel utilized the five-prong approach: agroindustry-based, education-based, relocation-based, ecological compensation-based and social assistance-based poverty reduction. In 2015, Xi announced that the upcoming 13th Five Year Plan (FYP) would include the goal of eradicating extreme rural poverty by 2020. He defined this as lifting all 89.98 million rural poor people, who had been identified in 2014/5, out of poverty. The 13th FYP included binding targets for bringing down to zero the number of poor villages and counties and the number of unsafe houses used by registered poor households by 2020. It also included a binding target for relocating 10 million people from poor areas.

This was the epitome of a government policy-led approach — really a campaign-style approach — to poverty reduction, with massive mobilization of financial and human resources and strong and repeated exhortations from the country's leader. Every year, a very precise figure regarding

the number of remaining poor counties, villages and households was released. By November 2020, the government announced all targets had been achieved and extreme income poverty in China according to the current national definition had been eliminated.

So, has China eradicated extreme absolute poverty? This paper makes three points regarding this question.

First, beyond question, the lives of many tens of millions of China's poor people have been greatly improved by this campaign. There have been income increases, school upgrades, infrastructure upgrades, healthcare improvements and natural environment reforms. The magnitude of this achievement is enormous in terms of the historical context described in the first section of this paper. Second, there is no reason to doubt the government's assertion that poverty has been eradicated according to their definition of this goal (i.e. that the incomes of the 89.98 million registered poor people are now above the poverty line). But at the same time, there is a conspicuous lack of detailed data that would allow an outside observer to confirm or reject the accuracy of this assertion.

Third, remarkable as the achievements of the last seven years have been, there is no basis for claiming China has eliminated extreme poverty. The notion that, by identifying all poor people at any one point in time and then, over seven years, lifting them out of poverty, the government has eliminated poverty altogether reflects a static view of poverty. This view of poverty is inconsistent with a repeatedly, globally observed feature: poverty is dynamic; households rise out of and fall into poverty constantly. Even when COVID-19 broke out in 2020, while much of the world grappled with providing income support to large numbers of newly unemployed or impoverished households, the central focus of poverty work in China was ensuring the remaining 5.51 million registered poor as of end-2019, before the pandemic, were lifted out of poverty and that other registered poor did not fall back. In other words, focus was on ensuring the campaign's targets were achieved rather than mitigating the shock suffered by vulnerable households who were not already among the registered poor. In addition, the government's view that all poverty is rural is no longer reasonable. Now that over 63 per cent of the population are urban residents and there are constant population flows between urban and rural areas, including among vulnerable groups, eliminating poverty without including the urban poor is not possible.

Looking forward, now that China has achieved its Xiaokang society goal and is approaching Upper Income Country status, the government will need a new definition of who is poor. First, a suitable standard for assessing urban poverty is needed. A new national poverty line, or lines, consistent with the country's development achievements and future ambitions is also needed. This paper presents three options. One, continue to define poverty in absolute income terms but set a higher line such as the World Bank's indicative US\$5.50/day line for Upper Middle Income Countries. Two, set an income-based relative poverty line such as the European Union's practice of classifying as poor any household with income lower than 40% of national median income. (In



China's case, such an approach would almost certainly require two separate lines for urban and rural populations. This is because the gap between the two is so large that a national relative poverty line would fail to accurately capture large income inequalities within urban and rural population.) Third, set a multidimensional poverty line that captures income and access to key public services, housing conditions, environmental and other factors. Each of these options has advantages and disadvantages and the choice will have implications for poverty reduction policy.

The paper identifies four other inter-related poverty challenges in the coming years in China. **First is the need for a substantial upgrade of social protection systems** as a core component of poverty reduction. Although China has a broad range of social insurance and assistance systems, a recent IMF report noted that, in China today, "Social safety nets remain woefully inadequate despite recent adjustments." Systems are fragmented and under-funded. Addressing this problem will require a shift from the current top-down targeted approach to universal systems that quickly respond to poverty as it occurs. **Second is reforms to allow equitable access to core public services such as social protection, good quality healthcare and education by population groups currently excluded or obstructed.** These include rural-urban migrant workers and their families, still often caught in a hukou registration system that is a legacy of the planned economy era and inappropriate for a population as mobile as China's. Complete elimination of the hukou system is a necessary and long overdue step toward addressing the causes of poverty in China. Other groups include the rapidly growing number of older persons, especially the older-old (many of whom are women and many of whom are in rural areas), informal and platform employees who are frequently uncovered by social protection systems and the still-large number of rural smallholder farmers (many of them women and their families who are vulnerable to income, environmental, illness and other shocks).

**A third challenge that cuts across all the others is the need for fiscal reform to support more effective income redistribution and better finance essential social services in poor regions.** As growth in the overall fiscal envelope slows, failure to reform China's quite regressive tax system — which is heavily dependent on the Value-added Tax and includes quite underdeveloped personal income tax — will undermine future poverty reduction work. Spending trends that prioritize investment, and underspend on social services, and inter-governmental fiscal relations that lead to inadequate resources for public services in poorer areas also undermine the capacity for further sustained poverty reduction. **The fourth cross-cutting challenge is acknowledging the seriousness of the many obstacles to gender equality and women's empowerment in China today and the need to take strong steps to address them.** In all the vulnerable population groups listed above, women are particularly vulnerable; older women have command over fewer financial resources and support than older men for a range of reasons. Women are also disproportionately present in the remaining rural population and in many of the most vulnerable informal sectors — such as food, catering and household care.

Identifying lessons for others from China's poverty reduction achievements is difficult given that the main drivers of those achievements have changed so much over time. As noted above, much poverty reduction after 1978 was simply due to correcting Mao-era policy errors that few other countries have made. Some of the achievements of the Mao era, namely in rural public service delivery and redistribution of land ownership, also facilitated poverty reduction. Some observers have cited as lessons the strength of the government's commitment to poverty reduction, the central role of growth and the state's strength. However, each of these can be refuted by some of the actual experience over these 40+ years. The government's constant attention to rural development in poorer inland regions has provided much valuable experience — but this has been accompanied by a far greater prioritization of growth in urban and wealthy coastal areas and continued hukou controls on rural households' ability to seek better lives in urban areas. In part, China's large internal development gaps are a result of this imbalance and will be difficult to bridge without the major reforms mentioned above: abolition of the hukou system, major fiscal restructuring to finance rural services and universal social protection.

Identifying lessons from the recent targeted poverty alleviation campaign under Xi Jinping's leadership is also difficult. The central role of government commitment was evident — but many aspects of this campaign, such as the massive mobilization of human and financial resources and the practice of setting and monitoring binding targets at all government levels — are inextricably linked to China's governance. The country's governance draws on both CCP structures and thousands of years of traditional Chinese experience that few, if any, countries can match. The Chinese leadership is undoubtedly correct: it's impossible to separate the success of the targeted poverty alleviation campaign from the system that enabled it. This is a source of national pride but it is also precisely why it is difficult to identify big policy lessons for others.

Nevertheless, an effort to objectively analyze and understand China's experience and find pieces that are relevant to others is necessary and worthwhile. Even if broad governance lessons are not clear, some of China's experience certainly does offer valuable information for other countries — particularly at the technical level. Examples include China's successful extension of infrastructure — including transport, electricity and, now, high-speed internet grids reaching the most remote rural regions — and experiments promoting agricultural and agro-industrial development in poor regions.

# Introduction

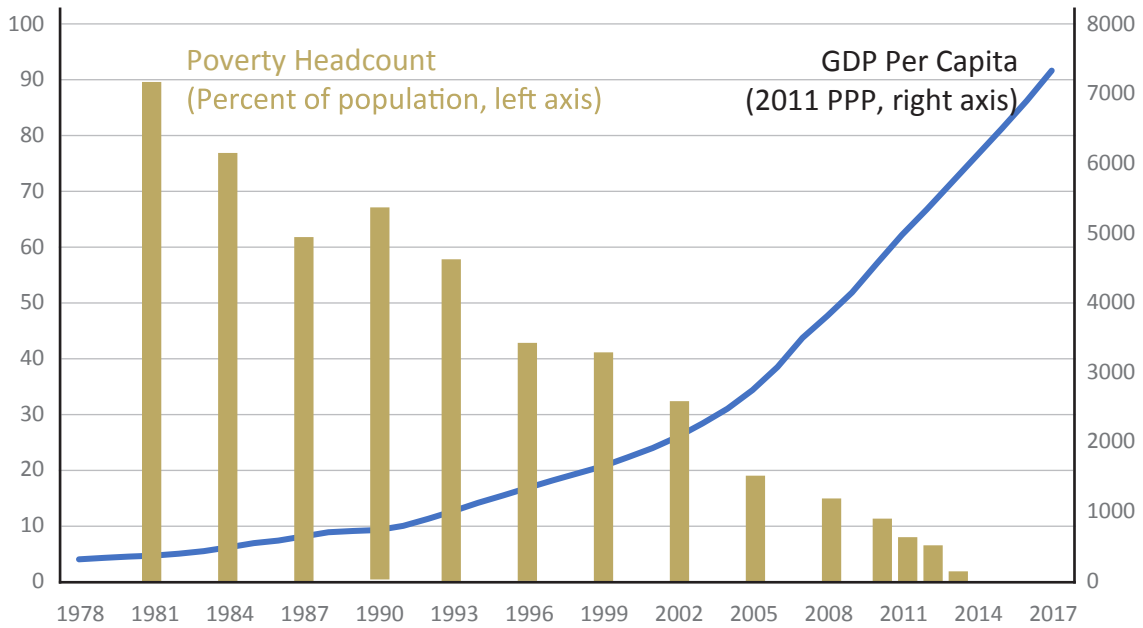
China's poverty alleviation record has received an enormous amount of attention in recent decades — attention that is continuing to grow due to China's high-profile proclamation of the successful conclusion of its seven-year campaign to eradicate absolute income poverty according to the current national definition. Before this, China was widely acknowledged as having made an indispensable contribution to the Millennium Development Goal (MDG) of halving the percentage of its population living in extreme poverty between 1990 and 2015.

However, the prevailing narratives regarding poverty reduction in China are often superficial and lacking in analysis, particularly regarding the complexities that inevitably need to be confronted in discussing such an important issue and such momentous developments in the most populous country on earth, one with a unique system of governance. In this context, this paper has four interrelated purposes:

1. Provide insights into China's achievements in poverty alleviation since the establishment of the PRC in 1949 and, particularly, since the launch of reform and opening up in 1978 — including a rethinking of China's development status as of 1978 and of considerations that need to be factored in when using 1978 poverty rates as a baseline.
2. Take a closer look at the precise targeted poverty alleviation campaign launched in 2013 to better understand it as a basis for considering its relevance to other countries poverty reduction efforts.
3. Set out poverty challenges and options in China for the coming years following the successful conclusion of the targeted campaign.
4. Examine what lessons might be learned from China's achievement for other developing countries, for SDC and other development organizations.

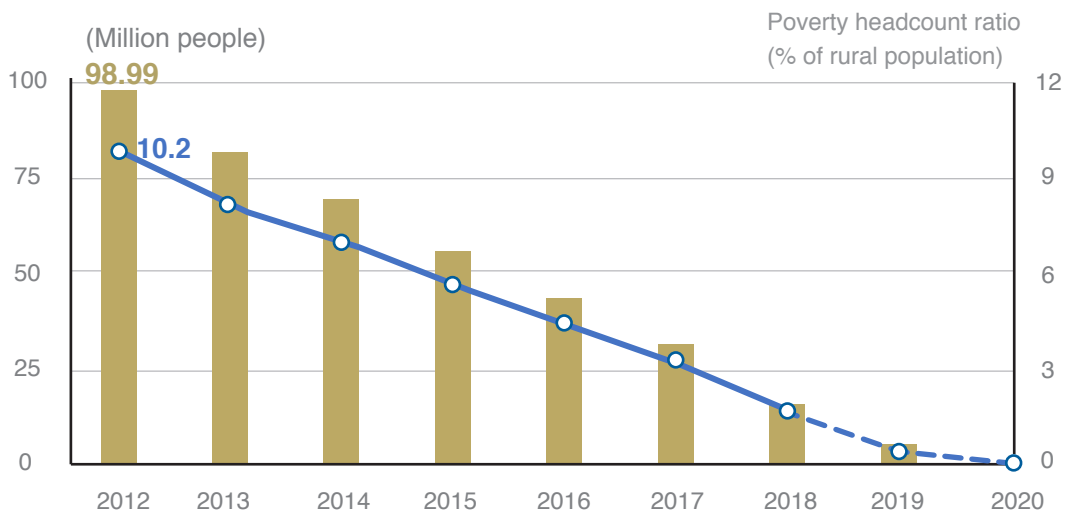
The following two tables present the key poverty reduction achievements that have captured so much attention. The first is a World Bank table showing that, by applying the global \$1.90/day (purchasing power parity adjusted) extreme income poverty line, China's poverty incidence fell from nearly 90 per cent in 1980 (the first year for which World Bank has official estimates) to zero by 2015. It also presents the remarkable sustained increase in per capita GDP that China experienced in these same years.

**Figure 1: China's real income per capita and poverty headcount, 1978-2017 (World Bank line)<sup>2</sup>**



The second figure<sup>3</sup> shows the reduction in poverty incidence since 2012, calculated using the Chinese national extreme poverty line of RMB 2300 (2010 prices adjusted for inflation). As this line is higher than the World Bank line, it shows higher incidence in this period and is the criterion based on which China announced it has ended rural extreme poverty.

**Figure 2: China's poverty headcount and rates, 2012-2020 (Chinese national line)**



<sup>2</sup> Freije, Hofman and Johnston, 2020.

<sup>3</sup> National Bureau of Statistics of China, various annual reports.

**In this paper, we will analyze the factors that drove the sharp reductions both of these lines show despite their differences. But, first, the paper sets some essential context for understanding these figures.**

# Chapter One: Poverty in China Before 1949

## **A. Imperial Era: Before 1911**

China's achievements in poverty reduction, and the Chinese government's view of them, cannot be fully understood without historical context.

In his speech celebrating the successful conclusion of the recent Targeted Poverty Campaign, Chinese Communist Party (CCP) General Secretary Xi Jinping stated, "A book of Chinese history is a book of the history of the Chinese people's struggle against poverty. From (the 3rd Century BC poet) Qu Yuan's words<sup>4</sup>, 'Heaving a long sigh, I brush away my tears, grieving for man's life, so beset with hardships,' to Du Fu's lines<sup>5</sup>, 'If only I could get a great mansion of a million rooms, broadly covering the poor scholars of all the world, all with joyous expressions,' to Sun Yat-sen's aspiration for 'not one person in need,' these all express the deep wish of the Chinese people to throw off poverty and have enough food to eat and warm clothing to wear."

There is indeed historical resonance in China's claim that it has now made poverty a thing of the past. In taking credit for this achievement, China's leaders echo longstanding Chinese views of the role of a good state.

The traditional view in China for the last 2500 years was that ameliorating poverty and famine was one of the most important roles of the state. For much of its history, Imperial China had the world's most advanced administrative bureaucracy. One key set of responsibilities of this bureaucracy

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<sup>4</sup>Hawkes, 1959. This is a translation of a line from Qu Yuan's 3rd Century BCE poem "Encountering Sorrow", one of the most famous poems in China's history.

<sup>5</sup>Owen, 2016, p. 1055. Tang Dynasty "Sage of Poetry" Du Fu is one of the most famous poets in China's history. This poem expresses sympathy for "poor scholars" but has often been interpreted as concern for all poor and cold people.

was maintaining granaries, distributing food from wealthier to poorer regions and controlling the waters of the flood-prone Yellow and other rivers. As one scholar has stated, “China’s classical texts articulated the principle that famines were not caused by nature, but by the negligence of the rulers, emphasized the moral and political importance of ‘nourishing the people’ (yangmin), and identified key instruments of famine prevention such as grain storage and price stabilization.”<sup>6</sup> Indeed, the view that famines were caused by faults of the ruler rather than by nature “shaped expectations of imperial and bureaucratic responsibility throughout imperial China’s long history.”<sup>7</sup> Moreover, failure to prevent or ameliorate famines could be seen as a sign of loss of legitimacy of a ruling dynasty. The great 4<sup>th</sup> Century BC Confucian philosopher Mencius formulated the principle that dynasties ruled with the “Mandate of Heaven” but maintained this mandate could be lost, and rebellion justified, if they did not fulfill their responsibilities.

Like most pre-modern agricultural societies, much of China’s rural population was poor or on the brink of poverty throughout history. This poverty was most frequently manifested in lack of adequate diet. A recurrent demographic pattern underpinned much of the Chinese people’s vulnerability to famines over the millennia<sup>8</sup>. Whenever food availability increased, whether due to improvements in crops or agriculture techniques or simply due to a period of internal peace and stability, family size and population promptly increased as well, rising to — and then beyond — the carrying capacity of the agricultural economy. This too-large population was extremely vulnerable to shocks. When shocks occurred, this frequently led to a collapse of the bureaucracy’s ability to govern, rebellion and further disruption to production<sup>9</sup>.

Population rose and fell within fairly fixed bounds over the millennia, with an average of 60 million from 200 BCE to 1100 CE. The upper and lower bounds shifted upward in the Song Dynasty when new wheat crops, sorghum and Champa rice were introduced, leading to higher carrying capacity and an average population of roughly 100 million for the next five centuries. The next — very dramatic — change occurred during the Qing Dynasty, when maize, potatoes and sweet potatoes were introduced from the Western Hemisphere, making it possible to cultivate land previously not arable. Population increased to 430 million in 1850, resulting in extreme vulnerability to natural disasters and setting the stage for both massive famines and a series of large-scale peasant rebellions — the largest of which, the Taiping Rebellion, led to the loss of at least 20 million lives. (Some estimates place the number of deaths as high as 70 million primarily due to famine and plagues.) The Taipings were defeated in 1871 but, within a few years, northern China was hit by a devastating drought and famine. This famine is estimated to have led to at least another 9-13 million deaths in five provinces with a population of 108 million. It’s considered the worst famine in Chinese history as of that time.<sup>10</sup>

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<sup>6</sup> Edgerton-Tarpley, 2017.

<sup>7</sup> *ibid*

<sup>8</sup> This discussion draws on Schak, 2009.

<sup>9</sup> Hung, 2011.

<sup>10</sup> Janku, 2001.

In his 1926 book *China, Land of Famine*, Walter Mallory, the Secretary of the International China Famine Relief Commission, cited a Nanking University study that found, between 108 BCE and 1911 CE, there were 1828 famines in China — almost one per year.<sup>11</sup>

## B. B. Republic of China Era: 1911-1949

It is impossible to estimate poverty rates during the 20<sup>th</sup> Century before 1949 as China was wracked by foreign invasion and internal strife, culminating in full scale civil war. However, observers have generally noted “immiseration” was one of the characteristics of the rural economy during this era. And, many scholars have estimated 50 per cent or more of the rural population were unable to maintain adequate diets. Access to income and food was closely linked to land ownership and/or usage. One 1920 study found the following highly unequal distribution of land<sup>12</sup>:

**Table 1: Farm sizes based on survey of 50 million farms, 1920**

(one mu = 1/15 of a hectare)

Size of Farm	Percentage
Under 10 mu	36%
10-29 mu	26%
30-49 mu	25%
50-99 mu	10%
100 mu or more	6%

The numerous famines of the Republic of China era (1911-1949), during which China was beset by internal strife and external invasion, was undoubtedly one reason for the triumph of the Communist armies in the civil war that led to the creation of the People’s Republic of China. A Chinese scholar has estimated more than 15.2 million people died in 10 major drought famines that struck during the Republican period (1912–1949), and another 2.5 million Chinese perished in thirty serious floods.<sup>13</sup> During this time, Thomas Mallory wrote the work cited above and gave China the name the “Land of Famine.”

This history, both from ancient times and from the late Qing through the establishment of the PRC in 1949, is essential for understanding current events in China. In asserting that China has now “bade farewell to poverty,” the Government of China is thus defining its place in a 3000-year national history of the country.

<sup>11</sup> Mallory, 1926, p.1.

<sup>12</sup> Tawney, 1932.

<sup>13</sup> Xia, 2008.

## Chapter Two: Poverty in China from 1949-1978 (the Mao Era)

The often-cited fact that more than 800 million Chinese people emerged from poverty after the beginning of “reform and opening up” in 1978 raises a reasonable question: why was 90 per cent of China’s rural population still poor nearly 30 years after the end of the civil war, the restoration of stability and the establishment of the People’s Republic? In fact, were they?

Understanding poverty in China in 1978, and the policies in the preceding three decades, is necessary for accurate assessments of progress since then. Therefore, this paper takes a quick look at income, other poverty trends and the evolution of key non-income social development indicators in the period between the establishment of the People’s Republic of China in 1949 and the launch of reform and opening up in 1978.

From 1949-1978, there was no rigorous household survey-based national poverty data. However, it is possible to analyze poverty trends by inference from proxy indicators rather than direct, household-based poverty surveys. Total and per capita GDP and income can be measured from 1949 to 1978 and separate data is available for the urban and rural populace. In 2019, as part of the celebration of the 70<sup>th</sup> anniversary of the PRC’s establishment, the National Statistical Bureau released a report summarizing income and consumption trends in rural and urban China between 1949 and 2019.<sup>14</sup>

For reasons that will become clear below, that report and this paper’s analysis subdivide the Mao era into two periods: 1949-1957 and 1957-1978.

### **A. 1949-1957**

In these first years following the end of the civil war, and the establishment of stability and peace, real per capita disposable income of urban residents increased from 99.5 yuan in 1949 to 254 yuan in 1957. This represents an average annual increase of 9.1 per cent in real terms, while real per capita disposable income of rural residents increased from 44 yuan in 1949 to 73 yuan in 1957. This represents an average annual increase of 3.5 per cent. The urban/rural income ratio increased from 2.27 to 3.48 — a very sharp widening of the gap — reflecting a strong

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<sup>14</sup> NBS, 2019.



overall pro-urban bias in Chinese economic policy under the first five-year plan. This was heavily influenced by the Soviet model and Soviet advice with classic features such as pro-urban price scissors to ensure availability of grain at low prices in the cities. Policy also reflected increased focus on heavy industry that would support military, influenced by China's engagement in the Korean War (referred to in China as the "War to Resist America and Aid Korea"). Although China's household registration system – often referred to as the hukou system – was not formally established until 1958, precursors were put in place in these first years. These sharply curtailed rural residents' rights to migrate to cities in the face of the large income gap. These controls remained an important factor in shaping future poverty trends.

Although average incomes grew more slowly in rural areas, the pattern of land ownership and income distribution was completely transformed through redistribution of land. This occurred under the "land reform" campaign the Communist Party implemented in areas they controlled before 1949 and across the entire nation after 1949. The landholdings of the landlords and rich peasants who dominated rural society were seized and redistributed; many of them were also killed. According to official statistics<sup>15</sup>, prior to land reform there were 241 million poor farmers in China who comprised 52.4 per cent of the rural population but only worked 14.3 per cent of cultivable land – with per capita land holding of 0.89 mu, roughly 0.06 hectares<sup>16</sup>. Landlords made up less than 5 per cent of the pre-campaign rural population but owned 38.3 per cent of the land – an average of 26.3 mu or 1.75 hectares per person. After land reform, poor farmers made up 52.2 per cent of the rural population and controlled 47.1 per cent of cultivable land with per capita land holdings of 12.5 mu or 0.8 hectares. After redistribution, a gradual collectivization took place centered around the creation of relatively small Agricultural Production Cooperatives.

The large contribution of equitable land distribution to the growth and poverty reduction that have been linked to East Asian development models has been widely acknowledged.<sup>17</sup> China's land reform in these years created an essential precondition for the rapid rural poverty reduction that started more than two decades later.

## **B. 1957-1978**

The two decades between 1957-1978 were quite different. This was when the Maoist development model emerged – emphasizing collectivization of all rural economic activities and rejecting material production incentives in favor of egalitarianism and ideological motivation. The human will's power to overcome material constraints was another centerpiece. This model shaped two radical national campaigns in these years. The Great Leap Forward of 1958-60 featured a dramatic expansion of rural collectivization with the creation of large new collectives called

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<sup>15</sup> National Bureau of Statistics, 1980.

<sup>16</sup> One mu is one fifteenth of a hectare or one sixth of an acre.

<sup>17</sup> *The Economist*, 2017. This article is an excellent brief discussion of this issue, including the wider impact of China's land reform campaign.

People's Communes and the elimination of all private rural property. Extremely ambitious targets for grain production were set and rural areas were also tasked with steel production in "backyard furnaces" — often leading to neglect of farming. Problems were exacerbated by Mao's strong personal championship of the Great Leap campaign, leading lower-level government officials to report exaggerated production numbers which often resulted in excessive central procurement of local grain farmers desperately needed. The result was a devastating famine from 1958-1960 — China's last and almost certainly the deadliest one in Chinese history<sup>18</sup>. The Great Leap was followed by a few years of return to more normal production and restoration of material incentives for farmers. However, the Great Proletarian Cultural Revolution was launched soon after, in 1966. It lasted until Mao's death in 1976 —although the most turbulent period ended by 1969. This movement also caused massive disruption to output and income and featured rigid rejection of material incentives and reliance instead on egalitarianism and political campaigns to motivate production.

Another important Mao-era policy that led to lower income and output was the "Third Front" campaign, launched in 1964 as Sino-Soviet relations deteriorated and the US war effort in Vietnam expanded. This campaign aimed to move military industries and necessary infrastructure away from coastal areas and to the interior to be more secure from external attack.<sup>19</sup> In some cases, this campaign helped reduce inter-regional income gaps. However, in terms of overall impact on growth and incomes, it was a strong negative.

1978 income and poverty levels reflect the impact of these two tumultuous decades. Per capita disposable income of urban residents in 1978 was 343 yuan — an increase of only 35.4 per cent over 1957 and an average annual real increase of only 0.8 per cent. Per capita disposable income of rural residents increased somewhat more rapidly to 134 yuan — a nominal increase of 83.1 per cent over 1957 and an average annual real increase of 2.3 per cent. This was still very low compared to successful developing countries and increasing at a rate that would only allow doubling in 30 years. The urban/rural ratio shrank to 2.56.

Policy continued to show heavy urban bias; prices for agricultural products were very low and there was overwhelming emphasis on unprofitable grain production.<sup>20</sup> Policy was also highly egalitarian and collectivist. All of this led to extremely low rural incomes. The strict hukou system forced the rural population to stay in their home areas, which was also a major driver of poverty. China's urban population's share of the total reached 19.75 per cent in 1960, up from 11.2 per

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<sup>18</sup> Smil, 1999. The exact number of deaths in the famine that followed the Great Leap Forward is impossible to determine definitively. The lowest estimate is 14 million, and some have estimated a number as high as 45 million, based on calculations of excessive deaths. The figure of 30 million has been widely accepted. The official Chinese description of this period generally refers to natural disasters, rather than the Great Leap Forward, as the cause of the famine.

<sup>19</sup> Batson, 2020.

<sup>20</sup> Lardy, 1983.

cent in 1950, but as of 1978 it had fallen to 17.9 per cent — a remarkable statistic<sup>21</sup>. In 1981, China's Ministry of Agriculture issued a poverty report<sup>22</sup>. It had many methodological limitations; but it found that, in 1977 — the final year of the pre-reform era — roughly 25 per cent of all Chinese counties had average collective income per person of less than 50 yuan per year. (The poverty line at this time was 40-50 yuan per year.) Forty per cent of those had average income under 40 yuan per year. This understates the actual magnitude of poverty since much poverty also existed in counties where the average was over 50 yuan. Still, there is no question that poverty was deep and widespread.

As of 1978, China's overall per capita GDP ranked eighth from the lowest in the world. Purely income-based measures of poverty produced astoundingly high rural poverty rates: 97.5 per cent according to a retroactive application of the 2020 official Chinese poverty line, which was roughly 250 Yuan per month using the prices of the time<sup>23</sup>.

However, even as egalitarian policies suppressed rural incomes, collective structures were successful at implementing more effective public health campaigns. These structures were also successful at providing greater access to low-quality basic public services for the average rural population than had ever existed in Chinese history, leading to rapid improvements in social indicators (see the following section). This was the period of the famous “barefoot doctor” paramedics in poor rural areas, providing basic health education and services to poor peasants. Rural education expanded dramatically during the Cultural Revolution. As one example, from 1965 to 1976, the number of rural senior high schools increased from 604 to 53, 527.<sup>24</sup> The number of students grew commensurately.

Even some of the more controversial policies of the Cultural Revolution may have had some beneficial effects. A recent study in the *American Economic Review*<sup>25</sup> took a close look at the impact of one of the Cultural Revolution's most important, frequently viewed as notorious, policies: “sending down” urban youth (hereafter ‘SDY’ policy) to the countryside. Xi Jinping was one of the most famous examples of this. Most studies on the SDY policy have focused on the often severely negative impact on the urban youths themselves. That this program also had a negative impact on GDP growth is a reasonable assumption. However, no study has isolated its impact from that of the full range of Cultural Revolution policies. The American Economic Review study found a strong causal link between the SDY policy and positive benefits in education of poor rural children during those years.

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<sup>21</sup> Wang, 2013.

<sup>22</sup> Lardy, *op cit*

<sup>23</sup> NSO, 2019.

<sup>24</sup> Wang, 2014.

<sup>25</sup> Chen et al., 2020.

# Chapter Three: Poverty Reduction in China from 1978-2012

Although it is common to read statements to the effect that “China has lifted 800 million people out of poverty since 1978”, analysis of China’s poverty reduction experience and achievements in these last four decades yields a more complex picture.

Four key questions underpin this analysis:

- 1. Why start counting from 1978?** Taking that year as a baseline is generally used to attribute all the ensuing poverty reduction to the reform and opening up policies that were initiated at a key CCP meeting in December 1978. But such an approach is a misinterpretation of actual events as the impact of policies in the preceding years must be fully factored in as well.
- 2. At the same time, what was the actual situation of rural poverty in China in 1978?** China was emerging from an era in which rural incomes had been suppressed by government policy. Therefore income measures showed extremely high poverty rates. And yet, as we’ve seen, basic rural public services had been greatly expanded and the problem of inequitable land distribution had been corrected. There were many important preconditions in place for a takeoff in growth in rural incomes.
- 3. How should one measure the change in poverty levels over 40 years?** There are advantages and disadvantages in applying one fixed poverty line throughout a period when a country has changed as much as China has.
- 4. To what extent has poverty reduction been a result of government poverty reduction efforts and to what extent has it been simply the result of economic growth?** The phrase “lifted out of poverty” implies a direct link to government policy. But, analysis shows a clear shift over time of the relative contributions to poverty reduction of government anti-poverty programs and the strong economic growth that started in 1978 when Maoist egalitarianism was jettisoned.

## A. Poverty in 1978: On the eve of reform and opening up

There is no question that China's population was very poor in 1978. China's per capita annual rural income of 134 yuan in 1978 shows this clearly. However, this is only part of the picture; analysts who judge China's development status solely based on per capita income before the reform era often make serious errors. One example is a recent book by Yuen Yuen Ang titled *How China Escaped the Poverty Trap*. Ang starts by asserting that, as of 1978, China was in as dire condition as — or even worse off than — Bangladesh, Chad and Malawi based on a comparison of their per capita incomes. This forms the basis for an argument that China's experience is directly relevant for those and other similarly poor countries<sup>26</sup>. However, when we compare them based on other key social indicators, a strikingly different picture emerges:

**Table 2: Key social and economic indicators for various countries, 1978<sup>27</sup>**

Country	GDP per capita	Life expectancy at birth	Secondary school enrollment %
China	156.4	65.85	53.972
Bangladesh	176.0	51.47	17.24*
Chad	256.8	44.25	3.2**
Malawi	160.9	43.5	13.81
Thailand	528.6	63.46	27.76
Indonesia	365.9	56.97	24.03
*1979	256.8	44.25	3.2**
**1977	160.9	43.5	13.81
Thailand	528.6	63.46	27.76
Indonesia	365.9	56.97	24.03
*1979			
**1977			

We see that China's health and education outcomes<sup>28</sup> were incomparably better than those in Bangladesh, Chad and Malawi. They were even better than countries with much higher per capita

<sup>26</sup> Ang, 2017. The discussion in the book of China's economic reforms and development after 1978, particularly at the local level, is quite interesting, and the analysis of how markets and institutions underwent a 'coevolutionary' process as well. But the attempt to extrapolate to other developing countries is based on this very inaccurate understanding of China's 1978 starting point.

<sup>27</sup> World Bank Group, 2021. The World Bank has time series from which all these figures are extracted

<sup>28</sup> The quality of rural education was generally quite poor. Nevertheless, in a society in which education was traditionally a privilege enjoyed only by a small number of wealthy households and the vast majority of rural peasantry were completely illiterate, this is still remarkable.

incomes such as Thailand and Indonesia. In addition to the inherent importance of these social indicators, they also are strong evidence that, even during those years, China's state capacity was stronger than in many other developing countries; an increase of life expectancy from 36 to 66 does not happen without an effective government.

China's extremely high income poverty in 1978 was the direct result of policy choices of the Mao years. But at the same time, human capital was being built, land had been equitably redistributed and systems were in place allowing growth to quickly catch up once Maoist growth-dampening policies were reversed. Ironically, the fact that Mao could so quickly and effectively implement his highly egalitarian people's commune system and economically disastrous policies across China's vast breadth reflects the same governance capacity, based on the dual Party and state administrative bureaucracies extending from Beijing down to the village level, that allowed his successors to move ahead rapidly with reversing his policies after his death. It is also somewhat ironic that, at present, the party leadership has revised its official history to de-emphasize the negative impact of the Great Leap Forward and the Cultural Revolution and remove any suggestion that Mao was personally responsible for them. However, it still persistently uses 1978 (shortly after Mao's death in 1976) as the baseline year for calculating its achievements in poverty reduction. It's a powerful, if implicit, criticism of Mao.<sup>29</sup>

## **B. How many poor people were there in China in 1978?**

There is no one straightforward answer to this question. The frequently seen 40-year calculations use either the World Bank \$1.90/day line or the current Chinese line (set in 2011) of 2300 yuan per year — both adjusted for price changes and applied retroactively to 1978. Using either of these lines would indicate very high poverty levels in 1978. Applying the current official line results in a rural poverty headcount of 770 million at the end of 1978 (97.5 per cent of the rural population). The World Bank has not calculated 1978 rates using their current global \$1.90/day line but have calculated that, in 1980 as growth had just started taking off, the rural poverty rate was 94 per cent.<sup>30</sup>

But does it make sense to apply a 2020 line to estimate poverty in 1978? This would be quite an unusual approach in any country. And, in a country that has undergone such enormous growth and change as China, it is particularly unusual. It is useful as a way of estimating how much better people's lives have gotten by one fixed standard; however, the statement that 97.5 per cent of China's rural population was poor in 1978 would suggest a devastatingly bad situation based on a standard which was not relevant at the time. We have seen that, in 1978, although China was certainly extremely poor, rural Chinese children were going to school, healthcare was provided and a very basic standard of living was maintained.

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<sup>29</sup> Ling, 2021.

<sup>30</sup> Wu, 2016.

The alternative way to estimate poverty in 1978, and in any year since, would be to use the official line of the time. The unofficial poverty line in the late 1970s was 40-50 yuan per year.<sup>31</sup> In 1981, applying that line, the government estimated rural poverty incidence between 25 and 30 per cent (probably an underestimate, even with such a low threshold).

There have been three official poverty lines in China. The first was 206 yuan per year, set in 1985 and based on 1985 prices. Adjusting for inflation, this is the equivalent of 100 yuan per year in 1978. In 2000 this was adjusted to 865 yuan per year; in 2011 it was adjusted to 2300 yuan per year.

**Table 3: Chinese official poverty lines<sup>32</sup>**

Year	Yuan/year in current prices	\$/day in 2011 prices	Mean income in rural areas
1985	206	\$0.98	\$1.53
2000	865	\$1.30	\$2.76
2011	2300	\$2.29	\$6.30

Why would an absolute income poverty line change over time beyond automatic adjustments to reflect changes in prices? These lines are determined by the cost of what is deemed to be a minimally acceptable basket of goods. As societies develop and change, it is normal that the definition of the minimum basket of goods all persons should be able to consume also changes. Thus, the line adjusts to reflect higher expectations as incomes rise in the country. The 1985 line (and the earlier unofficial line) was based almost entirely on the cost of consuming 2100 calories per day in food (this was 85% of the line) and assumed a very simple high-starch, low-protein diet. The two later lines were still based on 2100 calories per day but increased the variety of foods, the amount of protein in the diet and the share of non-food expenses (to 40 per cent in the 2000 line and to 53.5 per cent in the 2011 line).

One noteworthy aspect of these adjustments in the poverty line is that the 1985 and 2000 lines were both considerably lower than the World Bank's global \$1.90/day line. So, official poverty headcounts until 2011 were all lower than the World Bank's count used for MDG and SDG poverty calculations. However, the 2011 line, which has been applied since then, is higher than the \$1.90/day line and thus poverty headcounts according to the global line are lower than the official Chinese counts.

According to Chen and Ravallion (2020)<sup>33</sup>, using the 1985 line the rural poverty ratio fell from 46.5 per cent in 1981 to 18.8 per cent in 1985 — reflecting the extraordinary surge in rural incomes in that period (see below). From 1985-2019, while roughly 650 million fewer people were poor

<sup>31</sup> This draws on Lardy, 1983.

<sup>32</sup> Chen et al, 2020.

<sup>33</sup> *ibid*

according to the \$1.90/day World Bank line, poverty only decreased by about 140 million people measured by official poverty lines of those years (i.e. applying the 1985 line in 1985 and the 2019 line in 2019).

It is reasonable to assume most poor people in China in 2011 had healthier diets and a higher standard of living than many people who were not poor in 1985. Applying one consistent line across the whole period does capture a real improvement in the welfare of poor population groups. Whether to apply one fixed line across the full four decades and capture that fact or to apply the lines of the time to assess the impact of policy and other changes depends on your purpose. In either case, however, one should bear in mind the limitations of the approach.

### **C.1978-1985: The explosion of rural production and income growth**

The first years of reform saw explosive income growth, especially in the rural areas where the reforms started. The key steps were the reversal of Maoist egalitarian and collectivist systems of agricultural production. Collective agriculture was gradually dismantled thereby giving farmers material incentives to work harder and increase their production. Grain procurement prices and policies were reformed to allow farmers to sell at least part of their output at higher prices, further restoring incentives for increased output. As a result, inflation-adjusted rural per capita income grew by an average of 15.2 per cent per year from 1978-1985. This was before the rural-urban migration trend started and was entirely due to growth in rural production and income. Measured by the official poverty line, the number of poor people was halved in this short period — from 250 million to 125 million.<sup>34</sup>

Martin Ravallion, former World Bank poverty specialist who has followed China closely for years, recently published a paper titled *Poverty in China since 1950: A counterfactual perspective*.<sup>35</sup> In it, he argues “about two thirds of China’s poverty in 1980 is attributed to the impact of the Maoist path since 1950. Further checks and tests suggest that (if anything) this is likely to be an underestimate. It took 10-20 years for China’s post-reform economy to make up the lost ground. and half or more of the catch-up was in period up to 1990, under Deng’s rule.” As he notes, this does not deny the real poverty reductions that took place under Deng; it simply says these were low hanging fruit after the economic failures of the previous decades.

This is an important contribution to the analysis of China’s poverty experience. It’s also reasonable: when assessing the PRC’s poverty reduction achievements, how can one justify ignoring the Mao years and starting in 1978? But two aspects of Ravallion’s analysis seem questionable — or incomplete. First, he determines his estimate of what income in China would, or could, have been by 1978 by looking at post-1950 economic history in the Republic of Korea and Taiwan, which he describes as having similar cultural characteristics and similar starting

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<sup>34</sup> Wang, Zhou and Ren op cit.

<sup>35</sup> Ravallion, 2021.



points as the mainland's in 1949. That may lead to overestimation of a realistic growth path for China between 1949 and 1978. Neither the ROK — a peninsula — nor Taiwan — an island — had any equivalents to the mainland's vast, isolated and very poor inland regions in which growth was inevitably very challenging. Both ROK and Taiwan benefited from a level of foreign assistance that would not have been conceivable for China's large economy. Secondly, like Ang, Ravallion looks only at income measures of poverty and ignores the extent to which the Maoist era improvements in health, education and land distribution contributed to the growth after 1978. Yes, China in 1978 was very, very poor. But it was well-positioned to take off — including by Mao-era investments in human capital.

During this first phase of the reform era there was no poverty alleviation program; Deng Xiaoping's focus was allowing incentives and price reforms to stimulate rural growth. Deng's famous words, "Development is the hard principle," and, "Socialism is not poverty," set the stage for a rapid catchup. This is not to say the state didn't play a role in allowing incomes to take off; rather that the goal was overall growth and development and not specifically poverty alleviation. Another of Deng's famous phrases, "Let some with favorable conditions get rich first," is the opposite of what one would expect from policy deliberately targeting poverty reduction.

As implied by that statement of Deng Xiaoping's, policy in this period led to a steady increase in income inequality. To a certain extent this was inevitable as China moved from egalitarianism, under which the vast majority of the population were poor, to an economy in which individual enterprise was rewarded with material progress, leading to rapid increases in overall income that was distributed unevenly. The dismantling of the people's communes, and the chance for rural residents to earn more income, also led to a collapse in the basic rural education and healthcare services whose achievements we have noted above. Incomes grew, and poverty was greatly reduced, but the new challenges of inequality and the need for new models of basic public services emerged in these years and grew in the following years.

#### **D. 1986-2000: The first government poverty programs**

By the mid- to late-1980s, the first surge in rural incomes slowed and urban rural gaps began to widen again. As a result, in 1986, the State Council's Leading Group on Poverty Reduction (LGOP), a cross-ministerial group based in the Ministry of Agriculture, was established as a coordinating body to oversee and guide the "wide variety of actors, initiatives and funding channels"<sup>36</sup> that had sprung up in the mid-80s. The first explicit national poverty alleviation programs were launched at this time. These centred around assistance to households in poor counties<sup>37</sup>, including subsidized loans, support for growing cash crops (and other livelihoods) and investment in irrigation and other infrastructure. An innovative and important program was "food for work", which absorbed rural surplus labor in infrastructure development while providing them with support.

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<sup>36</sup> Wang et al., 2004.

<sup>37</sup> By definition, a 'county' is a rural administrative unit.

This was when the transfer of rural surplus labor to urban areas started to take place, gradually, but at an accelerated pace over time. The share of rural income coming from transfers from family members who had ‘gone out’ grew from 13.2 per cent in 1985 to 30.4 per cent in 2001. One study estimated that this additional income was having a large impact on both the incidence (the share of population) and the depth (the distance between income and the poverty line) of poverty in rural areas<sup>38</sup>. Managing this inflow of new urban workers relied on the continuation of the hukou system, which was established during the planned economy years under Mao. Workers were allowed to come, earn incomes and contribute to rapid urban development but were classified as a separate category of urban resident and not entitled to social services. This included education for their children, most of whom were therefore left behind in rural areas. While government policies to promote rural development were steadily expanded in the following decades, the ability of rural households to move to and settle in urban areas (i.e. to follow the path to higher incomes and quality of public services and life that has been part of development in most countries) has been tightly constrained.

In the first years after the LGOP was established, growth in rural incomes continued to slow for a time. Poverty increased in 1989 and 1990<sup>39</sup>. From 1986-1993, real rural per capita incomes rose only 2 per cent per year — a sharp decline from the previous years as agricultural prices stopped rising and the urban/rural income gap widened. As of 1994, the number of poor people, as measured by the official line, was still 80 million.

Poverty alleviation programs were further developed in 1994 with the 8-7 poverty reduction plan, focusing at the poor county level. The name refers to the goal of lifting the remaining 80 million poor (the “8” in 8-7) out of poverty within seven years — by 2000. Its main components were support — grants and subsidized loans — for higher-income-producing agricultural activities such as cash crops and fruit trees, continued food-for-work programs to improve rural infrastructure, direct poverty alleviation funds, support for primary school education and basic healthcare provision in poor rural areas. Spending on these programs grew sharply through the period. In 2001, the government reported that poverty had been reduced to roughly 30 million (according to the poverty line set in 1985, adjusted for inflation). This represents impressive progress in reversing earlier trends, even if poverty had not been eliminated. In 2000, the government raised the official poverty line to 865 yuan/year (2000 prices), as noted in Table 3 above, to set a higher bar for poverty reduction in the following decade.<sup>40</sup>

## **E. 2001-2012: The New Socialist Countryside and intensification of anti-poverty work**

During this decade rural development policy became a high national priority. The “new socialist countryside” was introduced at the 16th Party Congress in 2002, when Hu Jintao was named CCP General Secretary. The abolition of the agricultural tax in 2004 was seen as a major step toward

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<sup>38</sup> Zhu & Luo, 2008.

<sup>39</sup> Zhang, 1993.

<sup>40</sup> China.org.cn, 2001.

improving rural living standards; this tax had been part of farmers' lives, and the most important source of government fiscal revenue, for millennia. Its removal was the strongest signal yet of acknowledgement by the authorities that urban economic development and income was greatly outstripping rural, especially after China's WTO accession in 2000.

Many major initiatives were launched to improve rural social services, addressing the gaps created when rural collectives were abolished after 1978. In education, in 2003 the 'Two Exemptions and One Subsidy' policy for the first time promised that nine-year compulsory education would be made free for all, including rural households; before this those years of schooling, while compulsory, were beyond the means of lower income children. The New Rural Cooperative Medical System was established in 2003. The dibao social assistance scheme was expanded to rural areas during this period but with different funding and regulations. This made it, in many ways, a different program. In 2009, the New Rural Pension Scheme was created, consolidating many local schemes under one consistent national program; but again, with different systems and regulations, and a lower level of funding, than urban schemes.

The "New Century Rural Poverty Alleviation Program" launched in 2000 centered around participatory integrated village development plans developed in 150,000 villages (i.e., shifting the focus from counties to villages). Emphasis on agro-industrial development in rural areas was further intensified, relying on bank loans, supporting emerging "dragonhead enterprises" with stronger capacities to access markets and continued investment in rural infrastructure. The importance of rural-urban migration was further emphasized with training programs for potential migrants and the establishment of migration service centers in both sending and receiving areas.

Reviewing progress of this decade, the LGOP announced that, from 2001-2010 according to the official poverty line set in 1995, China's poverty headcount had fallen from 94.22 million to 26.88 million. They also announced the poverty rate had gone from 10.2 per cent to 2.8 per cent.<sup>41</sup>

Summing up, this was a period when the role of central authorities in poverty alleviation and rural development was strengthened, and a shift from growth-driven to policy-driven poverty alleviation gained momentum. There was increasing recognition that growth itself was not benefiting all members of the population, and programs to address internal gaps were developed more broadly. For example, the Western Great Development Strategy was announced in 1999 and implemented from 2000 and the "Rise of Central China Strategy" in 2004.

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<sup>41</sup> State Council Information Office, 2011.

## Chapter Four: The Xi Jinping era: “precise targeted poverty alleviation” and the “eradication of extreme income poverty”

The shift from growth-driven to policy-driven poverty alleviation was taken a large step further under Party General Secretary Xi Jinping. Whereas there is disagreement about the frequently used phrase, “The government lifted X million Chinese people out of poverty,” which some argue does not acknowledge the responsibility of households themselves for their increased income and welfare,<sup>42</sup> it would be impossible to deny that the nearly 100 million people who have emerged from poverty since 2013 were “lifted out”. This was a high-profile, all-holds-barred, top-down poverty alleviation campaign featuring massive mobilization of financial and human resources, with targets fixed in the 13<sup>th</sup> Five Year Plan, strict accountability across the local governments of poor areas and massive media coverage and exhortations from the leadership.

The campaign started gradually. In November 2011, the State Council released the *Outline for Development-Oriented Poverty Reduction for China's Rural Areas (2011-2020)*.<sup>43</sup> At that time, the official poverty line to be applied in 2011-2020 was increased to 2300 yuan in 2010 prices. As a result, China's official poverty threshold, for the first time, rose above the World Bank's global absolute line. In the new outline, the LGOP also revised the list of 592 key poverty counties — a total that had been unchanged since 1994, although the counties on the list had been adjusted several times. The LGOP also designated 14 regions as “contiguous poverty regions,”<sup>44</sup> of which all counties would be included in the next efforts. Six hundred and eighty counties were in these 14 areas, including 440 poverty counties, of which 371 were ethnic minority autonomous counties. This raised the number of targeted counties to 832.

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<sup>42</sup> Schmitz, 2017. This article analyzes this debate well and makes the interesting observation that, in Chinese language materials released by the CCP or Chinese Government, there is no phrase equivalent to “lifted out of poverty”. This phrase only appears in foreign language materials, including official Chinese publications and news media reports and those of outside observers.

<sup>43</sup> State Council Information Office, 2011.

<sup>44</sup> These comprised 11 mountainous areas around the country plus the entire Tibet Autonomous Region, all the Tibetan minority autonomous administrative areas in the four provinces bordering Tibet and three prefectures in Xinjiang.

As of the end of 2012, based on this new poverty line, China had 98.99 million poor people. After more than 30 years of strong economic growth in China, including the successful overcoming of the economic impact of the 2008 global financial crisis, the remaining regions with high poverty rates were those whose ability to rely on growth and market forces to benefit from economic development was limited. They were mostly situated in the most remote parts of the country, with major geographic and topographic obstacles to accessing services and markets. Many of the remaining poor were members of ethnic minority groups, with cultural and linguistic barriers to integration into the broader economy.

As of October 2012, the goal of eradicating poverty by 2020 had not been raised by Chinese leaders. A major intensification of poverty alleviation efforts occurred following the 18<sup>th</sup> National Party Congress of the CCP in October 2012, at which Xi Jinping emerged as the new Party General Secretary. A new approach, “precise targeting,” emphasizing the identification of and tailored efforts to address the causes of poverty based in local conditions in poor areas, was first set out in a speech by Xi Jinping in Hunan Province in November 2013<sup>45</sup>. This became the hallmark of the poverty alleviation effort he led in the following years. “Precise targeting is the secret weapon for our successful triumph in the poverty elimination battle,” is one of many such phrases that have been presented repeatedly in speeches and news stories since that year.<sup>46</sup>

A nationwide poverty survey was launched in 2014 to identify poor households, townships and counties. Eight hundred thousand government personnel were posted to villages across the country in 2014 for this purpose. Another two million were posted in 2015 and 2016 to confirm the accuracy of findings and further implement registration. As a result, 29.48 million poor households and 89.62 million impoverished people were identified. A file was created for each poor household so the government could track its progress in improving living standards and reducing poverty. In addition, the initial designation of poor counties and villages in the 2011 outline was reviewed and a revised list of 128,000 villages and 592 counties were designated as impoverished. “Removing their hats” was a key campaign goal as well.

In June 2015, in a speech in Guizhou Province, Xi Jinping first set out the goal of lifting all of the country’s remaining rural poor people out of poverty by 2020 as a key component of the goal of “Achieving the *Xiaokang* society in all respects.” This goal was incorporated into the 13th FYP when it was released in 2016 and a detailed plan was released in November 2016 by the LGOP: the *13th FYP War on Poverty Plan*. This plan had binding targets in several key areas: the number of poor villages and counties would be cut to zero, 9.8 million people would be moved under “relocation-based poverty alleviation” and the number of unsafe houses used by poor households would be basically eliminated. The plan was based on a combination of massive allocation of financial and human resources and the development of specific plans in each poor village and county to address the issues local officials identified as the most important local causes of poverty.

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<sup>45</sup> Hunan Provincial People’s Government, 2021.

<sup>46</sup> Zhu & Wang, 2021.

**Figure 3: Binding and indicative poverty targets in the 2016 13th FYP<sup>47</sup>**

(unofficial translation)

Indicator	2015	2020	Nature	Data Source
Registered Poverty Villages	128,000	0	Binding	LGOP
Poverty Counties	832	0	Binding	LGOP
People moved under relocation-based poverty reduction	—	9,810,000	Binding	NDRC, LGOP
Increase % in hh disposable income in poverty areas	11.7%	Higher than national average	Indicative	NBS
Share of poverty area hhs accessing central water supply	75%	>83%	Indicative	Ministry of Water Resources
Improvement % of stock of unsafe houses used by registered poor households	—	Near 100	Binding	Ministry of Housing Construction, LGOP
Consolidation rate of compulsory education in poverty countries	90%	93%	Indicative	MoE
Number of registered poor households in (returning to) poverty due to illness		Basically eliminate	Indicative	National Health and Family Planning Commission
Collective income in registered poverty villages	20,000	>50,000	Indicative	LGOP

Although poverty was defined in terms of income, it is noteworthy that the government's approach to improving the situation in poor areas was multidimensional. This was set out in a key government slogan first used in 2016 when the 13th FYP was released: “一超过两不愁三保障,” or, “Pass the income line, eliminate two worries (food and clothing) and guarantee three services (education, health care and housing.)” This approach was further reflected at that time in the five key components the government set out in its poverty reduction strategy: the five-pronged<sup>48</sup> “五个一批” approach:

<sup>47</sup> State Council Information Office, 2016, unofficial translation by author.

<sup>48</sup> People's Daily Online, 2017.

1. **Production-based poverty reduction:** support for the productive activities and income-earning ability of all poor people with the capacity to work;
2. **Relocation-based poverty reduction:** setting out a clear plan to move to new areas all poor households from locations where rising out of poverty would be extremely difficult;
3. **Ecological compensation-based poverty alleviation:** assigning environmental responsibilities to poor households in forested or other areas with ecological resources and paying them for this work;
4. **Education-based poverty alleviation:** aiming at improving education, including vocational education, in poor areas to provide children with the knowledge they need to lead productive lives; and
5. **Social assistance-based poverty alleviation:** providing financial support to people with no or limited income-earning capacity, including more financing for medical insurance, the dibao allowance and other programs. This has been an impressive multi-dimensional and bottom-up framework to the poverty challenge in each identified poor site.

The funds poured into this program, from an extraordinarily wide range of sources, were staggeringly large. The 2021 White Paper indicated that, over eight years, the central, provincial, city and county governments spent nearly 1.6 trillion yuan on poverty alleviation. It also indicated enterprises invested an additional one trillion — along with other several hundred billion in funds for low-interest lending to poor households and other and other efforts. By contrast, the total invested by all levels of government in the 2001-2010 program was 204.38 billion yuan<sup>49</sup>. Even allowing for effects of inflation, this is an enormous increase. The army, government agencies, ministries and local governments in wealthy areas were all assigned responsibility for poverty alleviation work in the designated areas — again building on past practices but vastly expanding their scope. The process' micromanagement extended to creating direct supply links from poor rural areas to urban government offices. I recently had a meeting at a government office during which we were served apples they had purchased from the poor county they were assigned to support. Individual government staff were frequently assigned households they were responsible for monitoring and assisting.<sup>50</sup>

In 2020, when the number of recognized poor people had fallen to 5.51 million, the government allocated 146.1 billion yuan to this effort — in addition to funds spent by the multiple other sources. The scale of this effort is what makes this so remarkable an achievement — but, at the same time, it creates doubts about its sustainability and its cost-effectiveness as a poverty program. There is a tension and contradiction here: the government leadership was certainly concerned about avoiding waste and achieving long-term sustainable results. At the same time, this was a 'war' that had to be won in every poor area and had to be seen as won — no matter what the cost and no matter how unsustainable the method.

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<sup>49</sup> State Council Information Office, 2011.

<sup>50</sup> State Council Information Office, 2021.

In November 2020, the government announced this goal had been achieved. It also announced its 2021 White Paper set out the challenges faced, approaches taken and results achieved in their intense campaign.

**Has China eradicated extreme absolute poverty?** Three points bear emphasizing in answering this question.

First, beyond question, there has been a major improvement in living conditions in poorer parts of China as a result of this campaign. The lives of many tens of millions of poor people have been greatly improved. The multidimensional approach the government took is particularly impressive: upgrading schools, infrastructure, healthcare and natural environment are all steps whose impact should be sustainable and broad-reaching. In terms of the historical context described in the first section of this paper, the magnitude of this achievement is enormous.

Second, there is no basis in evidence to doubt the government's assertion that poverty has been eradicated according to their specific definition of this goal (i.e. that the incomes of the 89.62 million poor people who were registered at the start of the campaign are now above the poverty line). At the same time, there is a conspicuous lack of detailed public data to allow an outside observer to confirm or reject the accuracy of the assertion. In a campaign such as this, pressed repeatedly by the country's highest leaders, questions inevitably arise regarding the accuracy of the reports sent in from local levels<sup>51</sup>. Failure was simply not a conceivable outcome. The government was aware of the risk of cover-ups of problems and set up extensive systems for monitoring results and it is highly unlikely that large failures have been covered up.

Third, by a more standard definition, there is no basis for the claim that extreme poverty has been eliminated. Remarkable as the achievements of the last seven years have been, they do not demonstrate the eradication of extreme poverty.

Poverty is dynamic — with constant churning of people into and out of poverty as they encounter shocks or improvements in employment and income. As noted in an influential 2007 World Bank volume, "...the people mired in chronic poverty around the world are fewer in number than the people moving in and out of poverty. Static studies do not capture this dynamic quality of poverty and vulnerability."<sup>52</sup> The Chinese approach of identifying all poor households at one point in time and setting annual targets for ensuring that, over several years, that group of people will all be out of poverty by another point in time has led to major accomplishments. But this static view of poverty runs contrary to global concepts and practices in poverty alleviation. The authorities have expressed determination to avoid "returns to poverty" but that has also been applied narrowly to the specific pool of poor people identified in 2014-5. In other words, the goal was not to deal with

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<sup>51</sup> Some reports of falsification of reports are starting to surface, as is inevitable. See, for example, Guan, 2021. This refers to problems with access to safe water, one of the indicative FYP targets, not to failure to reach the income threshold.

<sup>52</sup> Narayan & Petesch (Eds.), 2007.



vulnerability among all people but to ensure the initial set of poor households leave and stay out of poverty as of December 31, 2020.

Events in 2020 demonstrated the limitations of such a definition of poverty alleviation. As of December 31, 2019, there were, according to Chinese statistics, still 5.51 million remaining registered poor people from those identified in 2014-5. Then COVID-19 broke out, leading to a sharp plunge in Chinese income in the first quarter of the year. China's 2020 GDP growth rate of 2.3 per cent, growth which was quite unbalanced in its reliance on investment rather than consumption, was impressive by global standards, but still much lower than originally projected. Despite the direct effect of this shock on household incomes, as in much of the globe, the focus of the poverty alleviation program was still making sure that those 5.51 million people were lifted out of poverty as planned and other registered poor households did not fall back due to the impact of COVID-19. Much less attention was paid to identifying and providing support to other vulnerable population groups, some of whom were undoubtedly experiencing poverty. No statistics were ever released regarding newly poor households due to the income shock that occurred and assistance to non-registered poor households was limited. A household survey in officially designated poverty counties by a group of UN agencies with the Ministry of Commerce's China International Center for Economic and Technical Exchanges found "a persistent pattern in survey findings was that considerable support was provided to officially qualified 'poor' households, i.e. those classified as 'poor' in an earlier census.... However, the 'near-poor' were less likely to receive any social assistance and lack protection."<sup>53</sup> One analyst<sup>54</sup> has compared the impact of government social assistance on household incomes in Q1 of 2020 in China with the same number from Q2 2020 in the US (i.e., in the periods when each of the countries suffered their most severe shock). Estimating based on official data from both countries, he found China's household income fell 3.9 per cent year on year in real terms in Q1, while income without transfers fell 5.2 per cent (i.e., transfers boosted household income by 1.3 per cent). US household income, including government transfers, rose 11.5 year-on-year in Q2, while income without transfers fell 4.9 per cent (i.e., government transfers boosted income 16.4 per cent). The findings from these two studies illustrate well the potential shortcomings in a poverty program based on a static view of poverty.

To accurately capture the impact of COVID-19 on poverty anywhere other than in the already identified counties and villages would have required systems that were simply not in place. For example, migrant and other informal sector or gig economy workers in urban areas, who suffered a sharp drop in income, were invisible in the official unemployment and poverty data. The same paper cited above noted that at the end of the first quarter of 2020, when businesses were locked down all over the country, the official count of urban unemployed in China was 2.38 million. This represents an increase of only 100,000 people over the figure at the end of 2019<sup>55</sup>. One reputable

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<sup>53</sup> CICETE, UNDP et al., 2020.

<sup>54</sup> Batson, 2020.

<sup>55</sup> *ibid*

study estimated that the actual number of urban unemployed at the end of the first quarter was between 60 and 100 million.<sup>56</sup>

Relatedly, the designation and eventual reclassification of “impoverished” counties and villages is a useful administrative approach to focusing government programs — but it by no means captures the full extent of poverty, which is generally seen as existing everywhere, even in wealthy areas. China has defined poverty as an exclusively rural phenomenon, which was reasonable in 1978 but grew increasingly incorrect over the ensuing decades. Although some urban households receive social assistance — the *dibao* — they are not listed anywhere as poor people, nor are the other city dwellers who may be eligible according to their income but do not receive assistance because of the still often opaque rules governing the selection of beneficiaries.

It is thus clear that, the huge achievements of the targeted program notwithstanding, China has not eradicated poverty — even extreme poverty. And, it will not until it has viable systems in place to identify poor people everywhere, until poverty is seen as both a rural and an urban phenomenon, until special attention is paid to the still large number of “floating population” — the rural-urban migrants — and until the country provides a safety net for all its people. This includes those who are hit by a death, serious illness, loss of work or other shock.

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<sup>56</sup> Cui, 2020.

# Chapter Five: Now what? Redefining poverty in today's China and the next set of poverty challenges

What will China's new poverty alleviation priorities be now that it has achieved its goal of lifting those 90 million people out of poverty? A new poverty standard is needed, commensurate with China's post-Xiaokang development status and ambition, and a new set of poverty challenges confront the country.

## **1. Redefining poverty: who is poor and who is not poor in China now?**

Two aspects of the existing definition of poverty need to be changed.

First, the assumption that all Chinese poverty is rural is a legacy of the pre-reform and opening up era when urban and rural populations were separated by a strict hukou policy. At that time, urban residents — never more than 20 per cent of the total population — led quite privileged lives. They had higher incomes and access to multiple social services through their workplaces. This view of poverty is obsolete in China today. More than 63 per cent<sup>57</sup> of China's population reside in urban areas. There is a constant back-and-forth flow of people between urban and rural areas. And the “iron rice bowl” employment and “cradle-to-grave” services that urban employees were entitled to before the reform period have ended, with many employed in gig economy or other informal sector jobs. Because of these factors, a robust system that defines, captures and addresses urban poverty is needed. From this perspective, the decision not to expand the LGOP's mandate to include urban poor, and instead rename it the “Rural Revitalization Bureau” with the function of continuing to build on the achievements of the targeted poverty alleviation campaign, is concerning<sup>58</sup>.

In addition, a new poverty line or lines are needed — more commensurate for China's current level of development. The current Chinese poverty line of roughly RMB 3800/year (roughly US\$600/year at current exchange rates) is rather low; it is a bit higher than the World Bank's

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<sup>57</sup> National Statistics Bureau of China, 2021.

<sup>58</sup> CGTN, 2021.

global extreme income poverty line of US\$1.90/day (PPP basis) but it's lower than the lines in most East Asian Upper Middle Income Countries (UMICs). This includes Thailand, to cite one example, where a recent World Bank paper states flatly that the World Bank extreme line "is too low for daily functioning in Thailand"<sup>59</sup> and goes on to observe that the World Bank UMIC line of US\$5.50/day (see below) is closest to the current Thai national line.

Stating that the current line is low in no way diminishes the significance of the reductions in poverty that have been achieved according to that line. While China is now an UMIC, the Chinese government's use of a relatively low line to capture progress toward its long-term goal of realizing a Xiaokang society is appropriate and meaningful. When Deng Xiaoping first set that goal forward, China was a low-income country with hundreds of millions of people with income under this line. As a criterion for assessing how much China has developed since that time, and an indicator of China's having reached a new phase in its development, it is very meaningful.

Secondly, Sustainable Development Goal (SDG) target 1.1<sup>60</sup>, the first poverty target, states, "By 2030, eradicate extreme poverty for all people everywhere," as measured according to the World Bank line. China's contribution to that goal is globally significant, even though assertions that China has already achieved this goal are overstated.

Looking ahead, however, we note SDG 1 is much more ambitious than this. Like all the SDGs, and unlike the earlier MDGs specifically and narrowly focused on developing countries, SDG 1 sets out targets for all countries no matter their stage of development. The second target from SDG 1, SDG 1.2, makes that clear: "By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions." Each country should define poverty based on its own national social and economic conditions and set ambitious targets for its reduction. This is the SDG poverty target of greatest relevance to China today, along with SDG 1.3, implementing social protection for all<sup>61</sup>.

The choice of a new line will have direct implications for China's policy agenda in the coming years. There are three sets of options to be considered, each offering advantages and disadvantages: keep an absolute income poverty line but make it higher than the current one; set a relative poverty line that will automatically move up as overall household incomes grow; or set a multidimensional line including assessment of non-income dimensions of wellbeing. There are varieties of each of these and they can be combined or used alongside each other. The following is a quick description and analysis of each.

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<sup>59</sup> Yang et al., 2020.

<sup>60</sup> UUnited Nations, n.d..

<sup>61</sup> *ibid*

## A. A higher absolute income poverty line

One straightforward option is to simply set a higher income poverty line — better reflecting China’s current UMIC status. The UMIC classification<sup>62</sup> includes countries with per capita GNI between \$4,046 and \$12,035 — so, China, with a 2019 per capita GNI of US\$10,390,<sup>63</sup> falls within the higher income tier of UMICs, within hailing distance of “Upper Income” status. The World Bank’s indicative poverty line for UMICs is \$5.50 (purchasing power parity adjusted) per day. The World Bank estimates China would have 371 million poor people if a \$5.50 poverty line were applied.<sup>64</sup> Many advanced economies, such as the US, still use an absolute income-based poverty line. In 2019, the poverty line for a single person household in the US, for example, where per capita GNI is roughly six times higher than China, was \$15,600.

As noted earlier in this paper, China has adjusted its income poverty line upwards twice before. Another adjustment would be appropriate after 10 years of further strong economic growth. It would have the advantage of methodological and conceptual familiarity in China, requiring no new statistical systems. However, new urban lines that reflect higher living costs in urban areas would be necessary. Solely based on absolute income, this approach lacks some valuable features of relative and multidimensional lines. These features are introduced below.

## B. Relative income poverty line

A relative poverty line is still income-based. But instead of setting an absolute line, which is applied uniformly (within the designated group), it is normally set as a percentage (typically 40-50 per cent) of the median national income. The European Union defines poverty in each of its members as 40 per cent of median income. Relative lines are used in Brazil, the ROK, Japan and in Hong Kong SAR, among many. This is a philosophically attractive option as it acknowledges that well-being depends not just on individual income or consumption but also on social and economic context.

There are some theoretical problems with this approach which might have been relevant in China in 2020 during the COVID-19 pandemic. If all incomes fall due to a shock, relative poverty may remain unchanged or even fall, although, common sense says if poor people are losing income, they are getting poorer — not less poor — and their need for support is greater than before. But relative poverty lines are becoming increasingly popular and there have been some indications that China is planning to take this approach. It has the great advantage of directly reflecting inequality trends. An agenda aimed at reducing relative poverty would have to target shrinking income gaps between and among regions and population groups. Given that reducing these gaps is a high policy priority in China now, defining poverty in relative terms could be useful.

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<sup>62</sup> World Bank, 2020.

<sup>63</sup> World Bank Group, 2021.

<sup>64</sup> World Bank, 2021.

A 2020 paper using a large household survey database<sup>64</sup> found that, with a poverty line of 50 per cent of median rural income per capita, rural relative poverty remained stable at 12-13 per cent from the 1980s through the early 2000s but thereafter increased, reaching 17 per cent in 2013. Over the same years, absolute poverty declined. As absolute poverty reached zero in 2020, this gap may have widened further.

European Union member states set one national relative poverty line. In China, where the urban/rural income gap is still quite large<sup>65</sup>, setting separate rural and urban lines may be desirable. This would help avoid a line much higher than rural median income, and much lower than urban median income, and give results that miss important gaps within the rural and urban populations. Another recent paper<sup>66</sup> used 2018 household survey data to estimate relative poverty rates in urban and rural areas using national and separate urban and rural lines, testing the effect of taking either 40 or 50 per cent of median income as the line. The following table presents its findings. With a 40 per cent of median line there would be a total of 130 million poor (60 million rural and 70 million urban). If the line were set at 50 per cent of median, the total would be 220 million poor (100 million rural and 120 million urban). The poverty rate is lower in urban than rural populations under both lines — but this can be attributed to the larger urban population.

The chart also illustrates how one national line masks much useful information in China today. With one national line, rural poverty would be 30 per cent, or 42 per cent with line of 40 per cent of 50 per cent of national median income, and urban poverty only 3 per cent and 5 per cent under the two lines. If separate rural and income lines are set, the rural rates are 11 per cent and 17 per cent, and the urban rates 9 per cent and 14 per cent.

**Table 4: Poverty rates and headcounts applying various relative poverty lines, 2020<sup>68</sup>**

Type of line	@ 40% of median		@50% of median	
	Poverty rate (%)	Poverty headcount (100 mln)	Poverty rate (%)	Poverty headcount (100 mln)
National line	14	2.0	20	2.8
o.w. rural	30	1.7	42	2.4
o.w. urban	3	0.3	5	0.4
Rural only line	11	0.6	17	1.0
Urban only line	9	0.7	14	1.2

<sup>65</sup> Li et al., 2020.

<sup>66</sup> Yimeng, 2021. The ratio of urban/rural household disposable income in 2020 was 2.56:1.

<sup>67</sup> Shen et al, 2020.

<sup>68</sup> Shen & Li, 2020.

The case for separate urban and rural lines as guides to poverty alleviation policy is strong at this time given that the inequalities China's government plans to address go beyond the urban-rural gap. Addressing relative poverty will require concerted efforts to bridge gaps between the wealthy coastal areas and Western, Central and Northeast regions, gaps between different categories of employment (i.e. formal versus informal and skilled versus unskilled) and the needs of emerging vulnerable population groups such as the elderly and persons with disabilities.

Alternatively, China could use a multidimensional poverty line, rather than a purely income-based one, and incorporate indicators of income and non-income deprivations such as quality of housing, access to healthcare and education, environmental conditions and so on. This approach has been developed by researchers at the Oxford Poverty and Human Development Initiative (OPHI). Applications of this methodology focus on three dimensions of non-monetary poverty for which data are generally available: education, health and living standards. The OPHI has proposed the following non-monetary indicators:

**Table 5: OPHI Multidimensional Poverty Index components and weights<sup>69</sup>**

Dimension (weight)	Indicator (weight)
Education (1/3)	Years of schooling: If no person in the household has completed five years of schooling (1/6) Child enrolment: If any school-aged child is out of school (1/6)
Health (1/3)	Child mortality: If any child in the household has died (1/6) Malnutrition: If any interviewed adult has low Body Mass Index; if any child is more than two standard deviations below the reference normal weight for age (WHO standards) (1/6)
Living conditions (1/3)	No electricity (1/18) Drinking water: MDG definition (1/18) Sanitation: MDG definition + not being shared (1/18) Flooring: Dirt, sand, dung are deprived (1/18) Cooking fuel: Wood, charcoal, dung are deprived (1/18) Assets: Deprived if do not own a car/truck and do not own one of these: radio, tv, telephone, motorbike, refrigerator (1/18)

In China, this approach offers many advantages because it is consistent with the government's vision of comprehensive improvements in people's welfare and the multidimensional approach taken during the targeted poverty reduction campaign, as described earlier. A carefully prepared multidimensional poverty line could be a very useful guide to policymaking. Such a multidimensional poverty index is methodologically challenging. However, the government statistical office has been co-operating with Chinese scholars and with the OPHI for some time on applying this approach in China — even if it is unlikely to become the main official poverty definition.

<sup>69</sup> Alkire, 2011.

## 2. Poverty challenges post-2020

Beyond new poverty definitions and lines, China faces other pressing poverty challenges in the post-2020 era. In this paper, we briefly note two sets of challenges: the need for considerably stronger and more inclusive social protection systems and the need to address long-standing obstacles to equitable participation in economic growth by certain population groups. Obstacles to gender equality and women's empowerment cut across these challenges and some specific related issues are briefly highlighted. This is not a complete agenda nor an in-depth analysis by any means. Most notably, the poverty impact of environmental issues — which tend to have greatest impact on vulnerable groups — are not analyzed here.

### A. Closing gaps in China's social protection systems

The IMF's 2020 Article IV consultation report on China's economy stated directly that "Social safety nets remain woefully inadequate despite recent adjustments."<sup>70</sup> At this stage in China's robust development, there is a clear need to shift from targeted to universal approaches to poverty and establish a well-funded, well-coordinated social protection floor. In the coming period, sustainably containing — or eliminating — poverty requires the capacity to protect those who are not poor from falling into poverty when they experience shocks such as illness or death of a family member, loss of or reduction in employment, a public health emergency and lockdown to contain it and so on. This is a very different sort of approach to poverty from what has been done to date.

Although China has developed a large number of social insurance and assistance schemes in the last 20 years,<sup>71</sup> they are still quite fragmented (i.e., rural and urban, employment-based and residence-based, different eligibility rules in different locations) and underfunded. Basic problems, like portability of enrollment and contributions when an individual moves from one location to another, are yet to be fully addressed. This remains true despite the population's steadily increasing mobility. There are gaps in coverage and large gaps in adequacy of benefits.<sup>72</sup>

The importance of effective social protection schemes has been magnified by the government's innovation and technology-driven development vision. Technological innovation frequently disrupts labor markets and widens inequalities.<sup>73</sup>

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<sup>70</sup> IMF, 2021, p. 11.

<sup>71</sup> These include health insurance, pensions, unemployment insurance and a set of social assistance allowances for poor and vulnerable population groups deemed unable to support themselves through work.

<sup>72</sup> EU-China Social Protection Reform Project, 2019.

<sup>73</sup> World Bank Group & Development Research Center of the State Council of the People's Republic of China, 2019. This is an analysis of this challenge in Chinese context.



On February 27, Xi Jinping convened a Politburo study session<sup>74</sup> on challenges in improving China's social protection system. This was timely and touched on a number of the most important problems China now faces. One striking feature of the targeted poverty alleviation campaign of recent years has been the very small role social protection and assistance played in it. The focus was very much on promoting rural social and economic development through investments in the five-prong approach. Social assistance was included in the program as the fifth prong but specified clearly as a final resort for poor individuals who could not support themselves even with government development assistance. China's largest social assistance scheme, the Minimum Living Standard Assistance program or dibao, is not formally considered an anti-poverty program. This is evident because it has a substantial urban component even though China does not count any urban population as poor — even those whose income is lower than those receiving the dibao<sup>75</sup>.

## **B. Addressing the needs of specific vulnerable groups at risk of being left behind**

Several population groups, at present, are vulnerable to poverty because they lack equitable access to adequate social protection (as well as other essential public services, often including good quality health care and education). Due to space limitations, this paper cannot detail the obstacles they face; rather, it highlights some central issues.

- a. Migrant workers and their families.** The hukou system is a legacy of the planned economy era that has no place in China today — and even less place in the China that the government leadership envision. It needs to be abolished. There should not be two separate categories of urban residents with vastly different opportunities and rights. A multidimensional poverty approach that takes a hard look at the conditions faced by migrants and their families will quickly bring into focus the urgent need to end this system once and for all. One or two household members spending all or most of the year living under difficult conditions away from their families in order to provide financial support, leaving children and elderly family members behind in the countryside, is ripe with risk of poverty and compounded by lack of access to social protection and other services.
  
- b. China's growing number of older persons,** a large proportion of them women, particularly among **the older old** who are the most vulnerable. The current pension systems are not adequate to ensure them an acceptable standard of living. And, the need for national, integrated, urban-rural pension systems will only gain urgency as each year passes. This is a core poverty challenge the government must face; there has been more attention to the GDP growth implications of China's declining working age population, and the fiscal challenges caused by rapidly declining dependency ratios, than to the difficulties looming in ensuring the rights to full, productive and safe lives of

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<sup>74</sup> Xinhua News Agency, 2021.

<sup>75</sup> Pan, 2020. Pan cites numerous cases in which dibao payments went to households who, by the official rules, were less eligible than others who did not receive it.

the increasing number of older persons. Reliance on market-based services will only meet the needs of a limited proportion of that population group; considerably increased investment of fiscal resources will be needed into social pension systems, health and other care services to ensure all older people, particularly women, are safe from falling into poverty.

**c. Rural smallholder farmers** and the rural population more broadly. Even today, China's rural population numbers over 500 million. Average farm size is very small by UMIC standards. The remaining rural population are on average older, more female, have less education than the overall population<sup>76</sup> and are vulnerable to a wide range of income, environmental, health and other shocks. The government's rural revitalization agenda is ambitious but it remains to be seen how the difficult challenge of balancing urban and rural development needs will be met. To cite one critical example, rural education and healthcare are far below urban standards. Closing that gap will require a major increase in spending on rural services the government cannot finance without sharp shifts in fiscal policy. Government spending on social services is still extremely low even by global emerging market standards<sup>77</sup>. The government's strong focus on technological development and innovation-driven growth could exacerbate this problem as choices will inevitably be faced between investing in education for elite urban young people to produce more and higher-skilled scientists and engineers and investment in urgently needed improvements in rural education.

**d. Informal, flexible and platform workers.** The government has indicated steps will be taken to incorporate these employees into social insurance schemes. However, at present, this large group of workers is largely excluded from those programs. The cost structure and competitiveness of many of their employers are based on very low labor costs. The COVID-19 pandemic and lockdowns exposed the vulnerability of this large group, who make up an increasing share of China's workforce. As noted in a recent ILO report,<sup>78</sup> "in future, even more workers will be employed in the platform economy, which should be seen not just as flexible employment but new forms of employment. At the same time, flexible employment will become a more important source of work for vulnerable groups." This is a large and very vulnerable group at present.<sup>79</sup>

**C. Strong new steps to address obstacles to gender equality and women's empowerment in China,** including employment discrimination, stereotypes about their role as mothers, unequal share of unpaid home care responsibilities and others, are needed. This is true for

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<sup>76</sup> RBA, 2019.

<sup>77</sup> IMF, 2021.

<sup>78</sup> Wang, 2020.

<sup>79</sup> See Beijing Yilian Legal Aid and Research Center for Labor, 2021.

many reasons — but particularly to prevent the emergence of serious poverty among older women. As a rule, income and welfare inequality widen after retirement; those who enter that phase of their lives relatively poorer than others of their age tend to see the gap widen over time as opportunities to grow their income and assets are reduced, and vulnerability to medical and other shocks worsens. Women now enter retirement earlier, with fewer assets, lower pensions and other income than men. They are also still often saddled with an inequitable share of unpaid family care responsibilities and, on average, they live longer than men. Steps are needed to allow women to enter retirement on equal footing with men and to enjoy equal benefits despite their lower income-earning opportunities during their work years.

**D. Fiscal reform to reduce regressivity of current tax, spending and inter-governmental fiscal policy.** Several fiscal reforms are needed to improve income distribution and finance needed improvements in public service delivery to rural and other vulnerable populations. They will require overcoming resistance from powerful interest groups benefiting from the current systems, including urban hukou holders, state-owned enterprises (SOEs) and the population of the wealthier and more advanced coastal provinces. At present, budget revenues are highly dependent on the regressive Value Added Tax (65 per cent of total revenues). In contrast, personal income tax collections — an important source of income and of progressivity in tax structure in most economies — are still only 5 per cent of total revenues. This is very low even by emerging market economy standards.<sup>80</sup> In the face of limited fiscal resources, the government will have to make choices. Will it prioritize investment in elite educational institutions — from pre-school to post-graduate — to produce more scientists and engineers or universalize quality pre-school to senior high-school education in rural areas? Abolishing the hukou system will require urban governments to spend considerably more on basic public services, including social protection, for their migrant populations. Many are resisting this. Will policy, including fiscal support through subsidies, and financial support from large banks continue to favor state-owned enterprises or shift toward support for more dynamic small and medium sized enterprises? Both are needed — but their interests don't always coincide. Plus, while SMEs are normally the engines of productivity and employment growth, SOEs are a powerful interest group. The IMF report cited earlier<sup>81</sup> noted that creating a level playing field between SOEs and other private businesses has been very slow. As to central-local fiscal relations, at present over 85% of total government spending is disbursed at subnational level. The IMF has recommended “(i) establishing an automatic and non-regressive fiscal transfer mechanism for the total transfers to each province; (ii) reducing the long-standing misalignment of central-local fiscal responsibilities; and (iii) removing local protectionism.”<sup>82</sup>

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<sup>80</sup> IMF, 2021.

<sup>81</sup> *ibid*

<sup>82</sup> *ibid*

## Chapter Six – Conclusion: Lessons from China’s poverty reduction achievements

China’s remarkable poverty-reduction achievements have inevitably led to considerable discussion — within China, within other developing countries and in the international development community — regarding lessons that can be learned and that will help accelerate poverty alleviation in other countries. Observers understandably assume there must be valuable lessons. This idea is promoted by the Chinese authorities as well, although their message in this respect is somewhat mixed. On the one hand, they cite China’s achievements as a model to be shared with the developing world. But, at the same time, they cite it as proof of the superiority of China’s governance system — which most observers would agree is not easily replicated. Still, in the March 2021 high-level discussions held in Anchorage, Alaska between the Chinese and US governments, Politburo Member Yang Jiechi stated directly that China’s achievements are a model for the rest of the world and for the US itself. He said, “China’s per-capita GDP is only one-fifth of that of the United States but we have managed to end absolute poverty for all people in China. And we hope that other countries, especially the advanced countries, will make similar efforts in this regard.”<sup>83</sup> The Chinese Government has just issued a White Paper entitled *Poverty Alleviation: China’s Experience and Contribution*<sup>84</sup> in which China’s experience is proposed as a model for other countries.

Are there lessons? And, if there are, what are they? Much discussion about this question errs from the start by accepting 1978 as the starting point for assessing China’s poverty record. Thereby, it misses the essential contribution of conditions that already existed in 1978 and accepts the erroneous notion that poverty decline was entirely a result of post-1978 policies — which are scrutinized for relevant lessons. It also avoids asking why China still had such high poverty levels 30 years after the establishment of the People’s Republic. These discussions also often disregard how the drivers of poverty reduction have changed sharply over the years.

One sees much to the effect that the commitment of China’s government to poverty reduction has been the key lesson. And, yet, we have seen a great deal of the poverty reduction since 1978 has had nothing to do with the government’s commitment to it and more to do with a surge

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<sup>83</sup> US Department of State, 2021.

<sup>84</sup> State Council Information Office, 2021.

in rural economic growth following the reversal of the Government's earlier income-suppressing and poverty-increasing policies. Simply allowing farmers to grow what they wanted and sell it for the best price they could get was the single most important action the government took in terms of poverty impact. Allowing rural population to move to urban areas to work was almost certainly the other most important action. This was an essential step for economic development but not a poverty reduction policy and not one of great relevance to most countries in which such movements are not controlled. The role of government policy deliberately designed to reduce poverty has generally, at least until the Xi Jinping era, been complementary to growth; many observers have suggested its impact was quite limited.<sup>85</sup>

Some observers emphasize the central role economic growth has played in China's poverty reduction until the recent targeted phase. However, as noted above, a considerable part of growth-driven poverty reduction was due to reversing income-suppressing economic policies of the previous era. And, there have been periods when growth was strong but poverty reduction slowed and even reversed. The great booms in Chinese growth occurred first when FDI began pouring in the 1990s and again after WTO accession in 2001. However, we've seen a large majority of poverty reduction had already taken place before 1990. A related theme, emphasized in the recent official White Paper on poverty alleviation<sup>86</sup>, is China's "development-based" rather than "assistance-based" approach to poverty alleviation. But poor developing countries with very high poverty levels have no choice but to utilize "development-based" approaches; it is only when countries reach UMIC or higher status, and the share of poor people in the population shrinks substantially, that a combination of development and assistance becomes feasible. Now that China has reached this level, one of its most urgent poverty challenges is to strengthen social protection for vulnerable households.

The attention China's policymakers have paid to agricultural and rural development and the resulting steady improvements in rural incomes, infrastructure and public services certainly offer valuable lessons for other countries. China has applied numerous innovative efforts to promote new agricultural methods and technologies in poor rural areas, including greener and more resilient technologies in recent years, and accelerate development.

However, other factors must be weighed here as well. Although well over half of China's population still hold rural hukou, investments in urban and wealthy coastal areas — particularly in essential social services such as education and healthcare — have greatly surpassed those in poorer rural areas. The hukou barriers to internal migration facilitate this gap. It was only in 2011 that China's urbanization rate reached 50 per cent. At that time, per capita GDP had already reached \$5,618 — much higher than in almost all comparable developing countries when they reached that milestone. This is shown in Table 6 below.

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<sup>85</sup> Wang et al., 2004. Zhang, 1993.

<sup>86</sup> State Council Information Office, 2021.

**Table 6: Year and per-capita GDP when urbanization rate Surpassed 50 per cent, various countries<sup>87</sup>**

Country	Year	P.C. GDP
China	2011	5,618.13
Brazil	1964	261.67
Indonesia	2011	\$ 3,643.04
Malaysia	1991	\$ 2,653.00
Mexico	1960	345.23
ROK	1977	\$ 1,055.88
South Africa	1987	\$ 2,582.50
Turkey	1984	\$ 1,246.83

These numbers reflect China's sustained control of urbanization flows even as its economy grew rapidly. This is even clearer when we note China's headline urbanization rate is based on residence — not hukou status. As of 2020, when residence-based measures of urbanization in China reached 63.89 per cent, the portion of China's people with urban hukou and all its benefits was only 45.4 per cent; the gap represents migrants living in urban areas holding rural hukou.<sup>88</sup> China's investments in improving the welfare of its rural population can be seen as the flipside of still-tight controls over their right to leave the countryside and obtain better lives elsewhere. Thus, while extreme rural poverty has been sharply reduced, urban-rural and inter-regional development gaps are still vast and are, in part, rooted in structural barriers created by government policy. If China does not address these structural barriers, and if China retains so vast and relatively deprived a rural population, the relevance of China's rural development and revitalization policies for other countries will be significantly lessened. From this perspective, the relocation-based poverty alleviation program could be seen as a top-down urbanization process that denied participating households the chance to choose to relocate on their own, if they wished, to other and more prosperous parts of the country.

It is also easy to too-casually dismiss as irrelevant certain aspects of China's experience that seem beyond the capacity of other developing countries. Local governments have played a central role in China's post-1978 development and poverty reduction — but how many developing countries have both strong local governments and a strong enough administrative systems to

<sup>87</sup> World Bank, 2021.

<sup>88</sup> National Bureau of Statistics, 2021. The release notes that urban population data come from the census and hukou data are reported by the Ministry of Public Security.

allow central government to monitor and guide them while encouraging their initiative? China has just approved its 14th five-year plan, with a brand-new set of targets for governments at all levels. What developing countries' national governments can set even one or two targets for all their local governments — let alone scores of targets? China has been governing itself well for thousands of years and has taken that legacy even further in constructing the parallel party and government structures that govern China today; all of that remarkable tradition contributes to today's progress. And, yet, strengthening local governments and planning/co-ordinating functions are undoubtedly vitally important for poverty reduction in other countries however challenging they might be.

If we narrow the question to look specifically at the targeted poverty reduction campaign of recent years' achievements, in which government policy was consistent and clear, it is still challenging to assess the applicability of China's experience for other countries.

To be sure, there are many useful lessons to be learned at the technical and sectoral levels. China's constant experimentation with agricultural and agro-industrial development in very poor and remote areas has yielded valuable experience in improving access to markets and building value chains through e-commerce, public-private partnerships, farmer cooperatives, inclusive finance and others. China's determination to connect even the poorest rural regions to electric, transport, clean water and now internet infrastructure grids has played a big role in poverty alleviation. China is now addressing the environmental challenges of building resilience to climate change, improving sustainable natural resource management and accumulating important and useful knowledge in so doing. Exchanges of this and other experiences at the technical and local government levels would be a very worthwhile endeavor.

At the same time, as China faces the next generation of challenges in its new, post-Xiaokang era, there are many areas in which China can learn from other countries — such as in social protection for excluded groups, including informal sector workers, and in the pressing challenge of a rapidly ageing population. Poverty alleviation is a global agenda in which all have work to do and in which exchanges.

At the macro policy level, Xi Jinping has made clear he views the success of his poverty eradication campaign to demonstrate the strong capacity of China's governance under the CCP — particularly the capacity to achieve difficult long-term goals. In this paper, we have seen what he is referring to: massive mobilization of resources from all sources, intensive monitoring at every level of government and the relentless drive to do whatever was needed to reach the target by the specified date. However, questions inevitably arise regarding the cost-effectiveness and sustainability of such an approach — especially given the narrow static definition of poverty applied. Could a significant portion of these resources have achieved better outcomes, at least, if applied toward anti-poverty programs aiming at longer-term results? What outcomes would these resources have achieved if applied toward universal social protection systems or, in 2020, greater relief for vulnerable groups affected by COVID-19?

The relevance of China's model for other developing countries, and for organizations looking to assist them, is reduced by the uniqueness of the very governance system being touted. The ability to mobilize public and private enterprises to join in, the ability to set and achieve a target of uplifting roughly 10 million<sup>89</sup> poor people from their original homes to new ones, the ability to send out millions of government staff to set and oversee the campaign — all these are unique to China and to China's system of governance. Mass mobilization and campaign-style approaches to challenges have been a hallmark of CCP rule throughout its history. However, the mixed record of results that such an approach has achieved — both the massive famine of the Great Leap Forward and the great improvements in rural welfare of the targeted poverty alleviation campaign — also raise questions about its usefulness as a model for others.

The Government of China cites the country's triumph in containing COVID-19 as a second major illustration of the superiority of their governance system — in addition to poverty reduction. There are interesting similarities between these two triumphs. Dr. Minxin Pei recently released a new paper entitled *Grid Management: China's Latest Institutional Tool of Social Control*<sup>90</sup>. He draws heavily on China's remarkably successful experience containing COVID-19 to analyze how the CCP, under Xi Jinping, has reformed and strengthened its capacity to monitor and direct activity at the grassroots level. This capacity has also played a large role in successfully lifting 90 million poor people out of poverty in eight years, as we have seen, with intense grassroots implementation of the central directives. This includes, for example, making a local official personally responsible for improvements in the welfare of each poor household.<sup>91</sup> However, this is another aspect of this campaign that would not necessarily be seen as desirable in many countries and would not be easily replicable even if attempted.

Chinese leadership is undoubtedly correct: it's impossible to separate the remarkable success of the targeted poverty alleviation campaign from the system that enabled it. This is a source of national pride but it is also precisely why it is difficult to identify big policy lessons for others. Nevertheless, an effort to objectively analyze and understand China's experience and thoughtfully identify pieces that are relevant to others, on a case-by-case basis, is certainly worthwhile and necessary.

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<sup>89</sup> 9.98 million people were included in the poverty alleviation by relocation program according to official data.

<sup>90</sup> Pei, 2021.

<sup>91</sup> State Council Information Office, 2021.



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