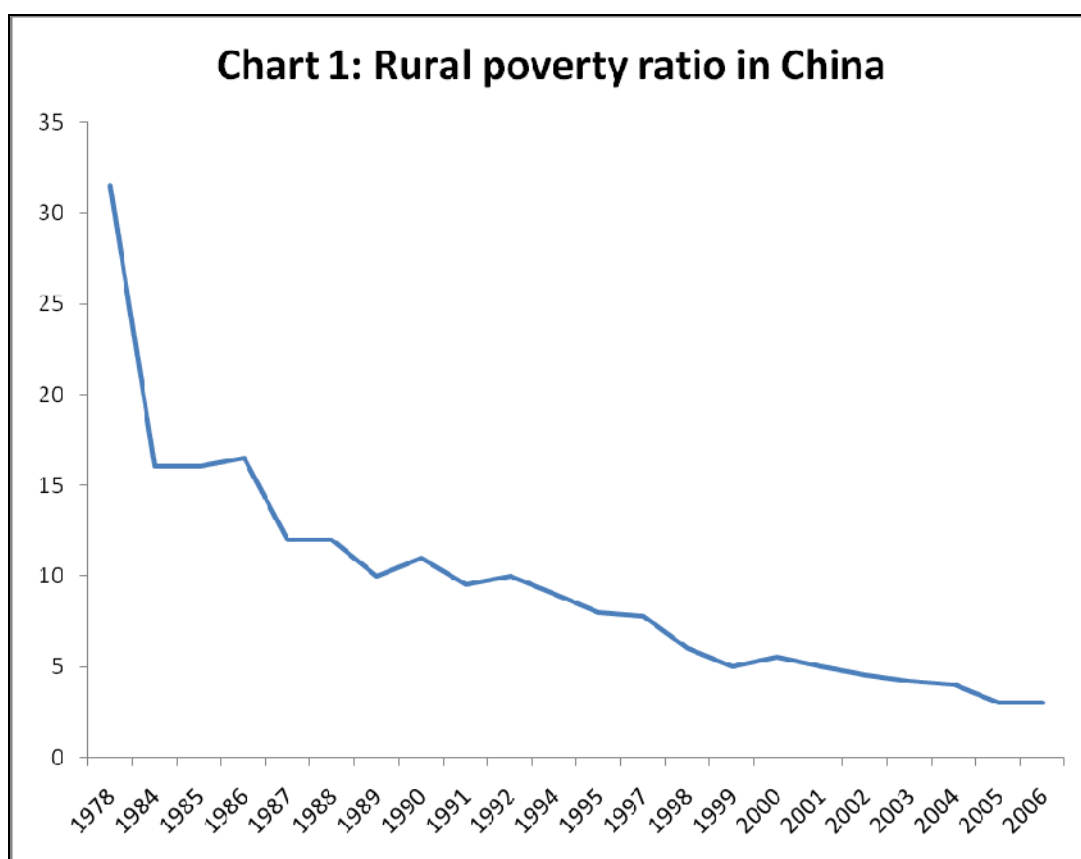


How did China reduce Rural Poverty?

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The Chinese case has often been cited as an example of how rapid GDP growth is associated with poverty reduction. Yet in fact it illustrates quite sharply the crucial importance of growth in agricultural incomes for poverty reduction, in a context of relatively equitable distribution of land. It also illustrates the need for output growth to be associated with structural change that allows for a substantial shift of the work force out of agriculture.

What is striking about the post-reform Chinese experience with growth and its effects on poverty reduction is that while Chinese growth was consistently high across time, poverty reduction was concentrated in particular periods. The relation between poverty reduction and growth has varied over time, being strong at the beginning of the “reform” period and somewhat weaker afterwards. Chart 1 indicates the changes over time in the incidence of rural poverty, based on official Chinese estimates.



It is true that these probably underestimate poverty for several reasons. Unlike for most other developing countries, Chinese poverty estimates are based on income data rather

than expenditure data, which typically show greater absolute poverty. For example, using an expenditure-based line causes the proportion of rural poor to increase to 25 per cent in 1999, compared to only around 5 per cent according to the official income-based estimate.

Further, the poverty line is derived on the basis of a basket of foods, and before 1998 food grains dominated this bundle, amounting to 88 per cent of the total value of the bundle, even though they were only 70 per cent of the total food expenditure of poor households. This gave disproportionate significance to grain prices, which have been kept from increasing as rapidly as other food prices.

In any case, the official poverty line has not kept pace with consumer price inflation, and it has been estimated that in 2000 this caused the poverty line to be at least 13 per cent lower than in the mid-1980s. Subsequently, too, the increase in prices of many essential goods has not been adequately captured in the official poverty line. Non-food items have been given only 17 per cent weight after 1998, even though they account for between 27 and 49 per cent of total expenditure of poor households across the various provinces.

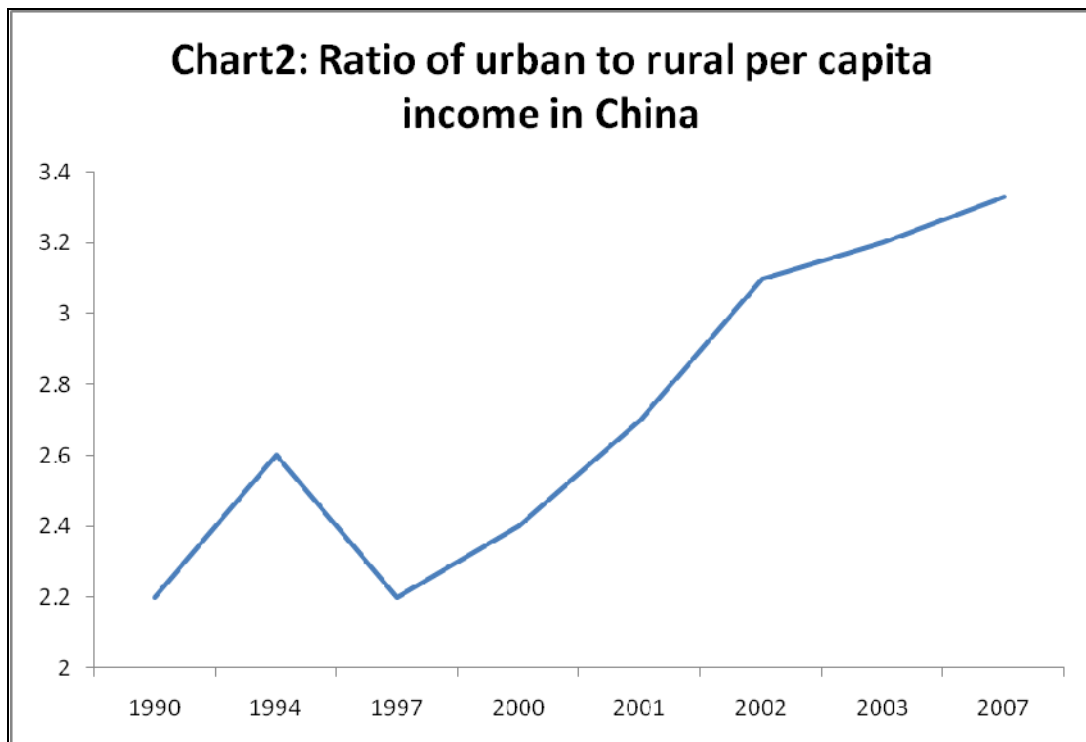
Even so, it can be seen that much of the reduction in rural poverty was concentrated in two relatively brief periods: the first five years of the reform period, 1979-1984; and the period 1995-97. This change had much to do with the nature of the growth, which began by being centred on agriculture and the rural economy where most of the poor lived, and then shifted toward the industrialisation of the coastal cities where the poor were less evident except as migrants.

The first period 1979-84 was when policies of economic reform focused on the countryside. Over these years, the “reorganisation” and dismantling of rural people’s communes led to the parcelling out of land to households on a broadly egalitarian basis, with peasant households being given control over the use of land without having the right to sell. Instead of the previous “grain first” policy, farmers were encouraged to diversify production to more high-value produce. At the same time crop prices were raised 30 per cent over the five-year period. In addition, supplies of agricultural inputs including chemical fertilizers were sharply increased and provided to farmers at subsidised rates. All this led to significant increases in agricultural incomes, and this translated directly into reduced poverty because most cultivators were net sellers of both cash crops and food grains.

The second period of substantial decline in rural poverty occurred in the middle years of the 1990s. Once again this was driven by the intersectoral terms of trade: specifically, a

steep rise in farm purchase prices, especially of food grain, which doubled in the middle of the decade. After a long time, rural per capita incomes increased faster in real terms than urban incomes, leading to the decline in urban-rural income gap described in Chart 2.

It is evident that in this period 1994-97, poverty reduction proved to be highly income-elastic. In fact, a 21 per cent increase in rural income was accompanied by a 40 per cent decrease in rural. However, this was essentially because of the forces driving the increase in rural incomes (the higher returns to cultivation) in a context of egalitarian land distribution and domination of agriculture in rural livelihood.



While income poverty in rural areas has been reduced by rural-urban migration, in the urban areas most of the poor are recent migrants, who tend to be much worse off than other urban residents. Studies tend to find much higher (up to 50 per cent more) incidence of poverty among migrants than among non-migrant urban residents. Migrant workers typically have high turnover of employment, and also suffer from the disadvantages of being excluded from the formal labour market, public housing and access to health services and schooling for children at low cost that urban residents are entitled to by virtue of their *hukou*.

In addition, the urban poor who have urban resident status are also entitled to a subsistence allowance, the incidence of which has spread in recent years. In the early 1980s the official urban poverty rate was about 2 per cent and the absolute amount of the urban

poverty population was 4 million. This decreased to only about 1 million in 1989 according to official estimates. However, unofficial estimates are much higher. This is essentially because of the gap in incomes and benefits accruing to migrants compared to “full status” or registered urban residents. Recently the Chinese government has announced some measures to provide some facilities to unregistered migrants, but the impact of these on urban poverty is yet to be assessed.

One of the most important tendencies with a direct bearing on poverty reduction is the overall pattern of growth and structural change. China’s recent growth has been along the classic Kuznets-style trajectory, with an increase in the share of the manufacturing sector in both output and employment. A crucial feature of such a positive tendency is agrarian transformation. The share of agriculture in both output and employment has declined since the early 1980s. This is different from a number of other developing countries (including India) where the share of agriculture in employment remains high. So the ability of the Chinese growth pattern to generate more productive and remunerative employment outside agriculture played an important role.

In addition, per worker output in agriculture increased dramatically from the early 1980s, reflecting the institutional changes described earlier. What is significant is that it continued to increase at a rapid rate thereafter, such that it nearly doubled in the decade after 1995. This has clearly played a very important role in rural poverty reduction, dwarfing the effect of particular poverty alleviation schemes, but it is necessary to remember that it is the specific pattern of agricultural growth in China that mattered. The growth was broad-based and widely shared because of the egalitarian land distribution as well as the simultaneous creation of non-agricultural employment opportunities.

Overall, it could be argued that poverty reduction in China has been more strongly related to changes in economic structure and in inequality than to GDP growth *per se*. If so, China’s ability to sustain the pace of poverty reduction will depend on its ability to keep in place recent policies aimed at reducing inequality as well as ensuring that the pattern of structural change remains positive and dynamic.

This is in keeping with lessons derived from the pre-reform experience as well. China was served well by a combination of egalitarian land distribution and experience with commune and cooperative forms of organisation, which ensured a degree of income equality and helped release and pool labour resources for undertaking non-agricultural activities that were jointly managed with State support. To the extent that economic reform undermines

such egalitarianism and adversely affects the growth of the TVEs, it would set back the poverty reduction effort as well.

An even more critical issue may be employment generation. Even in the period of high growth, the most important and urgent economic problem China faced was unemployment. In every year of the early 2000s, a labour force totalling 10 million entered the job market. In addition, there were more than 5 million redundant workers from former state-owned enterprises waiting for re-employment. Finally, there were hundreds of millions of migrants from farming families constantly moving around the country seeking jobs.

As a result, even the high rate of growth in China, if not accompanied by structural and other changes that ensure more job creation, cannot meet the pressure for job creation. For example, in 2003, with a 9.1 per cent aggregate GDP growth rate, 8 million jobs were created, but even this was inadequate given the continuously growing “backlog” of increase in the labour force and reduced demand for labour in many traditional activities including agriculture. This is a critical issue in the current context, as the pace of growth is clearly slackening and job losses are mounting with the export slowdown. One impact of the current global crisis may therefore be to slow down or even reverse the poverty reduction effort in China, unless active measures are taken to ensure that job creation continues in other activities.