



## How Did China Overcome the “Poverty Trap”?

Throughout the development cycle of a country, major tasks and challenges may arise during various stages of development and the possibility of a period of stagnation exists in each stage. In the low-income stage, anemic economic growth, lagging human development, political instability and social unrest often lead to a vicious cycle in national development. For instance, many countries in Africa have so far failed to fight poverty effectively and remain mired in the “poverty trap”. In the middle-income stage, many countries fall into the “middle income trap”. Even if countries succeed in overcoming the “middle income trap”, their economic growth may still be plagued by the “high income trap”, with Japan being one such example.

In order to understand whether China can effectively address the challenges of the middle-income stage and overcome the “middle income trap”, we need to know how China has successfully escaped the “poverty trap”. Throughout the history of the world economy, China’s overcoming of the “poverty trap” and the rapid growth it has experienced since the country initiated the reform and opening-up policy, which has been described as an “economic miracle”, both constitute major milestones in the history of world economic development. Understanding how China overcame the “poverty trap” is of great significance for us to gain insight into how the country should address the challenge of the “middle income trap”.

The passages below provide a multidimensional analytical framework for poverty and an introduction of China's achievements in poverty reduction before and after the implementation of the reform and opening-up policy, and on the basis of which, we further explicate how China was able to create a poverty reduction miracle by looking at economic development and the implementation of poverty alleviation policies. Finally, we elaborate on China's achievements in poverty reduction and its contribution to the cause of global poverty reduction with international comparisons.

## 2.1 THE ANALYTICAL FRAMEWORK OF MULTIDIMENSIONAL POVERTY

Poverty is a chronic illness in civilized societies. In 1970, human beings completed their first journey to the moon, but at the same time, the vast majority of developing countries remained in abject poverty. In a sense, the technological advancements achieved by mankind and the global resource environment should prove sufficient in lifting everyone out of poverty. However, according to figures released by the World Bank, by the end of 2015, roughly 10% of the world's population (around 700 million people) remained in poverty. It is precisely due to the intractable nature of poverty that poverty reduction has become a common cause for all humanity. In September 2000, 189 countries adopted the United Nations Millennium Declaration following a three-day Millennium Summit of world leaders at the headquarters of the United Nations, and proposed eight Millennium Development Goals, which have been celebrated as a global convention to eliminate poverty.<sup>1</sup>

There is no doubt that an in-depth understanding of poverty is of great significance to development. Society's understanding of the concept of poverty is ever evolving and deepening. Amartya K. Sen, winner of the 1998 Nobel Prize in Economics, believes that poverty should be conceptualized as capability inadequacy instead of low income. In this sense, the root cause of poverty is the deprivation of capabilities, rights and welfare. Therefore, low income merely reflects the appearance of poverty while the

<sup>1</sup>The MDG proposed that countries should be committed to achieving the following goals by 2015: to eradicate extreme poverty and hunger; to achieve universal primary education; to promote gender equality and empower women; to reduce child mortality; to improve maternal health; to combat HIV/AIDS, malaria, and other diseases; to ensure environmental sustainability; to develop a global partnership for development.

lack of capabilities and the injustices caused by institutional factors constitute the deeper causes of poverty.

Based on his multidimensional understanding of poverty, Hu Angang (2009) proposed a four-dimensional poverty model, which<sup>2</sup> comprised income poverty, human poverty, knowledge poverty and ecological poverty. Among them, income poverty refers to the lack of material resources, meaning the lack of minimally sufficient income and expenditure which make it difficult to maintain basic living standards. Income poverty is the most commonly used measure of poverty. Internationally, the World Bank uses the international poverty line to define absolute poverty.

Human poverty refers to the lack of basic capabilities such as literacy, access to nutrition, sanitation, low average life expectancy and so on. This concept was proposed by the UNDP in the 1997 Human Development Report, which introduced the Human Poverty Index (HPI).<sup>3</sup>

Knowledge poverty refers to the lack of the ability to generate, acquire, exchange and apply knowledge, or the lack of access to knowledge, that is, the deprivation of people's ability and means to acquire, absorb and exchange knowledge. The knowledge here is broadly defined, including science and technology, education and training, information and network. Knowledge poverty encompasses the lack of ability to acquire, absorb and exchange knowledge.

Ecological poverty refers to extremely limited access to basic survival needs as a result of poor basic living environment that entraps people in poverty. On top of that, individual poverty may exacerbate the resource strain because of the impoverished population's increasing demand on its living environment which in turn further degrades an area's ecological integrity and increases its ecological vulnerabilities. Eventually, the carrying capacity of the environment will degrade to a level insufficient for meeting the basic survival and production needs of residents in the area.

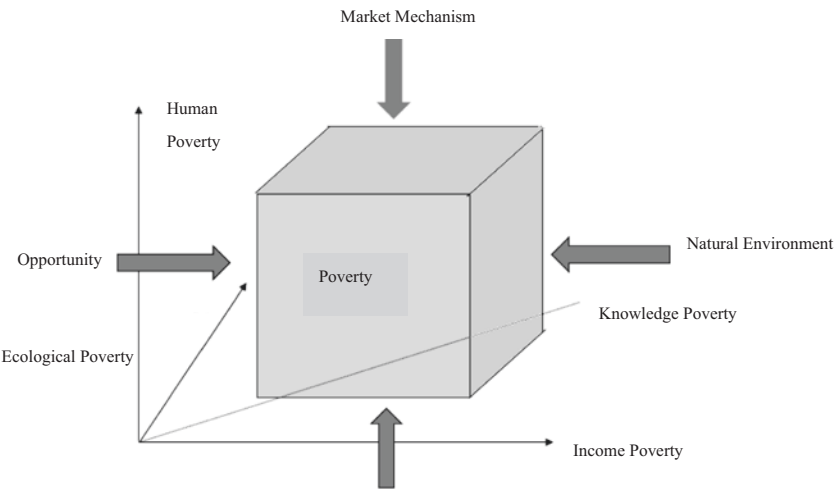
As a chronic disease, the causes of poverty are often multifaceted and accompanied by other traits, which together manifest as a poverty

<sup>2</sup>Hu Angang (2009) “From a Large Poverty-Stricken Economy to a Moderately Prosperous Society: The Way China Eradicates Four Types of Poverty 1949–2020”, compiled in: Pan Wei (ed.) (2009), “China Model: A New Developmental Model from the Sixty Years of the People's Republic”, China Compilation and Translation Press.

<sup>3</sup>According to the 1997 Human Development Report, the human poverty index comprises the following: probability at birth of not surviving to age 40; adult illiteracy rate; unweighted average of population without sustainable access to an improved water source; proportion of people without access to health services; and children underweight for age.

syndrome. In the World Development Report 2000/2001, the World Bank stated three dynamic traits shared by the impoverished: first, lack of opportunities to participate in economic activities; second, no say in major decisions concerning their own destiny; third, vulnerable in the face of economic and other shocks such as illness, food crisis, recession and so on (World Bank, 2001). This demonstrates that poverty is not simply a matter of low income, but is also embodied in a multitude of aspects such as development opportunities, social equality and political participation.

Indian economist Abhijit Banerjee and French economist Esther Duflo conducted an in-depth research for 15 years on the impoverished populations in 18 countries and regions across five continents on the subject matters of their daily lives, education, health, entrepreneurship, aid, government and non-governmental organizations. In their co-authored work entitled *Poor Economics*, the two distilled the causes of poverty into four main factors: turbulent social situations, harsh natural environment, backward education and the absence of social assistance programs. Their research in fact corroborates Hu Angang’s multidimensional perspective on poverty. Both agree that there is no single root cause of poverty (Fig. 2.1).



**Fig. 2.1** The multidimensional analytical framework for poverty. (Note: Formulated by the authors)

## 2.2 STAGNANT DEVELOPMENT IN CHINA’S CONTEMPORARY HISTORY PLUNGED THE COUNTRY INTO POVERTY

The eradication of poverty ultimately depends upon development, and poverty reduction itself is part and parcel to development. Judging from history, the economic development of countries in the world has undergone enormous changes in the past 200 years. Since the eighteenth century, and with the rise of capitalism and the spread of the industrial revolution, the world economy has entered a period of modern economic growth while disparity has become an important feature of development during this period. With the industrial revolution’s remodeling of the world economy, the gradual formation of the global market and the world order yet to be brought to full fruition, in a contemporary world characterized by enormously unbalanced development, poverty often meant subjugation, and subjugation then led to worsening poverty.

Historically speaking, China gradually became the “left behind” in the global drive for modernization during the 1820–1950 period. The country faced the most egregious cases of external aggression during this period from the Western powers (including Japan). Not only was China not a participant in the global modernization process, it became a victim of aggression of the Western powers. According to Maddison’s calculations, the world’s average per capita GDP increased by 2.16 times during the 1820–1950 period while the per capita GDP of the U.S. rose eight-fold, the per capita GDP of Japan increased by 1.88 times and that of Western Europe grew 2.73 times. During this period, overall, China reverted from being a global economic powerhouse to a period of decline and from being a country with the world’s most powerful economy to an economically weak nation. Its per capita GDP fell to a historical low of less than one-fourth of the world average, placing it at the bottom of the ladder globally. In 1820, China’s per capita GDP was slightly below that of Japan and the world average, but by 1950, China’s per capita GDP (1990 international dollars) had dropped to 439 US dollars, 27% lower than in 1820.<sup>4</sup> According to the Maddison Project Database, the average per capita GDP of China remained in the negative territory for more than 250 years

<sup>4</sup> Hu Angang, 2008, “The Political and Economic History of China (1949–1976)” (2nd edition), pp. 24–32, Tsinghua University Press.

**Table 2.1** A comparison of per capita GDP growth among the major economies (1700–2015) (Unit: %)

	1700–1820	1820–1952	1952–1978	1978–2003	2003–2015
China	0	–0.08	2.34	6.57 (8.31)	9.15
India	0	0.1	1.81	3.27	6.11
Japan	0.1	0.95	6.66	2.11	0.82
Europe	0.22	1.03	3.56	1.79	
U.S.	0.62	1.63	2.1	1.85	0.91
Soviet Union/Russia	0.19	1.04	3.15	–0.78	3.05
Global average	0.09	0.92	2.56	1.55	2.58

Source: Maddison Project Database, 2008, “Chinese Economic Performance in the Long Run”, p. 37 (data for 1700–2003 period); China National Bureau of Statistics data in parentheses; 2003–2015 data sourced from the World Bank database: <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?>

during the 1700–1952 period. China commenced its industrialization in this historical context (Table 2.1).

One of the fundamental causes of China’s backwardness and subjugation in its contemporary history lies in the lack of a strong and modern state leadership, which also constitutes an important reason for China’s ineffectiveness in dealing with the global industrial revolution and the root cause for China’s inability to launch its own industrialization and modernization.

### 2.3 ACHIEVEMENTS IN DEVELOPMENT DURING CHINA’S PLANNED ECONOMY ERA

In 1949, following the founding of the People’s Republic of China under the leadership of the CPC, China began its industrialization process to “catch up” with modernization. China’s commencement of industrialization lagged 100–200 years behind that of developed countries. At the beginning of the founding of the People’s Republic of China, the state of affairs concerning development in the country can be characterized as “poor and blank”.<sup>5</sup> Therefore, such issues as how to promote economic

<sup>5</sup> Mao Zedong pointed out in the “Relationship between China and Foreign Countries” segment in his article “On the Ten Major Relationships” in 1956 that “we are firstly ‘poor’ and secondly ‘blank’. ‘Poor’ refers to the fact that there is not much industry and our agriculture is underdeveloped, while ‘blank’ means blank slate. We are deficient in both literacy and science”.

development, raise people's income and promote the quality of citizens through the development of science, education and health programs became the imperative and primary goals of national development after the country's founding.

Generally speaking, after the founding of the People's Republic of China up until the beginning of China's reform and opening-up, China's socialist construction had been by no means smooth sailing and had undergone several major setbacks, the Great Leap Forward and the Cultural Revolution being two examples. Nevertheless, China's socialist construction still witnessed unprecedented achievements. In terms of per capita income, according to Maddison's estimates, the country's annual per capita GDP growth rate stood at 2.34% during 1952–1978, significantly higher than before the founding of the People's Republic. China's per capita GDP in 1982 was significantly higher than in 1950 in 1990 international dollars, reaching 1186 US dollars. However, the same period also saw rapid development of capitalist and some developing countries in the post-war era, with global average per capita GDP growth reaching 2.56%. Therefore, although China did register remarkable achievements in development during this period, it failed to take full advantage of the historical opportunities to achieve better development.

With regard to poverty, China remained largely in extreme poverty during the early days of the country's founding. In the dimension of human poverty, China suffered from an exceedingly low level of human development during its initial days. During the planned economy era, it could be said that poverty was alleviated most markedly, especially in terms of human poverty. For instance, China made great strides in the domains of education and health: average life expectancy rose from 35 years in 1950 to 67.77 years in 1982; infant and maternal mortality rates also dropped significantly over the same period; the average years of schooling per person rose to 4.6 years.

Achievements in the area of health are largely the result of the development of public health infrastructure in China. For instance, following the founding of the People's Republic of China, the country conducted a long-running patriotic health campaign that covered all parts of its urban and rural areas through the mobilization of its people under the leadership of the CPC and the government. As a result, numerous epidemic diseases such as smallpox and cholera have been mostly brought under control. In addition, in spite of an extremely low per capita income, China has established a primary public health infrastructure. From the 1960s to 1980s,

the “barefoot doctors” program and the rural cooperative medical system provided basic, accessible and affordable healthcare services for rural residents and coverage that became a crucial factor in raising people’s average life expectancy.

China’s achievements in the domain of health can be further confirmed through international comparison. In 1977, the average life expectancy in China stood at 65, much the same as that of Mexico, and significantly higher than that of India (53). According to Maddison’s data, Mexico’s per capita GDP was six times that of China in 1977, while India’s per capita GDP was also higher than China’s. In this sense, China’s achievements in the domain of health in the era of planned economy with an exceedingly low average per capita income level constituted a historical miracle. In this regard, the World Bank praised China’s accomplishments in the 1993 World Development Report, which stated that by the late 1970s, nearly all of China’s urban population and 85% of the rural population were covered by health insurance in the country, marking an unparalleled achievement among the low-income countries.

Similarly, during the planned economy era, China also realized remarkable accomplishments in education development, mainly reflected in the elimination of illiteracy among young and midlife adults and the universal provision of primary education. In the early days of the People’s Republic, the illiteracy rate stood at 80%, and the illiteracy rate in rural areas surpassed 90%. The People’s Republic of China launched a large-scale literacy campaign immediately following its founding, which succeeded in greatly reducing the illiteracy rate among young adults while disseminated knowledge in the fields of production, daily life and health. By 1981, China had transformed 140 million illiterate people into literate citizens. Another important factor that led to the significant drop in illiteracy rates was the development of primary education in China. Before 1949, China’s primary school enrollment rate stood at a mere 25%. However, in 1952, the enrollment rate of primary school-age children in China increased to 49.2% and subsequently reached 96.8% in 1975.<sup>6</sup> At the same time, the rates of graduates of primary and junior secondary schools also depicted a rising trend before China’s reform and opening-up. What needs to be pointed out here is that the “Great Leap Forward” and the “Cultural

<sup>6</sup> Li Ling (2009): “Human Capital, Economic Miracle and the Chinese Model”, compiled in: Pan Wei (ed.) (2009), “China Model: A New Developmental Model from the Sixty Years of the People’s Republic”, China Compilation and Translation Press.

Revolution” exerted a clear negative impact on China’s education development. For example, the enrollment rate of primary school children and the rate of graduates of junior secondary schools in 1962 were significantly lower than in 1957, while the rates of graduates of primary schools and junior secondary schools were significantly lower than in 1965. However, on the whole, China had witnessed remarkable progress in the domain of primary education before the reform and opening-up.

According to data from the World Bank’s World Development Report in 1983 and 1984, the adult literacy rate in China had already reached 69% in 1980 and its secondary school enrollment rate had hit 44% in 1981, both significantly higher than the majority of low-income countries, ahead of many middle-income countries at the time. Compared with the level of economic development at the beginning of China’s founding, this undoubtedly constituted a tremendous achievement in development (Table 2.2).

Taking into account the economic, educational and health development since the founding of the People’s Republic, development during the 1950–2015 period can be bifurcated into two stages, that is, 1950–1982 and 1982–2015, roughly corresponding to the planned economy period and the period following the implementation of the reform and opening-up. We can see from Table 2.3 that China’s per capita GDP

**Table 2.2** The development of China’s primary education (1952–1985): Percentage of graduates entering higher level schools (Unit: %)

<i>Year</i>	<i>Junior secondary schools</i>	<i>Primary schools</i>	<i>Net enrollment rate of primary school-age children</i>
1952	168.6	96	49.2
1957	39.7	44.2	61.7
1962	30	45.3	56.1
1965	70	82.5	84.7
1970	38.6	71.2	
1975	60.4	90.6	96.8
1978	40.9	87.7	95.5
1979	37.6	82.8	93
1980	45.9	75.9	93.9
1985	41.7	68.4	96

Source: Comprehensive statistical materials on 60 years of the new China

Unit: %

**Table 2.3** China’s development through its economic, education and health indicators (1950–2015)

	1950	1982	2015
Per capita GDP (2011 international dollars)	172	802	13,572
Average years of education (years)	1.0	4.6	10.23
Life expectancy (years)	41	67.77	76.34
Infant mortality rate (‰)	200	37.61	8.1
Maternal mortality rate (per 100,000 people)	1500	100	20.1
Human Development Index	0.145	0.423 (1980)	0.738 UNDP

Sources: Per capita GDP (PPP, 2011 international dollars), 2015 data source: World Bank Database, 1950 and 1982 data calculated on the basis of 2011 international dollars; source of average life expectancy data: National Bureau of Statistics of China: China Statistical Abstract (2016), p.18; The average years of education for the working-age population are calculated by the authors on the basis of previous national census data; source of infant and maternal mortality data: National Bureau of Statistics of China: China Statistical Yearbook (2016), p. 725; source of Human Development Index (HDI) data: 2016 UNDP Human Development Report, Table 2, 1950 and 1982 figures are calculated by the authors

growth took a “small step forward” in the planned economy era whereas it took a “big step forward” in the domains of education and healthcare. This indicates that although China experienced major setbacks during the Great Leap Forward and the Cultural Revolution, the planned economy laid the groundwork for the rapid economic growth after the reform and opening-up through human capital investment. In addition, we can also see that between 1982 and 2015, the development of economy and education took a further “big step forward” while health outcomes also witnessed improvements.

2.4 ECONOMIC DEVELOPMENT  
AND POVERTY REDUCTION

Economic development is a necessary condition for poverty reduction. Without economic development, it is more difficult for the poor to access opportunities that can improve their incomes and living standards. Fundamentally speaking, the substantial progress in China’s poverty reduction was largely achieved after the reform and opening-up, which was closely related to the rapid economic growth thereafter. People often describe China’s process of reform and opening-up as being like a person crossing a river by feeling his way over the stones. At the beginning of the

reform and opening-up, China did not have a prescriptive “blueprint for development”; the implementation of various reform measures essentially was to meet the objective needs of economic and social development at the time, and adjustments were made accordingly as problems arose during the implementation process. In other words, the economic reforms after the reform and opening-up are largely adaptive in nature. The goal of China’s economic reform is clear: to develop the economy and constantly raise the living standards of the people. Overall, the process of China’s economic reform since 1978 has been methodical and can be characterized by a series of stages with differing priorities of reform at each stage. However, fundamentally speaking, the one common feature across the stages is creating economic opportunities for the people.

### *2.4.1 Rural Economic Reform and Poverty Reduction*

China’s economic reform began with the implementation of the household responsibility system in rural areas. The measure, which played a crucial role in alleviating poverty in China in the early days of the reform and opening-up, represented a typical example of institutional changes made on account of the development of farmers, or in other words, it was an induced institutional change. It should be noted that although China significantly reduced human poverty in the era of planned economy, progress was mainly found in the fields of education and health while the issue of income poverty remained outstanding. At the beginning of its reform and opening-up, China had stayed as a country with extremely low per capita income. According to Maddison’s data, China’s per capita GDP in 1978 stood at 979 US dollars (PPP, 1990 international dollars), comparable to that of India, but significantly lower than the average of 57 African countries (1439 international dollars).<sup>7</sup> According to the international poverty line, there were still 730 million impoverished people in China in 1978, equivalent to roughly 76% of its total population. The fundamental issue of food security remained unresolved. In April 1979, then Vice Premier of the State Council, Li Xiannian, admitted for the first time that per capita grain possession in 1978 was only slightly higher than in 1957. The import of agricultural products accounted for about one fifth of the total value of imports. Farmers in considerable parts of the country did

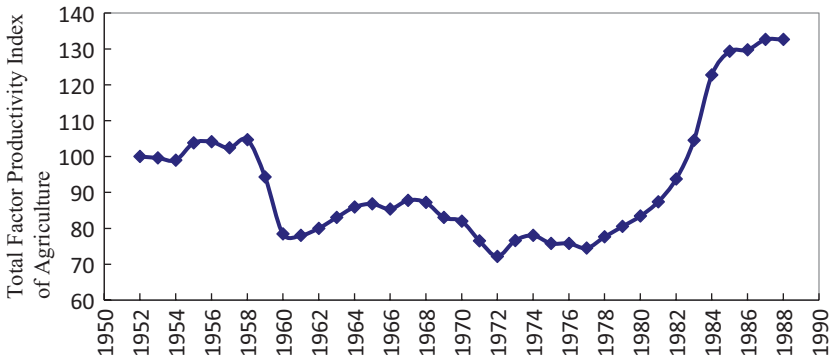
<sup>7</sup>Angus Maddison, 2003, *Shi Jie Jing Ji Qian Nian Shi*, p. 302 & 325, Peking University Press.

not have adequate food rations or in some cases severely lacked food supplies.<sup>8</sup> Therefore, the development of agricultural production for the purpose of eradicating hunger and alleviating poverty became the primary task during the early days of the reform and opening-up.

The collective agricultural system based on rural communes curbed farmers' enthusiasm for agricultural production. In the early 1980s, the household responsibility system gradually gained policy recognition through voluntary practices by farmers and was then implemented throughout the country. It evolved to become the basic economic system for rural economic development, reversed the trend of faltering agricultural development before the reform and opening-up, promoted greatly the overall development of agriculture, and raised the living standards of farmers. As a result, hunger in rural areas had been largely eliminated in the mid-1980s. During the 1978–1985 period, China's total grain output increased by 24%, while the actual per capita net income of rural residents rose by 169% with an average annual growth rate of 15.1%. Based on China's own poverty line, within just seven years from 1978 to 1985, the number of China's rural poor dropped by half from 250 million to 125 million. In the same period, the incidence of rural poverty fell from 31% to 15%, marking it a “miracle of poverty reduction” in human history. There is no doubt that the reform of the agricultural economic system, with the institution of the household responsibility system as its pillar, served as the key to achieving this triumph (Fig. 2.2).

Township and village enterprises represent another highlight of rural economic development after the 1980s. The predecessor of township and village enterprises was the commune and brigade enterprises under the system of people's communes in the early 1970s. Since the reform and opening-up, the township and village enterprises have not only evolved into prominence in rural economic development, but also become a bright spot in China's economy. In the planned economy era, township and village enterprises remained external to the planned economy, and the development of which followed the principles of market economy to a large extent, that is, operating independently, assuming sole responsibility for profits and losses with flexible operating mechanisms. When China remained a shortage economy, the rise of township

<sup>8</sup> Li Xiannian: Speech at the Central Work Conference, published in *Selected Works of Li Xiannian*, People's Publishing House, 1989 edition, p. 346.



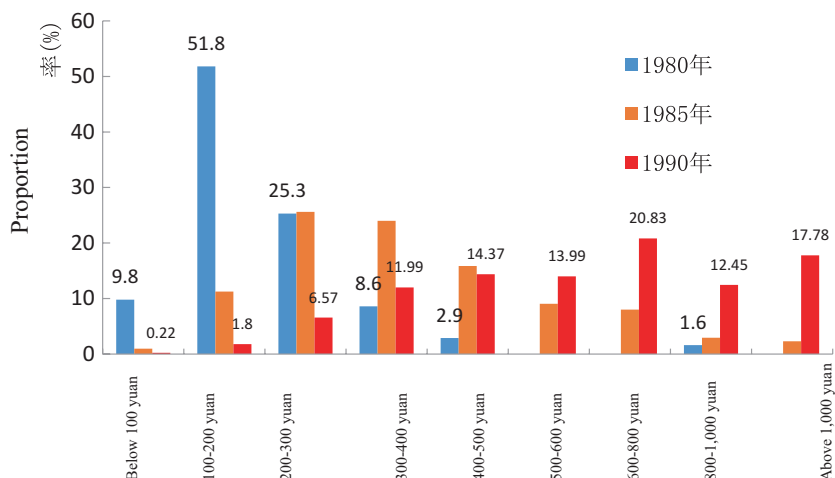
**Fig. 2.2** Changes in the total factor productivity index of agriculture (1952–1989). (Source: Lin Yifu, “Institutions, Technology, and Agricultural Development in China”, Truth & Wisdom Press, 2008 First Edition, p. 19)

and village enterprises created a large number of employment opportunities. In 1990, the number of people employed by township and village enterprises reached 92.62 million, comparable to the number of employees in China’s state-owned enterprises in urban areas in 1990 (103.46 million). This sufficiently shows the importance of the development of township and village enterprises in the Chinese economy during the 1980s and the 1990s.

With the recovery and development of agricultural production and the rapid development of township and village enterprises, the income of farmers witnessed substantial growth. We can see from the distribution of rural families by income during 1980–1990 (see Fig. 2.3) that the income of rural households increased significantly in the 1980s. With the development of the rural economy, the number of rural poor continued to decline, falling to 85 million by 1990 and the incidence of poverty dropped to 9.4%.

#### 2.4.2 *SOE Reform and Development of Private Sector Economy*

The economic miracle experienced by China since the reform and opening-up was a product of China’s constant explorations in the establishment of a socialist market economic system instead of clinging to the



**Fig. 2.3** Proportion of rural residents by income (1980–1990). (Source: National Bureau of Statistics, China Statistical Yearbook (1998), Beijing: China Statistics Press, p. 344. Note: This table is a sample survey of rural households)

planned economy. Although China did not specify a direction for economic restructuring at the beginning of the reform and opening-up, in terms of institutional arrangements, the country stayed on the path of liberating and developing the productive forces. *The Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China* approved in June 1981 pointed out that “there is no rigid pattern for the development of the socialist means of production. At every stage, our task is to create those specific forms of the means of production which correspond to the needs of the growing productive forces and facilitate their continued advance”. In addition, in the process of advancing economic restructuring, the role of the market in resource allocation has been constantly amplified. For example, during the drafting process of *The Resolution*, the following line was added to the document in light of Chen Yun's suggestion: “it is necessary to have planned

economy and simultaneously give play to the supplementary, regulatory role of the market on the basis of public ownership”.<sup>9</sup>

At the beginning of the reform and opening-up, China’s economy was entirely dominated by the state. In 1978, state-owned enterprises and collective enterprises contributed to 97.8% of the total industrial output, of which state-owned enterprises alone accounted for 77.6%.<sup>10</sup> After the reform and opening-up, China began actively implementing the reform of state-owned enterprises, attracting foreign direct investment, and vigorously developing various types of self-employed and privately owned businesses. Development of the non-state-owned sector gradually evolved into a key driver for the Chinese economy. Together with the reform of state-owned enterprises, the development of the non-state-owned sector has nurtured the small companies for the construction of China’s market economy.

The earliest reform of state-owned enterprises focused on the “decentralization of power and transfer of profits” in order to create incentives for state-owned enterprises.<sup>11</sup> By 1984, the central government began to

<sup>9</sup>In 1981, during the Fourth Session of the Fifth National People’s Congress, the Report on the Work of the Government, in its elaboration on “actively and prudently reforming the economic system”, stated that the basic direction of China’s economic structural reform should be: to give play to the supplementary, regulatory role of the market on the basis of implementing the socialist planned economy, and the state should also give full consideration to and apply the law of value in the formulation of plans; the centralized and unified leadership of the state should be strengthened in regard to economic activities that affect the national economy and people’s livelihood while with regard to the economic activities of enterprises, varying degrees of decision-making power should be delegated and the democratic rights of employees in managing enterprises should be expanded; the practice of simply relying on administrative means to manage the economy should be modified to combine both economic and administrative approaches and one should also pay attention to the use of economic leverages, laws and regulations in managing the economy.

<sup>10</sup>Calculated based on data from Comprehensive Statistical Materials on 60 Years of the New China.

<sup>11</sup>China began to carry out power decentralization pilot reforms in state-owned enterprises in Sichuan and Beijing as early as 1978–1979. In December 1981, the State Council approved and forwarded the Opinions on Several Issues Concerning the Implementation of the Economic Responsibility System in Industrial Enterprises formulated by the State Economic Commission with the goal of promoting the implementation of the production responsibility system of enterprises. In April 1983, the State Council approved and forwarded the Circular on the Measures for the Implementation of Replacement of Profit Delivery by Taxes from the Ministry of Finance with the aim of implementing the replacement policy and further advance the power decentralization and transfer of profits reform of SOEs.

treat the vitality of the state-owned large and medium-sized enterprises as the centerpiece of China's economic reform. The country began the pilot implementation of the "Enterprise Bankruptcy Law" draft in 1985. Subsequently, shareholding reform became a centerpiece in the country's SOE reform. In terms of reform design, the goal of state-owned enterprise reform during 1984–1992 was to gradually promote the separation of government from enterprises in accordance with the principle of the separation of ownership and management rights of state-owned enterprises, so as to further transform state-owned enterprises into independently operated and self-financed commercial producers and operators. In 1992, the 14th National Congress of the Communist Party of China made it clear that the goal of China's economic restructuring was to establish a socialist market economy. *The Decision on Issues Concerning the Establishment of a Socialist Market Economic System* adopted in the Third Plenary Session of the 14th Central Committee of the Communist Party of China in November 1993 clearly stated that the direction for the reform of state-owned enterprises in China was to establish a modern enterprise system that "meets the requirements of a market economy and socialist large-scale production, defines property and other rights and responsibilities clearly, and entails a separation of government and enterprises and scientific management".<sup>12</sup>

The report of the 15th National Party Congress of the CPC further demanded the strategic readjustment of the state-owned economy and stated that the dominant role of the state-owned economy lay mainly in its strength of control. The report mandated that the state-owned economy must assume the dominant role in key industries and fields related to the lifeline of the national economy. After the 16th National Congress of the

<sup>12</sup>In 1994, the Company Law of the People's Republic of China was promulgated to promote the establishment of a modern enterprise system. In September 1995, the Fifth Plenary Session of the 14th CPC Central Committee further proposed that "the reform of state-owned enterprises should focus on the revitalization of the entire state-owned economy and bring about strategic reorganization of SOEs through the flow and reorganization of existing assets. Such reorganization should be guided by the market and industrial policies. 'Grasp the large, release the small.' The optimization of the state-owned assets structure, corporate structure and investment structure should be organically integrated to allow for merit-based support and survival of the fittest".

CPC, changes in the way in which state-owned assets are managed and reforms in the capital market further advanced the reform of SOEs.<sup>13</sup>

The Report of the 17th National Congress of the Communist Party of China put forward the following proposal: “deepen the reform to introduce the corporate and shareholding systems in state-owned enterprises, improve the modern corporate structure and optimize the distribution and structure of the state sector of the economy to enhance its dynamism, dominance and influence”. The 18th CPC National Congress explicitly proposed that “all kinds of state-owned assets management systems should be improved”. In general, since the 16th National Congress of the Communist Party of China, the reform of the state-owned assets management system has seen positive progress and tangible results. The country has established three levels of state-owned assets supervision and administration entities, including the State Council, provinces (autonomous regions and municipalities) and cities (prefectures). The majority of non-financial state-owned assets have been incorporated into the supervisory and regulatory architecture, and a system of state-owned assets supervision and management laws and regulations has taken shape.<sup>14</sup>

After more than 30 years of state-owned enterprise reform, state-owned enterprises, together with various other types of economic entities, have become the primary players in the market and assume pivotal roles in such major areas as infrastructure construction, national defense and prominent science and technology projects in China. Meanwhile, the reform of state-owned enterprises has bolstered the development of the non-state-owned

<sup>13</sup>In 2003, the central and local governments established the State-owned Assets Supervision and Administration Commission with a vision of establishing and perfecting the state-owned assets management and supervision system, encouraging large state-owned enterprises to attract foreign investment and private capital, and implementing the diversification of ownership.

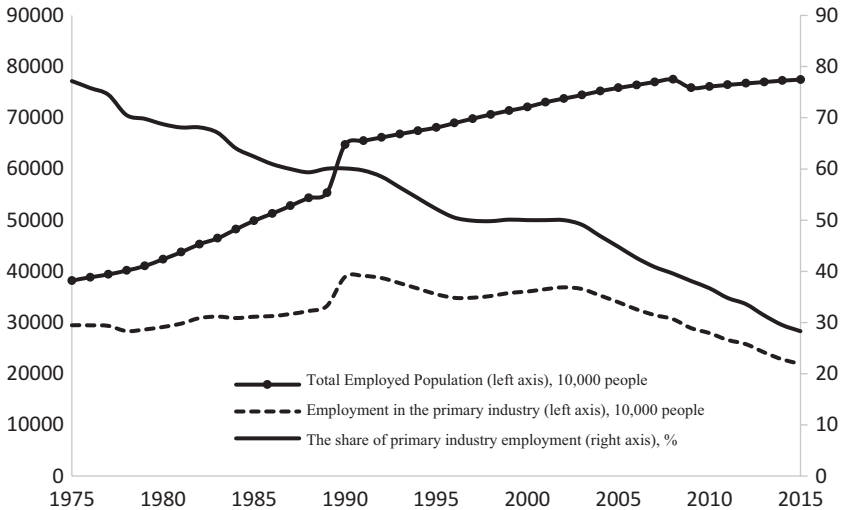
<sup>14</sup>Among them, 299 regulatory documents were issued by the State-owned Assets Supervision and Administration Commission of the State Council while more than 2800 laws and regulations on state-owned assets were promulgated by the local governments in conjunction with SASAC; supervision over the state-owned assets of enterprises was strengthened, mechanisms for performance appraisal, incentivization and restraint were developed and continuously improved, mechanisms for financial supervision, auditing and Board of Supervisors witnessed steady improvements as did the management of property rights, and the state-owned capital budget management system and revenue management mechanism gradually materialized. (See: Wang Yong, “Interpretation of the 18th National Congress of the CPC on the Improvement of Various State-owned Assets Management Systems by Wang Yong, *Economic Daily*, November 19, 2012.)

economy by relinquishing more room for latter's growth. Judging from the history of development, the state-owned enterprise reform has happened in tandem with the development of the non-state-owned economy. China began to develop its private sector economy and township and village enterprises as early as the early 1980s.<sup>15</sup> At the same time, China also began to actively attract foreign capital, cultivate market players in the development of the market economy and offer them policy support through the Party congresses.<sup>16</sup>

The development of the non-public economy is an important manifestation of expanding economic freedom. It has created tremendous employment opportunities for a large number of urban and rural workers and provided impetus for the transfer of the labor force of the agricultural sector to non-agricultural employment. At the beginning of the reform and opening-up, the agricultural sector employed approximately 70% of the entire labor force. With the development of the economy and the non-public economy in particular, the share of agricultural employment declined gradually from 58.5% in 1992 to 50% in 2002, and then diminished significantly further to 28.3% after joining the WTO (see Fig. 2.4).

<sup>15</sup> In August 1980, the CPC Central Committee's Circular on Forwarding the National Labor and Employment Conference Documents (Document No. 64) affirmed the policy of "combining together the three employment channels of labor administration, volunteer partnership and self-employment", and demanded the "encouragement and support of the development of urban individual economy". On October 17, 1981, the CPC Central Committee and the State Council released the "Decisions on Opening Up Employment Channels, Invigorating the Economy and Resolving Urban Employment". In 1981, the number of individual industrial and commercial households registered in urban and rural areas nationwide numbered 1.83 million, employing 2.27 million people.

<sup>16</sup> In 1982, the report of the 12th CPC National Congress stated that "China is still in the primary stage of socialism" and proposed the "leading role of the planned economy and supplementary role of market regulation" as the principle for reform. In October 1987, the report of the 13th CPC National Congress stated that "domestic-foreign joint ventures, cooperative enterprises and wholly foreign-owned enterprises are a necessity and a beneficial supplement for China's socialist economy". On April 12, 1988, the 7th National People's Congress passed the "Constitution of the People's Republic of China (Amendment)" to which the following clause was added: "the state allows the private economy to exist and develop within the scope of the law. The private economy is a supplement to public ownership. The state protects the lawful rights and interests of individual and private economies and guides, supervises and administers individual and private economies". By 1991, the number of individual workers in cities and towns had rapidly risen from 150,000 in 1978 to 760,000, accounting for 5.24% of the total workforce. From the perspective of gross industrial output, individual industrial output in urban and rural areas as a share of the total industrial output soared from almost non-existent to 4.83% in 1991.



**Fig. 2.4** Changes in China's employment structure (1950–2015). (Original data source: China Statistical Abstract 2016, p. 40)

The development of the non-public sector of the Chinese economy has provided enormous employment opportunities for the country's urbanization drive. In terms of the distribution of urban-rural employment, the share of the labor force employed in rural areas shrank from 76.3% in 1978 to 47.8% in 2015. In absolute terms, starting from 1998, the size of the rural workforce fell from 490.21 million to 370.41 million in 2015, representing a decline of 220 million people, equivalent to the combined population of Japan and Germany (see Fig. 2.5).

Urban employment has been expanding since 1978, from 105.25 million in 1978 to 404.1 million in 2015. The increase in urban employment was close to the total population of the U.S. (320 million in 2015). Concerning the ownership structure of employment, with the reform of state-owned enterprises and the development of the non-public sector of the economy, the share of employment in state-owned enterprises plunged from 78.3% in 1978 to 59.1% in 1995. In particular, the employment share of state-owned enterprises declined significantly after the mid-1990s and fell to 15.4% in 2015 (see Fig. 2.6). In the meantime, the share of

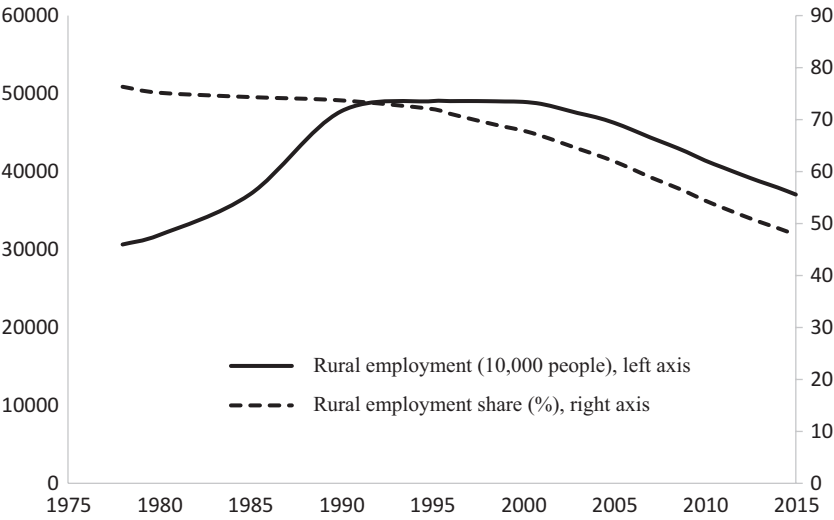


Fig. 2.5 Rural employment in China (1978–2015). (Original data source: China Statistical Abstract 2016, pp. 41–42)

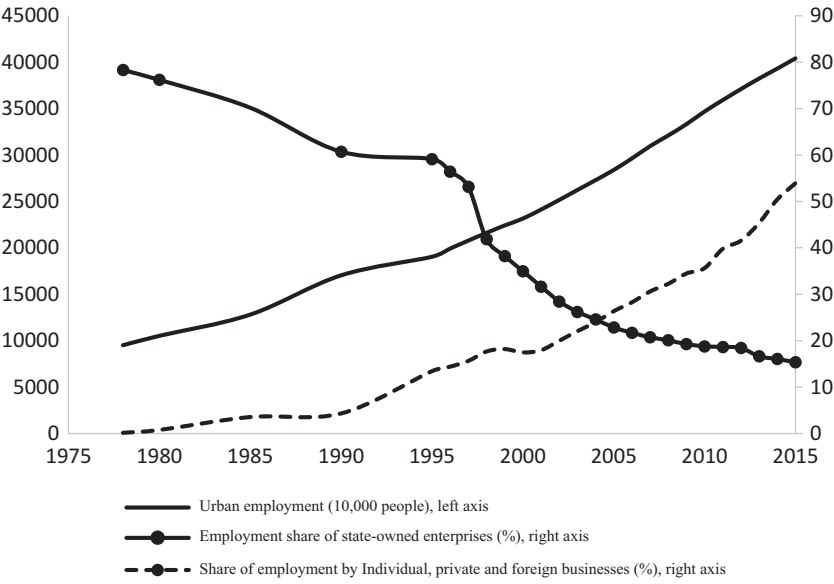


Fig. 2.6 Urban employment in China (1978–2015). (Original data source: China Statistical Abstract 2016, p. 41)

employment in individual, private businesses and foreign-funded enterprises grew from next to nothing to 53.9% in 2015, roughly equivalent to three times the employment in SOEs. In a sense, the reform of state-owned enterprises could not have been executed effectively without the rapid development of non-public-owned enterprises while the former has also objectively bolstered the development of the non-public economy.

As China gradually shifted from a planned economic system to a market economy, the per capita income of urban and rural residents in China has continuously risen. The per capita income of urban and rural residents in 2016 was 15 times and 16 times that of 1978, respectively; and the per capita income of urban and rural residents in 2016 was 3.9 times and 3.4 times that of 2000, respectively. Measuring the living standard of urban and rural residents by the Engel coefficient, China's urban residents had mostly reached affluent status in 2000 while its rural residents became moderately prosperous in 2010. In 2016, the Engel coefficient for urban residents dipped below 30%, suggesting that urban residents became even more affluent while that of rural residents dropped to 32.2% (see Table 2.4), suggesting that they moved closer to the affluent status.

**Table 2.4** Per capita income of urban and rural residents and Engel coefficient (1978–2016)

<i>Year</i>	<i>Urban resident income index (1978 = 100)</i>	<i>Rural resident income index (1978 = 100)</i>	<i>Engel coefficient of urban residents (%)</i>	<i>Engel coefficient of rural residents (%)</i>
1978	100.0	100.0	57.5	67.7
1980	127.0	139.0	56.9	61.8
1985	160.4	268.9	53.3	57.8
1990	198.1	311.2	54.2	58.8
1995	290.3	383.6	50.1	58.6
2000	383.7	483.4	39.4	49.1
2005	607.4	624.5	36.7	45.5
2010	965.2	954.4	35.7	41.1
2013	1227.0	1286.4	35.0	37.7
2015	1396.9	1510.1	29.7	33.0
2016	1505.9	1638.9	29.3	32.2

Sources: China Statistical Yearbook 2014, China Statistical Abstract 2017, p. 56, p. 60

Note: The Engel coefficient refers to the proportion of food expenditure to household expenditure, which reflects the living standards of residents. The richer the households, the lower the proportion of food expenditure. According to FAO's criteria, an Engel coefficient of above 60% suggests an impoverished society; 50–59% suggests that people are able to meet their basic needs; 40%–49% suggests people are comparatively well-off; 30%–39% suggests an affluent society while below 30% indicates a very wealthy society

The establishment of special economic zones constitutes a major institutional innovation by China as a socialist country, which fully demonstrates its firm commitment to economic development. The establishment of special economic zones, open coastal cities, open economic zones and active participation in economic globalization emerged as important factors in the miracle of China's economic growth since 1978. Opening up to the outside world has become the external driving force for China's economic growth, given full play to its comparative advantage of abundant labor resources and at the same time played a critical role in refining China's socialist market economic system. Generally speaking, China's opening-up can be roughly divided into three stages. During the first phase, from 1979 to 1992, China's opening to the outside world mainly occurred through trade ventures involving processing and assembly with supplied materials and parts and compensation trade. The industrial transfer from Hong Kong and Taiwan to the coastal provinces of the Chinese mainland established the regions as active participants in global trade. During 1992–2001, with the clear delineation of the socialist market economic system reform, China gradually established and improved its market-based and outward-oriented economy. Through deepening reforms in the realms of exchange rate, foreign investment, foreign trade and finance, China's economy entered a new stage in its opening-up. After 2001, China's opening-up turned a fresh page with its accession to the WTO. Its economic opening-up witnessed positive changes in terms of scope, fields, depth and form. On the whole, China's opening-up has narrowed the gaps in technology and managerial experience between China and the developed countries, and promoted the institutional building of its socialist market economic system. Not only has it brought external impetus for deepening of the state-owned enterprise reform, but it has also expanded market opportunities for the development of various types of non-state-owned economic entities.

## 2.5 POVERTY ALLEVIATION AND DEVELOPMENT SERVE AS A POWERFUL TOOL FOR OVERCOMING THE “POVERTY TRAP”

### 2.5.1 *Poverty Alleviation Policies During Different Development Stages*

For developing countries, economic development is an essential condition for reducing poverty in the early stages of development. As economic

development enters the middle-income stage, a sustained decline in the number of impoverished population hinges on the effective implementation of poverty reduction policies. China has always regarded poverty reduction as a priority for national development and implemented phased poverty alleviation and development projects at different stages of development, constituting an important element in China's poverty reduction campaign. Before the reform and opening-up, although China did not formulate an integrated poverty reduction strategy, its progress in the fields of education and health objectively promoted poverty reduction and markedly reduced the incidence of human poverty.

To tackle poverty, in the early 1980s, China began to pursue regionalized poverty alleviation and development policies in regions with concentrated poverty and lagged far behind in economic development. For example, in 1983, in light of the hardships caused by the serious destruction of vegetation in Gansu and Ningxia and the deterioration of the ecological environment, the government initiated a campaign to support agricultural development in “sanxi”, or three impoverished areas in western China.<sup>17</sup> To this end, the State Council set up a leading group for the “sanxi” agricultural development campaign, which preluded China's regional poverty alleviation and development efforts.<sup>18</sup> While advancing its poverty alleviation work, China has established a series of designated funds for poverty alleviation since 1980, including the Development Capital Funds for Supporting Underdeveloped Areas created in 1980, loans for old revolutionary base areas, ethnic minority and remote areas, cash-for-work relief programs in 1984 and so on.

In the mid-1980s, imbalanced development of China's rural areas grew increasingly prominent. According to China's national poverty line, there were still 125 million rural poor who lived under the poverty line in 1985 in mostly former revolutionary base areas, areas inhabited by minority nationalities, remote and border areas and poverty-stricken areas. In 1986, China established the State Council Economic Development in Poor Areas Leading Group (renamed the State Council Leading Group of Poverty Alleviation and Development in 1993) and began to pursue an organized, planned and large-scale poverty alleviation and development

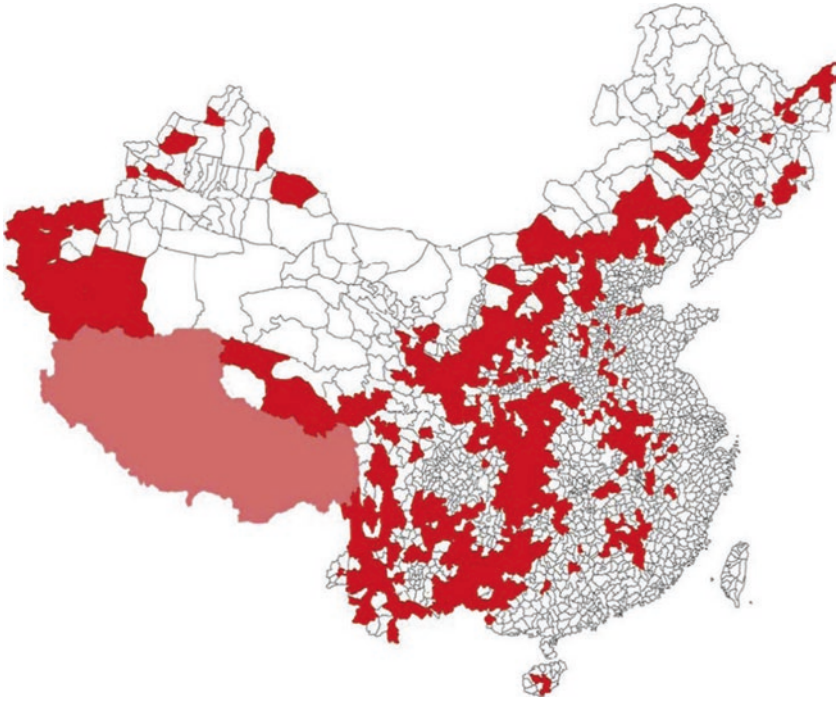
<sup>17</sup> The three western regions include the arid region of central China, with Dingxi in Gansu as a prime example, the Hexi Corridor region and the Xihai region in Ningxia.

<sup>18</sup> Zhang Lei, ed., *The Evolution of Chinese Poverty Alleviation Policy (1949–2005)*, China Financial and Economic Publishing House, 2007.

strategy. In the 1986–1993 period, 331 counties were identified as impoverished counties and received special funding through loans, work-relief programs and fiscal development channels. From 1986 to 1993, cash-for-work and fiscal development funds as a share of central government expenditures averaged 2.73%. After eight years of hard work, according to the national poverty line, the number of impoverished fell from 131 million in 1986 to 86.6 million in 1993 while the incidence of poverty was reduced from 15.5% to 8.8%.

In 1994, China promulgated and implemented the “Eight-Seven Poverty Reduction Plan”, which explicitly proposed to solve the problem of adequate food and clothing for the rural poor in about seven years by the end of 2000. The Plan became the first program of action with a clear set of objectives, targets, well-defined measures and a definite deadline in China’s history. The plan covered 592 counties across the country, or 72.6% of the country’s impoverished citizens and set out the following targets for poverty alleviation: (1) the annual net income per capita of the vast majority of the poor households should reach over 500 yuan (at constant 1990 prices); (2) helping poor households to create the basic conditions for sustainable solutions to attaining adequate food and clothing; (3) strengthening infrastructure construction; (4) addressing the backwardness in education, culture and hygiene.

In terms of capital investment, during the implementation of the plan, the cumulative investment in fiscal poverty reduction funds (cash-for-work relief and fiscal development funds) accounted for on average 2.94% of the central government’s fiscal expenditures in the same period. With respect to the efficacy of poverty alleviation efforts, the number of rural poor dropped from 80 million in 1993 to 32.09 million in 2000 while the incidence of poverty declined from 8.8% to 3.4%. It should be pointed out that if the World Bank’s poverty line were adopted, the incidence of poverty in China would be significantly higher than that if based on China’s poverty line. However, even when judged based on the World Bank’s poverty line, the incidence of poverty also witnessed a substantial decrease in the 1994–2000 period from 25.9% to 11.9%, while 116 million were lifted out of poverty, which still constituted a remarkable achievement. Meanwhile, China successfully achieved the strategic objectives of the first two phases of its modernization drive, and witnessed comprehensive economic and social development as its citizens generally became moderately prosperous. It is worthy of note that judging on the basis of the World



**Fig. 2.7** Geographical distribution of impoverished counties in China. (Source: Heilig, G.K., Zhang, M., Long, H., Li, X., Wu, X., 2006. *Poverty Alleviation in China: A Lesson for the Developing World? Geographische Rundschau (International Edition) 2 (2)*, 4–13. Notes: National Poor Counties designated in 1994 are denoted by regions shaded in red)

Bank's poverty line, there were still 116 million impoverished people in China in 2000, so poverty alleviation remains an arduous task (Fig. 2.7).

Since the twenty-first century, China's economic development has entered a new phase. Both its domestic economic structure and the external economic environment have furnished favorable conditions for the country's economic development. China has accelerated its urbanization drive, and its efforts in opening-up turned to a new chapter with the accession to the WTO in 2001. After the implementation of the “Eight-Seven Poverty Reduction Plan”, the rural poor in central and western China became increasingly dispersed in impoverished villages rather than

counties. As a result, the task of alleviating poverty has grown ever more challenging. In 2001, China formulated the Outline for Poverty Reduction and Development of China's Rural Areas (2001–2010),<sup>19</sup> which identified 148,000 poverty-stricken villages across the country; developed village-specific poverty alleviation programs encompassing the areas of farmland, drinking water for people and livestock, roads, incomes of poor farmers and social services; integrated the various funds designated for supporting and benefiting the development of agriculture in order to realize the goals of raising the incomes of impoverished people, upgrading infrastructure, developing public welfare programs, and improving the production and living conditions of the people. By the end of 2010, whole-village advancement programs had been implemented in 126,000 impoverished villages. Among them, the old revolutionary base areas, concentrated areas of minorities with a small population and impoverished villages in the frontier areas saw the basic completion of the programs.<sup>20</sup>

According to the white paper titled *New Progress in Development-Oriented Poverty Reduction Program for Rural China* released by the Information Office of the State Council on November 16, 2011, the national poverty line was gradually raised from 865 yuan in 2000 to 1274 yuan in 2010, an increase of 47%. The number of rural poor as measured by this criterion dropped from 94.22 million at the end of 2000 to 26.88 million by the end of 2010, a decrease of 72%; the share of rural poor in the total rural population fell from 10.2% in 2000 to 2.8% in 2010. In addition, China has strengthened rural infrastructure construction. As a result, 99% of Chinese villages enjoyed access to electricity, highways, telephones and televisions, marking the basic completion of rural infrastructure construction.

In the second decade of the twenty-first century, China has further prioritized poverty alleviation as part of its efforts in comprehensively building a moderately prosperous society. In 2011, China formulated the

<sup>19</sup> The objective is to promptly solve the problem of adequate food and clothing for people still living in poverty; further improve basic production and living conditions in poverty-stricken areas; consolidate the achievements in poverty alleviation; improve the quality of life and comprehensive capabilities of the poor; strengthen infrastructure construction in impoverished rural areas; improve the ecological environment; and exact progressive changes to address the backwardness of the economy, society and culture in impoverished areas so as to create the conditions for attaining moderately prosperous status. Poverty alleviation at this stage was characterized by whole-village advancement.

<sup>20</sup> Refer to [http://www.china.com.cn/ch-book/2011-11/16/content\\_23934389.htm](http://www.china.com.cn/ch-book/2011-11/16/content_23934389.htm)

Outline for Poverty Reduction and Development of China’s Rural Areas (2011–2020), which ushered in the second decade of poverty alleviation and development since the Millennium. The overall goal of the program is the provision of adequate food and clothing, compulsory education, basic medical care and housing to the impoverished. The Outline also stated that the per capita net income of farmers in impoverished areas should increase at a rate higher than the national average, and that the indicators for the main areas of basic public services should prove comparable to the national average while the trend of a widening development gap should be reversed. It also set out specific and quantifiable targets in the areas of basic farmland and farmland water conservancy, special advantage industries, drinking water safety, electricity in production and living, transport, rural dangerous housing reform, education, health care, public culture, social security, population and family planning, forestry and ecology.

In particular, the new Central Committee of the Communist Party of China has continued to prioritize poverty alleviation. In 2012, General Secretary Xi Jinping traveled to Fuping County in Hebei Province, an impoverished and former revolutionary base area, to visit those living in poverty. During the trip, he stated that the most arduous task in comprehensively building a moderately prosperous society remained in the countryside and that a society neglecting its rural areas and especially impoverished areas would not constitute a proper one. In November 2013, when Xi stopped at the Xiangxi Tujia-Miao autonomous prefecture, he remarked that efficient measures for targeted poverty alleviation should be adopted on the basis of the village’s specific situation, an occasion that marked his first use of the strategy of “targeted poverty alleviation”. In 2014, the country declared October 17 as its Poverty Alleviation Day. In the same year, a nationwide poverty reduction strategy combining “targeted poverty alleviation”, “regional development” and “social security” was implemented. From 2000 to 2014, the average annual increase in the central government’s designated funds for poverty alleviation registered at 11.6%, which largely corresponded with the economic growth of the same period.

Toward the end of November 2015, the central government’s Conference on Poverty Alleviation and Development promulgated the “Decision of the CPC Central Committee and the State Council on Winning the Tough Battle against Poverty”, which demanded that the strategy of targeted poverty alleviation be fully implemented; its working mechanisms be improved; and the key tasks of accurate identification and

the creation of poverty alleviation files be administered correctly so as to lay a solid foundation for winning the crucial battle against poverty and create conditions conducive to integrated urban-rural development and achieving equality in basic public services between urban and rural areas. Targeted measures shall be implemented in terms of funding, projects and recipients. Every impoverished household should be guaranteed help, every village has designated officials to carry out poverty eradication measures and goals are met within the defined standards. All social resources should be mobilized and a comprehensive strategy for poverty alleviation and development should be adopted so that by 2020 the rural population living below the current poverty threshold and impoverished counties are all lifted out of poverty, so that the problems of regional poverty are solved.

Generally speaking, China has instituted a poverty alleviation work mechanism under the Party leadership with extensive government engagement at all levels and the participation and accountability of Party secretaries from each of the five levels of government, that is, provincial, city, county, town and village. Twenty-two provinces and municipalities in the central and western regions have signed letters of responsibility for tackling poverty with the central government. Governments at all levels have taken a slew of measures and mobilized all social resources in the poverty alleviation campaign. The State Council Leading Group Office of Poverty Alleviation and Development has proposed a total of 16 related work items and facilitated the formation of an all-around work mechanism through a synergy of various policies and measures.<sup>21</sup>

In the process of the rural poverty reduction campaign, urban poverty has emerged as a new phenomenon in China with the reform of state-owned enterprises. In response to the issue, China began to implement the policy of “subsistence allowance” in 1993, which was basically extended to all cities by 1999. In the initial stage of its implementation, the policy played an important role in mitigating the impact of lay-offs brought about by the reform of the state-owned enterprises and provided basic relief to urban residents who were unable to work. Beginning in 2003, after a major breakthrough in the urban subsistence allowance

<sup>21</sup> The 16 work items refer to the creation of poverty alleviation documents, stationing officials in villages, concentrated efforts in areas, development of former revolutionary base areas, poverty alleviation by industrial development, assistance by industrial organizations, relocation of the impoverished, whole-village advancement, talent training, innovation, performance evaluation, financial cooperation, international exchanges and cooperation, targeted poverty alleviation, enhancing regional collaboration and social support.

**Table 2.5** Social assistance in China (2007–2015)

<i>Year</i>	<i>Number of urban residents receiving subsistence</i>	<i>Number of rural residents receiving subsistence</i>	<i>Number of centralized persons receiving livelihood guaranteed in five aspects in rural areas</i>	<i>Number of decentralized persons receiving livelihood guaranteed in five aspects in rural areas</i>
2007	2272.1	3566.3	138.0	393.3
2008	2334.8	4305.5	155.6	393.0
2009	2345.6	4760.0	171.8	381.6
2010	2310.5	5214.0	177.4	378.9
2011	2276.8	5305.7	184.5	366.5
2012	2143.5	5344.5	185.3	360.3
2013	2064.2	5388.0	183.5	353.8
2014	1877.0	5207.2	174.3	354.8
2015	1701.1	4903.6	162.3	354.4

Source: China Statistical Yearbook 2016, p. 731

program, China began to introduce subsistence allowances to its rural areas, which by now have achieved universal coverage. With the establishment of the system of subsistence allowance in both urban and rural areas, China has continuously improved its management and developed auditing and eligibility assessment mechanisms. In 2015, the total number of people receiving social assistance reached 71.21 million (see Table 2.5), of which 54.2 million were rural residents, a figure higher than the total number of rural poor in 2015. In this sense, although China has yet to fully eradicate poverty, the basic living needs of the vast majority of the impoverished have been met through the social assistance system. The main goal of China’s campaign to eradicate poverty by 2020 is to ensure that individuals capable of working can overcome income poverty.

### *2.5.2 Performance Evaluation of China’s Poverty Alleviation Efforts*

The national poverty line is a measure of poverty reduction performance. At the beginning of the reform and opening-up, China set its national poverty line at a relatively low level. For instance, according to China’s national poverty line in 1978, the number of rural poor stood at 250 million compared to a substantially higher 720 million when measured

according to the international poverty line. Since the reform and opening-up, the Chinese government has routinely adjusted the national poverty criteria. Before 2008, two poverty reduction criteria existed in parallel in China, that is, the criteria for absolute poverty and for low-income. For example, the absolute poverty threshold was set at 206 yuan in 1986 and 785 yuan in 2007; the low-income threshold in 2000 was 865 yuan and 1067 yuan at the end of 2007. In 2008, the threshold for absolute poverty was combined with that for low-income to form one unified standard. 1067 yuan was first applied as the national threshold for poverty alleviation and later raised to 1196 yuan in 2009 (as the 2008 standard). At the end of 2011, the central government decided to set a per capita net income of 2300 yuan for farmers as the new national threshold for poverty alleviation (as the 2010 standard). Even after taking into account the changes in prices, the 2010 standard witnessed a tremendous increase of roughly 90% over the 2008 standard.<sup>22</sup>

The Chinese government's adjustments of the national poverty line show that it does not attempt to sidestep the issue of poverty in the country and underscores its determination to eradicate poverty. For example, according to the 2010 threshold, the size of the rural poor in China topped 166 million in 2010, much higher than that of 2008 (i.e. 26.88 million people). By 2015, according to the threshold, the number of rural poor has been reduced to 55.75 million and the country's poverty rate has dropped to 5.7% (see Table 2.6). China's 13th Five-Year Plan explicitly sets forth the goal of lifting its entire population out of poverty by 2020, and places it on the top of the Plan's agenda, which fully demonstrates the Chinese government's determination in promoting fair and inclusive development.

As the discussions above show, the achievements in poverty reduction since China's reform and opening-up have resulted from comprehensive development and governance programs, which include the enhancement

<sup>22</sup> According to an article by the U.K.-based Economist published on October 20, 2014, the number of rural poor in China stood at 81.7 million in 2011, accounting for 12.3% of its total rural population when measured based on the \$1.25 global poverty line as set by the World Bank. On the other hand, according to the 2010 poverty line released by the Chinese government in 2011, the number of impoverished people in the country stood at 122.38 million, significantly higher than when measured based on the global line, indicating that China's poverty line is higher than the World Bank's. (See: Economist, China's economy: Poverty elucidation day, October 20, 2014.)

**Table 2.6** Poverty in rural China (1978–2015)

<i>Year</i>	<i>1978 threshold</i>		<i>2008 threshold</i>		<i>2010 threshold</i>	
	<i>Impoverished population (10,000 people)</i>	<i>Poverty incidence (%)</i>	<i>Impoverished population (10,000 people)</i>	<i>Poverty incidence (%)</i>	<i>Impoverished population (10,000 people)</i>	<i>Poverty incidence (%)</i>
1978	25,000	30.7			77,039	97.5
1980	22,000	26.8			76,542	96.2
1981	15,200	18.5				
1982	14,500	17.5				
1983	13,500	16.2				
1984	12,800	15.1				
1985	12,500	14.8			66,101	78.3
1986	13,100	15.5				
1987	12,200	14.3				
1988	9600	11.1				
1989	10,200	11.6				
1990	8500	9.4				
1991	9400	10.4				
1992	8000	8.8				
1994	7000	7.7				
1995	6540	7.1			55,463	60.5
1997	4962	5.4				
1998	4210	4.6				
1999	3412	3.7				
2000	3209	3.5	9422	10.2	46,224	49.8
2001	2927	3.2	9029	9.8		
2002	2820	3.0	8645	9.2		
2003	2900	3.1	8517	9.1		
2004	2610	2.8	7587	8.1		
2005	2365	2.5	6432	6.8	28,662	30.2
2006	2148	2.3	5698	6.0		
2007	1479	1.6	4320	4.6		
2008			4007	4.2		
2009			3597	3.8		
2010			2688	2.8	16,567	17.2
2011					12,238	12.7
2012					9899	10.2
2013					8249	8.5
2014					7017	7.2
2015					5575	5.7
2016					4335	4.5

Data source: China Statistical Abstract 2017, p. 67

Note: 1. 1978 threshold: 1978–1999 termed rural poverty threshold, 2000–2007 termed rural absolute poverty threshold

2. 2008 threshold: 2000–2007 termed rural low-income threshold, 2008–2010 termed rural poverty rural threshold

3. 2010 threshold: the current rural poverty threshold, that is, 2300 yuan per person per year (at 2010 constant price)

**Table 2.7** Policies in dealing with extreme and long-term poverty

<i>Policies</i>	<i>Content</i>
Education and health	Eliminate illiteracy among young and midlife adults and universalize primary education; Significantly improve accessibility to public health services;
Economic growth benefiting the poor	Household contract responsibility system; the development of township and village enterprises; Establish and improve market mechanisms, actively implement the policy of opening to the outside world, vigorously develop non-state-owned economy and promote employment and entrepreneurship;
Improve social policies	State-led and broad-based social participation in poverty alleviation policies; The gradual establishment of a social security system; Urban and rural subsistence allowance system; Social assistance system;

in human capital through developing basic education and health-care services before the reform and opening-up when China was economically backward, and the effective campaign against extreme poverty through economic and social policies that benefit the poor after the reform and opening-up (see Table 2.7).

## 2.6 THE GLOBAL EFFECT OF CHINA’S POVERTY ALLEVIATION EFFORTS

China’s achievements in reducing the number of people living in extreme poverty have won global recognition. According to the World Bank’s international poverty line, China’s poverty-stricken population living under 1.90 US dollars per day (PPP, 2011 international dollar) declined from 884 million to 25.17 million between 1981 and 2013 while the incidence of poverty fell from 88.3% to 1.85%, a decrease of 86.47 percentage points; from 1981 to 2013, the number of people living below 3.10 US dollars a day decreased from 992 million to 151 million, a decrease of 841 million while the incidence of poverty fell from 99.14% to 11.09%, down 88.05 percentage points (see Table 2.8).

According to World Bank estimates, the rate of extreme poverty in China in 1981 stood at 84%, which was much higher than the average rate in developing countries (52%) and was significantly higher than that of

**Table 2.8** Chinese population living below the international poverty line and its poverty rate (1990–2013)

<i>Year</i>	<i>Daily average of less than 1.90 US dollars per person (2011 international dollars)</i>		<i>Daily average of less than 3.10 US dollars per person (2011 international dollars)</i>	
	<i>Number of poor (10,000 people)</i>	<i>Poverty incidence (%)</i>	<i>Number of poor (10,000 people)</i>	<i>Poverty incidence (%)</i>
1981	88,383.59	88.3	99,211.38	99.14
1984	79,060.86	75.8	100,047.1	95.87
1987	66,498.12	60.8	97,440.95	89.15
1990	76,122.91	66.6	101,985	89.2
1993	67,554.69	57.0	97,551.34	82.31
1996	51,464.57	42.1	87,508.14	71.5
1999	50,993.64	40.5	84,503.03	67.18
2002	41,040.73	32.0	72,447.49	56.4
2005	24,516.75	18.8	54,603.71	41.75
2008	19,455.49	14.7	2517.332	32.96
2010	14,991.37	11.2	36,526.39	27.24
2013	2517.33	1.85	15,090.38	11.09
1981–2013 amount of change	–85,866.26	–86.47	–84,121	–88.05

Data source: World Bank database

1.90 US dollars: <http://data.worldbank.org/indicator/SI.POV.GAPS?locations=CN>3.10 US dollars: <http://data.worldbank.org/indicator/SI.POV.GAP2?locations=CN>

India (60%), South Asian countries other than India (66%) and sub-Saharan African countries (52%).<sup>23</sup> However, the development of China since the 1980s has substantially reduced the rate of extreme poverty, which saw a tremendous decline every ten years. In other words, a paradigm shift is realized in the cause of poverty reduction. By the end of the last century, the rate of extreme poverty in China stood comparable to that of developing countries. By 2010, the rate of extreme poverty in China had declined to 12%, significantly lower than the average rate in developing countries (21%).

<sup>23</sup>World Bank: [http://www.worldbank.org/content/dam/Worldbank/document/State\\_of\\_the\\_poor\\_paper\\_April17.pdf](http://www.worldbank.org/content/dam/Worldbank/document/State_of_the_poor_paper_April17.pdf)

China's achievements in poverty reduction have contributed tremendously to the cause of global poverty reduction. Based on the threshold of a per capita daily expenditure of less than 1.90 US dollars (PPP, 2011 international dollars), the proportion of China's poor to the world's total dropped from 46.4% to 3.28% from 1981 to 2013; in the same period, the world's impoverished population fell from 1.903 billion to 7.766 billion, marking a decrease of 1.137 billion. China's contribution to global poverty reduction registered at an impressive 75.55%. In this sense, such substantial progress in the global campaign against poverty could not have been made possible without the tremendous contribution of China's poverty reduction efforts. China's achievements in poverty reduction truly constituted a miracle in the global context.

International organizations have given due recognition and acknowledgment to China's achievements in poverty reduction. On the occasion of the 70th anniversary of the signing of the UN Charter, World Bank President Jim Yong Kim commented that "in the past 25 years, China has played the most significant role in eradicating extreme poverty in human history. China lifted some 600 million people out of poverty, so it is one of the most experienced countries globally in eradicating poverty".

By the end of 2016, the number of people living below the rural poverty line in China had dropped to 43.35 million and the rural poverty rate had fallen to 4.5%.<sup>24</sup> Overall, it took China around 40 years to successfully overcome the "poverty trap". In its 13th Five-Year Plan, China proposed to "comprehensively build a relatively prosperous society", and that poverty should be fully eradicated by 2020. Undoubtedly, this will constitute a continuation of China's "poverty reduction miracle" and set an example for the developing countries. Experiential evidence in China also proves that the "poverty trap" is not insurmountable.

Judging from the progress made by China in implementing the UN Millennium Development Goals (MDGs), China has either basically or fully achieved the goals (see Table 2.9) apart from the conservation of biological diversity. Of the 75 countries that participated in the assessment of progress toward the MDGs, only 25 achieved the MDG4 goal of reducing the under-five mortality rate by two thirds between 1990 and 2015, and China was one of the success stories; only China and a handful of

<sup>24</sup>National Bureau of Statistics, China Statistical Abstract 2017, p. 67.

**Table 2.9** Progress by China in implementing the Millennium Development Goals

<i>Specific goals</i>	<i>Progress status</i>
<i>Goal 1: Eradicate extreme poverty and hunger</i>	
Target 1A: Halve, between 1990 and 2015, the proportion of people earning less than 1.25 US dollar a day	Achieved
Target 1B: Achieve full and productive employment, and decent work for all, including women and young people	Basically achieved <sup>a</sup>
Target 1C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Achieved
<i>Goal 2: Universal primary education</i>	
Target 2A: Ensure all girls and boys complete a full course of primary education by 2015	Achieved
<i>Goal 3: Promote gender equality and empower women</i>	
Target 3A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	Achieved
<i>Goal 4: Reduce child mortality</i>	
Target 4A: Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	Achieved
<i>Goal 5: Improve maternal health</i>	
Target 5A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	Achieved
Target 5B: Provide health services for all by 2015	Basically achieved <sup>b</sup>
<i>Goal 6: Combat HIV/AIDS, malaria and other diseases</i>	
Target 6A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	Basically achieved <sup>c</sup>
Target 6B: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it	Basically achieved <sup>d</sup>
Target 6C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	Basically achieved <sup>e</sup>
<i>Goal 7: Ensure environmental sustainability</i>	
Target 7A: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources	Basically achieved <sup>f</sup>
Target 7B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss	Not achieved
Target 7C: Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation	Achieved

*(continued)*

Table 2.9 (continued)

<i>Specific goals</i>	<i>Progress status</i>
Target 7D: Achieve, by 2020, a significant improvement in the living conditions of around 100 million slum dwellers	Very likely
<i>Goal 8: Develop global partnership for development</i>	—

Source: Ministry of Foreign Affairs of the People’s Republic of China, United Nations System in China: Report on China’s Implementation of the Millennium Development Goals (2000–2015), July 2015

<sup>a</sup>By the end of 2014, the total number of employed people in the country stood at 772.25 million, and the registered unemployment rate in cities and towns was 4.09%. From 2003 to 2014, a total of 137 million new jobs were created in cities and towns throughout the country

<sup>b</sup>In 2013, the administration of free family planning technical services to China’s household-registered population reached 100% coverage and to mobile population reached 96%. The systematic management rate of pregnant and lying-in women reached 89.5%

<sup>c</sup>China reported 104,000 new HIV/AIDS infections in 2014, up 14.8% from the previous year. The outbreak was generally contained at a low prevalence level and the rapid increase in incidence has been preliminarily contained. The death rate of AIDS patients that met the treatment standard dropped from 33.1% in 2003 to 6.6% in 2013

<sup>d</sup>Since 2004, China has implemented free HIV/AIDS voluntary counselling and testing. As of 2014, a HIV/AIDS prevention and treatment service network covering all urban and rural areas has been basically established

<sup>e</sup>The rising incidence of tuberculosis in China has been effectively checked, and the incidence of malaria has been significantly reduced. However, the incidence of chronic diseases has witnessed a steady rise in recent years

<sup>f</sup>Since 2000, China has fully integrated the principle of sustainable development into its plans for national economic and social development. The ecosystem of China has taken a turn for the better, and the trend of continued deterioration of the environment has been preliminarily contained

countries realized the MDG5 goal of reducing the maternal mortality ratio by three quarters between 1990 and 2015 (see Table 2.9).

Moving forward, as China takes center stage in global affairs, it will contribute to the cause of world poverty reduction through a different approach, that is, assisting the poverty reduction campaigns in developing countries through strengthening economic and trade cooperation and various types of development assistance. For instance, General Secretary Xi Jinping proposed the Belt and Road Initiative in 2013; in 2014, China announced the investment of 20 billion yuan in establishing the South-South Cooperation Fund on Climate Change in support of the poorest developing countries to combat climate change, and in particular

improving their access to climate change funding provided by developed nations. At the end of 2015, China led the establishment of the Asian Infrastructure Investment Bank, the aim of which was to help the vast number of Asian and developing countries to promote investment in infrastructure so as to contribute to the economic growth and poverty reduction in the countries concerned.

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