

THE
CHINA
QUESTIONS

CRITICAL INSIGHTS INTO A
RISING POWER

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19 | WHAT CAN CHINA TEACH US ABOUT FIGHTING POVERTY?

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IN 2015, the United Nations announced with great fanfare that the Millennium Development Goal (MDG) to cut extreme poverty in half had been achieved. Using the World Bank's international poverty line of \$1.25 per day, the UN calculated that the number of people around the world living below this standard fell from 1.9 billion in 1990 to 836 million in 2015. This measure of poverty is designed to identify the people who have difficulty meeting their basic subsistence needs, especially having enough food to eat.

Progress toward this global goal was uneven. Altogether, fifty-five developing countries met their MDG targets, and many overshot them significantly; this performance contrasts to nineteen countries that experienced poverty increases in the same period. One of these fifty-five success stories, however, stands out from the rest. China alone accounted for more than half of the global decrease in extreme poverty. Moreover, the UN target for poverty reduction could not have been achieved if China had not dramatically exceeded its MDG target, reducing the incidence of extreme poverty by 94 percent.

How did China do it? The answer is not simple, and some Chinese policies are not easy to replicate in developing countries with different economic and political systems. But the overall Chinese strategy toward poverty alleviation holds important lessons in the

global fight. This strategy consists of three key elements: data, development, and welfare.

The first element of the Chinese anti-poverty strategy is data. Unlike other communist countries (such as Cuba), the Chinese government has made an effort to measure poverty, developing its own standards and studying a range of international methodologies as well, including the World Bank's poverty line and economist and philosopher Amartya Sen's capabilities approach. Scholars debate the quality of these government statistics, but the data is collected and released to the public. Furthermore, Chinese and foreign scholars have carried out extensive surveys and experiments to study the changing nature of poverty and the impact of poverty-alleviation policies. These data play an important role in the policy process, helping Chinese officials adapt their programs and respond to poverty's changing nature.

These data also give us a picture of what extreme poverty looks like in China today. A typical Chinese person living below the World Bank poverty line is a young girl living in a mountainous region in western China. She attends primary school in her village, which is connected to the outside world by unpaved roads and is located more than seventy-five miles away from the nearest train station. Her family makes its living from agriculture, growing most of what they eat and selling the rest for their limited cash income. Her house has electricity, but no running water. School and health-care expenses are her family's biggest economic concerns. These concerns are not misplaced; her parent's health and her own education represent the family's best route out of poverty, through hard work and better employment opportunities.

The second element of the Chinese strategy to help these impoverished families is economic development. Since China's rapid economic growth has received so much media attention, this aspect

of China's fight against poverty seems easy to understand, even if it is hard for other developing countries to reproduce. But in fact, the ways in which economic growth has translated into poverty reduction is a complex story. Moreover, this complexity points to the importance of policies to transform economic growth into income gains that are either widely shared or effectively targeted to the poor. Even if few countries are in a position to match the Chinese pace of economic growth, these policies can also help counter poverty at more typical growth rates.

China made its biggest gains in poverty reduction in the 1980s through a series of agricultural reforms that boosted the incomes of most rural families. For example, China's campaign to dismantle agricultural collectives in the late 1970s and early 1980s had a major impact on poverty. This land reform movement improved work incentives by giving farmers control over production. It also led to an equitable distribution of land, ensuring that the gains from agricultural production were widely shared. Combined with market reforms allowing farmers to sell their surplus in private markets, agricultural production and incomes surged.

The single most important poverty-alleviation policy in the 1980s, however, had nothing to do with market reform. The government also raised procurement prices for agricultural goods significantly, including a 91 percent increase in grain prices from 1978 to 1985. The policy behind these price increases marked a sharp reversal in economic development strategy, eliminating the "price scissors" used by central economic planners to generate the capital necessary for a Stalinist industrialization drive. By deliberately setting the prices for agricultural goods low, central planners in the Mao era kept rural living standards at subsistence levels and redirected any economic surplus from the agricultural sector into investment in urban industry. Unfortunately, these communist economic-development

strategies turned out to be misguided. China's decision to end the price scissors in the 1980s proved to be a more effective approach to economic development. At the same time, this policy reversal led to the first significant gains in rural living standards since the 1950s.

On the surface, these policies only pertain to other communist and semi-socialist countries that redistribute land and control agricultural prices—and therefore have little relevance for fighting poverty in most countries today. But because so many capitalist development policies are also marked by profound urban bias, the broader principle of limiting the degree of such bias in economic development could help reduce extreme poverty in capitalist countries as well. Promoting agricultural development is complementary to industrialization. It can contribute to the goal of increasing the prosperity of society as a whole and, at the same time, address the needs of the rural poor who are most likely to experience extreme poverty.

Since the Chinese government gradually phased out central planning in the late 1980s and early 1990s, China's economy has become increasingly defined by the market. In the process, China's poverty-alleviation policies also grew increasingly similar to those used in capitalist countries. As a result, lessons drawn from the Chinese case can go beyond broad principles to more specific policies.

As industrialization accelerated in coastal China in the 1990s, employment off the farm and rural-urban migration became the most important forces reducing extreme poverty. Even with these growing opportunities for income diversification for rural households, the rate of poverty reduction slowed by more than half from the rapid pace set in the 1980s. The new jobs were not as widely distributed as the gains in agricultural production and prices had been.

The causes of poverty also grew more diverse over time. For example, the rapidly rising cost of health care became a leading cause of poverty in the countryside in the 1990s. In addition, the privati-

zation and reform of state-owned industry led to deindustrialization and the emergence of urban poverty in China's rust belt cities in the late 1990s and early 2000s.

In response to these changes, the Chinese government sought to target special economic-development programs to the poor. A regional poverty-alleviation program adopted in 1994 provided grants and subsidized loans to 592 poor counties, where per capita incomes fell below the national average. These resources were devoted to promoting non-agricultural employment, crop diversification, and infrastructure development, especially road building projects. The program boosted economic growth rates in these counties, but in most cases failed to improve the pace of poverty reduction significantly. Part of the problem lay in the difficulties of effectively targeting the gains from these programs within these counties. Poverty reduction was significant where these resources created jobs accessible to the poor or built roads that connected them to markets. But frequently more prosperous villages and households in these counties experienced the greatest gains in income. In 2001, the Chinese government shifted the focus of the program from the county to the village level in the effort to target the poor more effectively.

In this context, the third element of the Chinese approach to fighting poverty—welfare—has also grown increasingly important. The Chinese government has created a variety of new welfare programs over the last twenty years, targeting poverty alleviation even more narrowly to focus on poor people rather than poor places.

These new safety-net programs reflect another shift in Chinese economic policy, which had long been premised on the idea that necessary trade-offs exist between welfare and economic development. Instead, Chinese policy makers increasingly seek to integrate economic and social policy, viewing welfare programs that prevent extreme poverty and boost human capital as investments in long-term,

stable economic growth. For example, the government adopted a major new urban social assistance program in 1999 to facilitate the reform of state-owned industry. In 2007, the program was extended to the countryside, creating a safety net for poor families whose income falls below poverty lines set by local governments. Cash benefits provided by the program vary widely with the cost of living and financial capacity of local governments, but the goal is to meet the subsistence needs of people who cannot support themselves through their own efforts.

In addition, the Chinese government implemented a national rural health-insurance program in 2008. Although the new rural medical cooperatives provide more limited benefits than their urban counterparts, they address one of the new causes of rural poverty by covering 70 percent or more of the cost of hospital care. Another form of investment in human capital was the 2006 policy to eliminate tuition for rural schools, accompanied by new funding from the central government to close the budget gap.

The one element of China's anti-poverty strategy that is unlikely to be adopted by other countries is the one-child policy. The government has been very successful in convincing most Chinese that this policy has been a necessary sacrifice to achieve the country's economic goals, even as it quickly evolved into a one-child policy in cities and a two-child policy in the countryside. Now that the policy has ended, demographers question whether a more gradual, natural decline in fertility in the wake of economic development and urbanization might have achieved comparable results without generating the problems of such a rapidly aging society.

President Xi Jinping has set the goal of completely eliminating extreme poverty in China by 2020, mobilizing local officials to use all these programs to address the needs of families below the poverty line. This goal may be more ambitious than most developing countries are

likely to contemplate, but bringing together data, development, and welfare in a strategy to combat poverty is not unique to China or communism. The same approach can be adapted to address the different problems faced by the remaining 784 million people living in extreme poverty in Asia and Africa today.

The final characteristic of the contemporary Chinese poverty-fighting strategy relevant to other countries is not a principle or policy but, rather, a conception of poverty alleviation as an ongoing endeavor. As old obstacles to shared prosperity are overcome, new sources of poverty emerge that demand new solutions. Most importantly, rising expectations and increasing inequality are redefining perceptions of poverty in China. Ensuring that young girls in remote mountain villages have enough to eat is a historic accomplishment, but these children increasingly want more from life than just avoiding the hardships their parents and grandparents have lived through. Even after China eliminates the problem of extreme poverty, it will still face the challenge of responding to the needs and aspirations of the poor.