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**Development Strategies, Welfare Regime
and Poverty Reduction in China**

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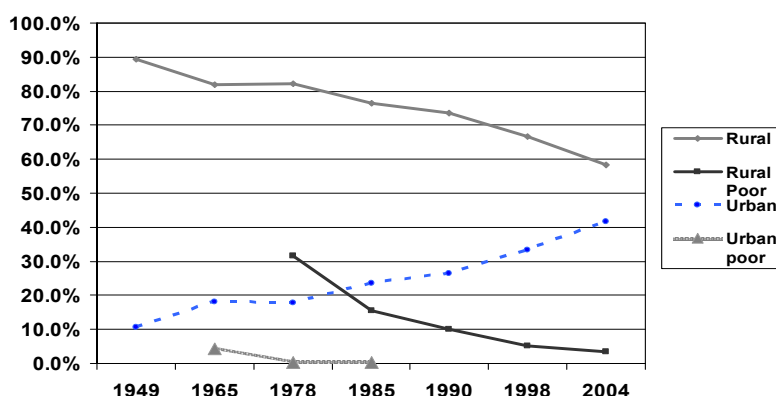
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1. Introduction

China achieved historic highs in reducing poverty in the 1980s with Deng Xiaoping's reforms. While there is disagreement about the precise number of people lifted out of poverty,¹ everyone agrees that growth in incomes and GDP have been phenomenal, especially during the early 1980s when the numbers in poverty were cut in half (Naughton 2007). At minimum, more than 200 million people were lifted out of poverty as per capita grain availability reached levels comparable to those in developed countries (Rozelle, Huang and Zhang 2002; Naughton 2007: 212-214; and Zhang 1993).

Most of the poverty in China, both during the Mao period and after reforms, exists in the rural areas. In this respect China differs from most developing countries, where poverty is an urban phenomenon (Naughton 2007). Changes in rural output and incomes were spectacular in China's countryside in the late 1970s into the 1980s. Official Chinese statistics indicate a 15 percent per year increase in per capita rural household income from 1978-1985.² As a result, since the mid 1980s "...the number of rural residents officially classified as poor has fallen significantly, from 113 million in 1986 to 65 million in 1995 to 40 million in 1999" (Park, Wang and Wu 2002). In the nearly three decades since the start of the reforms, the rural poverty incidence (based on China's official poverty line) fell from 31.6 percent in 1978 to 2.5 percent in 2005 (NBSC 2006). In 2006 it fell further to 2.3 percent in 2006 (LPOPAD 2007; Huang, Zhang and Rozelle 2007; also see Naughton 2007). As the following figure 1 shows,³ China has made significant gains in reducing poverty, especially in the rural areas.³

Figure 1: Populations and Poor in China



*Poverty percentages are the percentage of urban or rural residents who fall under the government's poverty line.

Source: Zheng, Yan and Jin (2005).

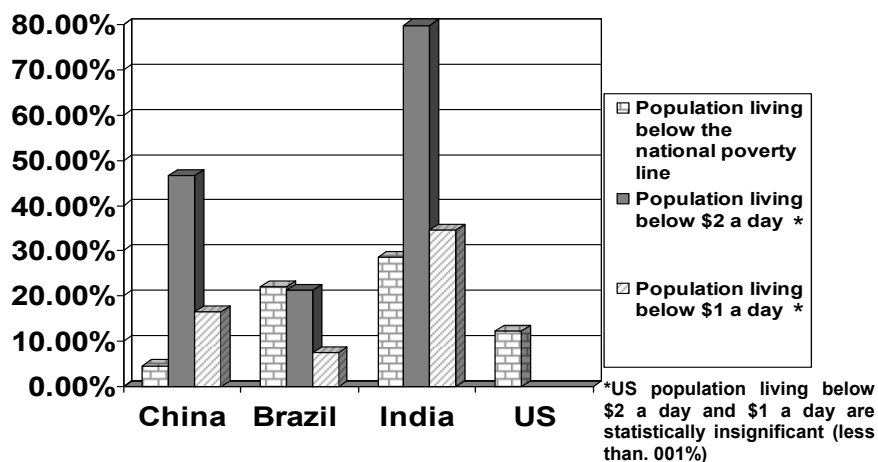
¹ The source of the disagreement is what one determines to be the poverty line. Official Chinese statistics are based on a much lower poverty line than the one used by organizations like the World Bank. Naughton (2007) indicates that the Chinese use 627 RMB per person per year in 2002. The World Bank's is "...equal to the in-country equivalent of one U.S. dollar per day, evaluated at PPP...". Also see Zhang (1993) and UNDP (2007).

² Again, Western economists are now questioning the validity of the precise numbers, but there seems little question that the growth was substantial (Naughton 2007).

³ I thank Bill Hyde for his research assistance on gathering information on poverty in China.

The magnitude of China's achievement in poverty reduction is even more impressive when its performance is compared to other developing countries (see figure 2). We included the US to show the long way these countries still have to go, keeping in mind of course that pockets of poverty exist even in developed countries. Figure 2 starkly and clearly shows that China is well ahead of India in terms of reducing poverty.

Figure 2: China's Comparative Development-2006



Sources: Watkins (2006); DeNavas-Walt, Proctor and Smith (2007). Zhang, Huang and Rozelle (2003).

As impressive as these increases are, China is still far from solving its poverty problem. Some have yet to be lifted out of poverty. Moreover, as suggested above, the number of actual poor is an issue of debate.⁴ Some, such as Naughton, suggest that much of the gains may have been due to the coming together of one-time factors, such as the increase in state procurement prices and other incentives introduced at the beginning of the reforms. The speed at which poverty decreased slowed after the mid-1980s, increasing for a few years between 1993 and 1996, but then again decreasing (Naughton 2007). Some of the poor have fallen into difficult economic straits as a result of the reforms. Income inequalities stemming from the reforms have created new tensions in society. These points of tension are considered so serious that the leadership has sought out new social policies in an effort to bring balance and create a “harmonious society” in the wake of three decades of blistering growth. Economists are now arguing that this new poverty, as well as other stubborn pockets of long term poverty, will require new and sustained efforts by the state. Specifically, initiatives aimed at poverty relief through new growth policies which target these remaining poor segments of the population (see Huang, Zhang and Rozelle 2007).

A crucial question is how much of China's success was due to poverty relief programmes and how much to the effects of economic development more generally. While important, it is beyond the scope of this paper to measure the role of poverty relief policies versus general development—that is a task best left to economists.⁵ I

⁴ For specialized studies devoted to trying to figure out the true levels of poverty in China. See, for example, Park, Wang and Wu (2002).

⁵ For an excellent discussion of this complex issue, see, Park and Wang (2001); also Zhang (1993).

begin this paper with a brief overview of China's efforts over time to relieve poverty through assistance to the poor to give a sense of the specific poverty alleviation efforts undertaken during the Mao period and during the early years of reform. Such policies are obviously necessary, no matter how successful a country's economy. However, to understand how China managed to reduce poverty so quickly, one must examine those policies that promoted broad based economic growth and raised peasant incomes more generally.⁶ If the goal is to draw some lessons about successful development strategies that may serve other countries in their efforts to reduce poverty, one needs to understand how China could grow its economy so quickly and raise incomes, especially in the rural areas, where the bulk of China's poverty exists. That is the task of this paper. As will be evident, a key part of that answer will centre on the particular nature of China's policy regime.

2. A Brief Overview of China's Poverty Alleviation Efforts

During the Mao period, China had policies to provide special assistance to peasants in the event of a catastrophic, high profile disaster. However, the process for getting relief after a disaster that did *not* attract national attention was cumbersome and rarely achieved (Oi 1989: chapter 2). Such problems are common to any country. Approvals needed to be secured through the bureaucratic hierarchy. The Ministry of Civil Affairs was charged with the responsibility of relief efforts. There was the equivalent of a poverty line but instead of income, it was based on a minimum allocation of grain rations per person per month.⁷ Because peasants were members of production teams under the commune system, relief was given to the team as a collective. The team then distributed the relief to individual households. If on average a team's rations fell below the set minimum, they were exempt from paying taxes and received state subsidized grain rations (*fanxiao liang*). The minimum distribution that qualified a team for this grain varied greatly by locality and was set locally. What set Maoist China apart is that in addition to the bureaucratic problems of receiving relief, political problems further stymied the process. Local cadres were hesitant to ask for relief from the upper levels because it reflected badly on their leadership abilities (see Oi 1989). In fact, the opposite sometimes occurred when local officials wanting to impress their superiors would allow grain to be extracted from villages when there was nothing left for the peasants. The massive famine during the Great Leap Forward can be partially attributed to this political phenomenon (see Bernstein 1984; and Oi 1989).

2.1 Organization of Poverty Reduction Efforts under Reform

Soon after the de-collectivization of agriculture, central authorities started to build a substantial bureaucratic apparatus to address the poverty problem. First, some authority was devolved to the localities. In March 1985, the Ministry of Civil Affairs decentralized welfare policies and programmes that had previously been administered by the central government to each province. In 1986, a specialized inter-ministerial body, the Leading Group for the Economic Development of Poor Areas (LGEDPA),

⁶ Because the majority of poverty does exist in China's countryside, the focus will be on the rural areas, with only limited reference made to relief policies for urban areas.

⁷ This was officially set at approximately 26 *jin* of grain rations per month per peasant. For more details see Oi (1989: chapter 2).

was established to oversee national poverty alleviation programmes.⁸ In 1993, the central authorities instituted the 8-7 Poverty Reduction Programme and set a goal of lifting the 80-100 million remaining poor out of poverty by the year 2000.⁹ The 8-7 Programme reaffirmed and expanded the role of the “...LGEDPA as the coordinating body responsible for poverty measurement and research, project planning and monitoring, and management of both domestic and international funding for poverty reduction” (Zhang 1993: 10).

Since the mid-1980s China has developed an extensive bureaucracy devoted to poverty alleviation as the following figure 3 shows. The State Council authorized the LGEDPA as the top anti-poverty executive body leading to coordinate anti-poverty programs at ministerial levels. Under the LGEDPA is the State Council Leading Group for Poverty Alleviation and Development (LGP), which “...has the responsibility to organize, research, draft policies and programs, coordinate and monitor efforts to solve the major issues in development-oriented poverty reduction among various relevant government ministries.”¹⁰ But as the ADB report also states, the LGP usually meets only three to four times a year. The permanent administrative support agency for the LGP is the State Council Leading Group Office of Poverty Alleviation and Development (LGOP).¹¹ The national LGP and LGOP structure is mirrored at the provincial and county levels.

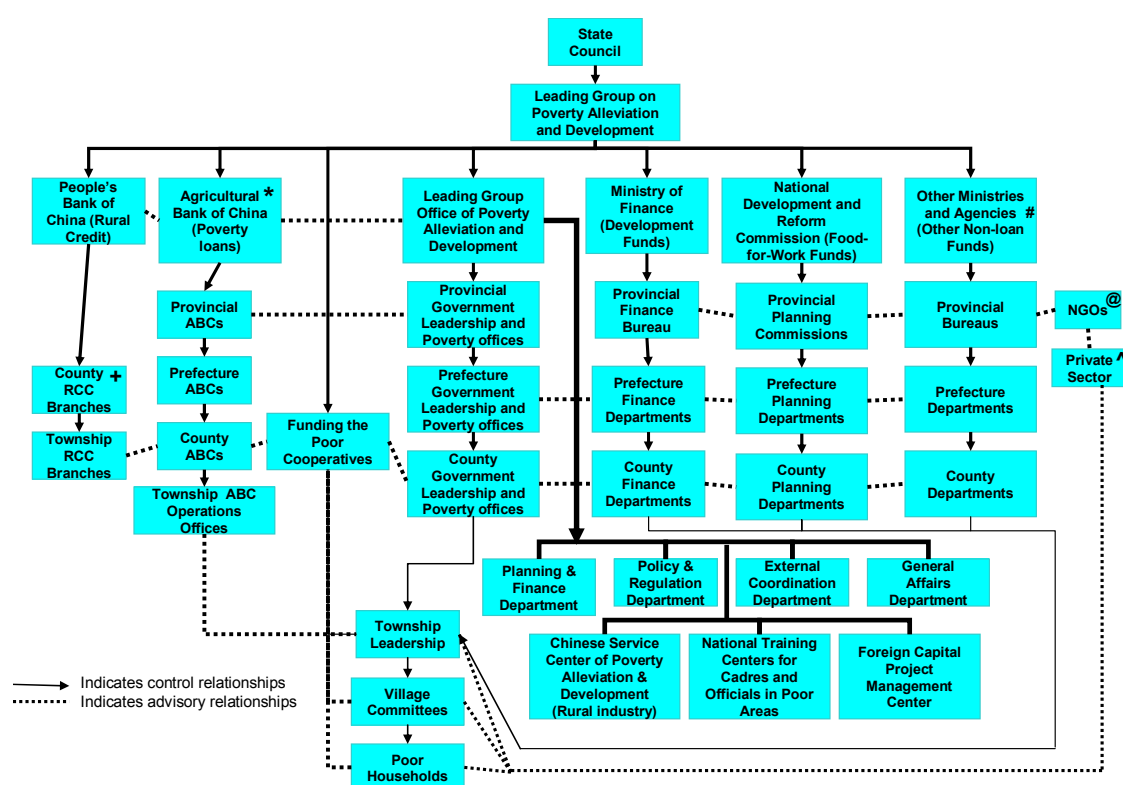
⁸ The central government was already subsidizing poor areas, both through direct budgetary transfers (Park *et al.* 1996) and through subsidized grain sales and other assistance to peasants in need (Park *et al.* 1994).

⁹ The 8 represents 80 million people and the 7 for the 7 years till the year 2000 (counting from 1994 when the programme was established).

¹⁰ According to the ADB report, “The LGOP is headed by a Director General who directly reports to the LGP chairperson, who is a Vice Premier, and thus the State council, on programming and strategy issues. There are six associated or deputy chairpersons. There are 23 other members comprising vice ministers from a range of ministries, presidents of national government bureaus and commissions, and directors of agencies and Government Organized NGOs (GONGOs). In 2001 Staffing at the national level was around 120 personnel.” Asian Development Bank (2004: 50-52).

¹¹ One can see this in the functions of the LGOP: “... the day-to-day workload; policy research on development-oriented poverty alleviation; planning and organizing implementation; coordinating poverty reduction efforts from all segments of society...; coordinating and organizing government and Party Central Committee departments to reduce poverty in designated areas; determining the support criteria for the rural poor and State- targeted counties; deliberating on categorization and graduation of targeted counties; organizing and guiding statistical monitoring of poverty reduction; coordinating planning efforts to allocate central government poverty reduction funds; checking and supervising the application of these funds; guiding priorities for anti-poverty projects that cut across provinces; promoting public awareness of poverty reduction; interaction and cooperation with international donors assisting with poverty reduction; hosting the training of cadres from the PRC’s poor areas in the implementation of development-oriented poverty reduction; and handling and other matters referred to it by the LGP.” Asian Development Bank (2004: 50-52).

Figure 3: Institutional Framework for Poverty Reduction Policy-Making and Program Implementation



Notes:

* For microfinance schemes only

Particularly Ministry of Commerce, National Forestry Bureau, Ministry of Water Resources, Ministry of Science and Technology, Ministry of Education, Ministry of Public Health, Ministry of Communications, Ministry of Railways, Ministry of Information Industry, Minimum Living Standard Scheme, Ministry of Civil Affairs, and State Family Planning Commission.

@ Such as All-China Women's Federation, All China Communist Youth League, China Foundation for Poverty Alleviation, and Youth and Juvenile Development Fund.

^ Such as the Glorious Scheme.

Source: Asian Development Bank (2004: 51)

Provinces, prefectures and counties have all established Leading Groups and PADOs reflecting the LGP/LGOP structure at the national level. Many townships have one or two staff as the "designated person" to handle anti-poverty work. Provincial PADOs work with the Provincial Planning Commissions and the Bureaux of Finance. County PADOs prepare and approve project applications for central government poverty reduction funds (Asian Development Bank 2004: 52).

Aside from LGEDPAs and PADOs, the State Council also funds four other anti-poverty units that are under the sphere of the Leading Group: the China Development Foundation for Poor Areas, the Cadre Training Centre, the Training Centre Office, and the Economic Development Service Centre.¹² Among the Ministries and Commissions, the most important for poverty relief and reduction are: the Ministry of

¹²For the many other state institutions play an active role in poverty alleviation in China see Asian Development Bank (2004: 54).

Civil Affairs; Ministry of Finance; State Development and Planning Commission; and the Agricultural Bank of China.¹³ The existence of so many agencies raises the question of whether there is an adverse effect of overlap and thus ineffective implementation of policies or a waste of resources.

As with many things in China, even in post-Mao China, it is only once a directive is given that a policy or project should be undertaken that everyone then mobilizes their resources. This includes poverty relief. Discussions with scholars, for example, who were previously at places like the Chinese Academy of Social Sciences (CASS) recall when they were sent to implement poverty reduction programmes in poor areas. Individuals or small teams would be sent out to poor areas to try to find ways to increase incomes and get residents to be more economically active. Probing into why some of these efforts are successful, one finds the situation reminiscent of upper level work teams being sent into poor communes during the Mao period. It was not just the leadership and new ideas that made such efforts successful in turning around a poor area. Often, it was that the work teams had the ability to appeal to higher level authorities and obtain additional resources (see Oi 1989). Similarly, an economist from CASS managed to turn around the economic situation for a poor county in Shaanxi by convincing central level authorities to route a new tunnel and national highway through the county, thereby greatly increasing access to the area and cutting the travel time to markets.¹⁴

Sending new talent and ideas to poor areas, allowing for the poor to learn from the rich is central to these policies. This can take a couple of forms. First, poor areas are taken under the wing of individual officials in more developed areas or other richer administrative areas help poorer administrative regions. For example, county level officials are sometimes designated to help a poor township or village to develop economically. They advise the village and give them tips on how to take advantage of economic opportunities. But most importantly, they may also be able to steer assistance and opportunities to these localities. A similar strategy is used on the provincial level—rich provinces are teamed with poorer provinces.¹⁵ Beijing helps Inner Mongolia, Tianjin helps Gansu, Shanghai helps Yunnan, Guangdong helps Guangxi, Jiangsu helps Shaanxi, Zhejiang helps Sichuan, Shandong helps Xinjiang, Liaoning helps Qinghai, Fujian helps Ningxia, Shenzhen, Qingdao, Dalian and Ningbo help Guizhou (Zhang 1993: 11).¹⁶

Unlike the Mao period, where poverty status was a complicated process that had to be proven in each instance that aid was needed, in the reform period China designated

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