POVERTY ANALYSIS (SUMMARY)¹

A. Poverty and Inequality

1. The rapid economic growth since the onset of reforms in 1978 has resulted in a dramatic decline in poverty in the People’s Republic of China (PRC). For example, the number of rural absolute poor fell from roughly 250 million persons in 1978 to under 15 million some three decades later using the same poverty measure, or a decline in poverty incidence from 30.7% to 1.6%. The private sector, through job creation and income generation, has assisted this process, while assistance within families, a self-help ethos, and strong work ethics have made further invaluable contributions.

2. Rural poverty incidence. Poverty in the PRC is overwhelmingly rural, with a large number of near-poor or vulnerable households in rural areas. Consequently, poverty incidence in the PRC is sensitive to the standard used to measure income poverty. Using a poverty line of $1.25 per day, the United Nations estimated that poverty incidence was as high as 254 million persons in 2005.² The poverty headcount at $2 per day, on a purchasing power parity basis, was estimated by the Asian Development Bank (ADB) to be 25.38% in 2008.³ The government revised the poverty line to CNY2,300 per person per annum on 29 November 2011, which has resulted in about 100 million more rural persons being reclassified as poor.

3. Rural poverty has many causes, ranging from low productivity of agriculture on small landholdings to gaps in access to rural finance.⁴ Rural income poverty is also linked to environmental vulnerability, the burden arising from health care and education costs, and the impact of malnutrition and low levels of human capital on productivity. While migration to urban areas is an explicit thrust of the PRC’s poverty reduction strategy and conveys important benefits to individual households, it also creates new challenges, including a “brain drain” from rural areas and the emergence of villages virtually emptied of able-bodied laborers. Moreover, financial institutions (including even rural credit cooperatives) are often reluctant to lend to households in rural areas and thus serve to channel farmers’ savings into urban areas, exacerbating rural–urban income gaps.

4. Rising living standards. The PRC is the first country to have met the majority of its Millennium Development Goal commitments well ahead of schedule, including those related to poverty reduction. The country has effectively reached 100% primary school enrollment; gender disparities in primary and secondary schooling have been eliminated; under-five mortality has been reduced from 61 per 1,000 live births in 1991 to 18.5 in 2008; maternal mortality has been reduced from 88.9 to 34.2 per 100,000 live births between 1990 and 2009; the incidence of major infectious diseases has been significantly lowered; and the proportion of the population with access to safe water sources rose from 71% in 1990 to 89% in 2008. Behind each of these impressive social indicators lies a combination of rapid economic growth and steadfast government resolve to forge social progress. The progress in raising living standards is also

¹ This summary is based on various studies by ADB and development partners and consultations with relevant government agencies and other stakeholders.
reflected in the significant improvement in the PRC’s Human Development Index from 0.490 in 1990 to 0.687 in 2011.\(^5\)

5. **Income inequality.** Rising income inequality is common during periods of rapid growth, but nonetheless weakening the beneficial impact of growth on the poor. The PRC’s income inequality has become one of the highest in Asia, with a Gini coefficient of 0.46 in 2008. The main determinant of widening income inequity has been the growing gap between rural and urban incomes. The ratio of nominal mean urban incomes to mean rural incomes increased from 1.86 in 1985 to 3.33 in 2009. Unequal access to social services, economic infrastructure, and finance between rural and urban areas also mirrors the widening income disparities. In addition to urban–rural income gaps, there are also wide differences in incomes and opportunities between the eastern coast and lesser-developed central and western regions of the country, which are clearly reflected in human development outcomes. For example, in 2008, under-five mortality was only 7 per 1,000 live births in the eastern region, which is equivalent to average levels in Organisation for Economic Co-operation and Development member countries, while being substantially higher at 29 per 1,000 live births in the western region.

6. **Health costs and rural poverty.** Health shocks are one of the main causes of extreme poverty. Spiraling health costs, more than 55% of which are borne by individuals, also contribute to poverty and vulnerability. The privatization of social services has led to a significant increase in household expenditures for health care over the past 15 years. In 2008, out-of-pocket health expenditures stood at 40% of medical treatment costs, and premature discharge from hospital due to cost considerations affected about 13% of total patients,\(^6\) with the burden of user-financed health costs falling disproportionately on rural households. Per capita medical and health care expenditure represented 11.6% of rural household consumption expenditure, compared with 9.8% for urban households in 2009.

7. **Migrant workers and urban poverty.** While the absolute number of urban poor is not known with any certainty, evidence suggests that rural-to-urban migration is contributing to a shift in the locus of poverty from rural to urban areas. Rural migrant workers, estimated at about 225 million at the end of 2010, are particularly vulnerable to poverty as they tend to work in the informal sector and are excluded from urban social protection programs. Moreover, they are disproportionally more likely to work in hazardous jobs and account for about 90% of workers with occupational diseases.\(^7\)

8. **Environment–poverty nexus.** There is a strong link between environmental fragility and poverty in the PRC as cited by the State Council Leading Group of Poverty Alleviation and Development as most of the 592 counties identified as requiring special attention under the China Rural Poverty Alleviation and Development Outline (PADO) 2001–2010 are in fragile ecological zones. These fragile zones are parts of the country that suffer from ecological stress, including land degradation, soil erosion, drought, waterlogging, and high incidence and severity of natural disasters. These areas also are prone to the adverse impacts of climate change. Studies show that lesser-developed inland regions are particularly vulnerable to the increased frequency of extreme weather events, which are particularly detrimental to livelihoods in ecologically fragile areas and hamper poverty reduction efforts.\(^8\)


B. Government’s Poverty Reduction Response

9. Although the PRC has no national poverty reduction strategy per se, relevant directions are set under crosscutting five-year plans for national economic and social development, the PADO 2001–2010, PADO 2011–2020, and other policy-related documents. The government has also steadily increased investments in a vast array of programs aimed specifically at poverty reduction.

10. **Rural poverty efforts.** The Leading Group of Poverty Alleviation and Development was established in 1986 to coordinate national poverty reduction and pro-poor programs. The PADO 2001–2010 specified about 592 counties as needing special attention and introduced participatory village poverty alleviation and development planning as the PRC’s flagship grassroots poverty program. The “one body, two wings” strategy elucidated in 2004 emphasized better targeting of the poor and focused on three tools: (i) integrated village poverty alleviation and development planning to improve overall conditions in poor areas; (ii) training for potential migrants leaving poor rural areas; and (iii) engagement of leading agro-enterprises as “dragonheads” to stimulate restructuring of agriculture and diversification of rural economies. The Ministry of Civil Affairs oversees rural relief programs for the destitute poor and in March 2007 established a rural minimum living standard protection scheme (rural dibao) with nationwide coverage to assist the poorest of the rural poor. The PADO 2011–2020 issued in December 2011 aims to reinforce the ongoing poverty reduction initiatives by promoting employment and income generation programs, complemented by provision of social protection schemes. In particular, the PADO 2011–2020 aims to maintain the growth rate of per capita rural income above the national average, extend pension to all rural households by 2015, provide basic health and medical services in poverty-stricken areas by 2020, and achieve the universal coverage of primary education in rural areas by 2020.

11. **Tackling rural poverty head-on.** The government emphasized agriculture development in the poorest regions of the country as part of its new socialist countryside initiative during the 11th Five-Year Plan period. This included, among other measures, the elimination of agricultural taxes. The government also launched the east–west partnership, a twinning initiative to improve the spread of economic development from the more affluent east to the lesser-developed west. Other important poverty reduction measures included more infrastructure investment in the lagging western and interior regions, policies to assist rural development and benefit farmers and rural migrant workers, and more social spending to protect vulnerable groups.

12. **Making health care affordable.** The government is mindful of the need to make quality health care accessible and affordable to all citizens. In 2009, the existing health insurance schemes covered 95% of the rural and 72% of the urban population. In April 2009, the government released The Opinions on Deepening the Health Care Reform, which allocated CNY850 billion to a three-year health reform plan (2009–2011). The document sets out recommendations to achieve universal primary health by 2020. It includes measures to improve the quality of rural health care services, extend health insurance coverage, increase access to quality medicines, train medical staff, develop new health care facilities, and improve hospital financing methods.

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9 Based on 2011 statistics from the Ministry of Civil Affairs, the government provided a monthly minimum rural pension of CNY100.8 in 2009, CNY117.0 in 2010, and CNY143.2 in 2011.
13. **Protecting the elderly.** The government is also taking steps to reform its public pension programs to help safeguard the PRC’s elderly population. This is particularly important as demographic changes will result in a large increase in the share of the elderly population over the next 2 decades. After several rounds of reform, a two-tier pension system has been adopted in urban areas, offering a basic pay-as-you-go pension topped up by fully funded individual accounts. The government is also implementing several pilot programs to strengthen rural pension financing and disbursement mechanisms. Public pension reform faces formidable challenges, including the need to fully finance the shift from the pay-as-you-go system to one that provides universal coverage, underfunding of the national reserve pension fund, and relatively low investment returns on personal pension accounts.

14. **Relocating industries and poor people.** The government is making special efforts to generate jobs in poor regions and move the poorest people to places where quality employment can be found. A shift of labor-intensive industries (including electronic appliances, shoes, and apparel) from coastal areas to interior regions is being encouraged. In addition to poverty reduction considerations, this shift is also motivated by the high environmental cost of rapid industrialization in the coastal regions and abundant natural resource endowment of the central and western regions. In 2007, the State Council classified the country’s territory into four functional areas in which economic activity of varying intensity will be encouraged based on local capacities and environmental considerations. A targeted poverty alleviation policy will be established under which voluntary resettlement programs would be used to encourage the poor living in hazardous or ecologically sensitive areas to move into areas defined as emerging growth centers.\(^{11}\)

15. **Stakeholder participation.** The government increasingly recognizes the potential of civil society—including nongovernment organizations, volunteers, and the corporate sector—as partners in state-supported poverty reduction initiatives. In parallel, a large number of private philanthropic initiatives have been initiated. Developing new models and mechanisms for mobilizing and partnering with civil society and the private sector in poverty reduction programs will be increasingly important to reach those hardcore poor groups that are unable, for various reasons, to benefit from conventional development efforts.

16. **12th Five-Year Plan (12th plan).** Continuing the government’s poverty reduction efforts through an emphasis on inclusive growth and environmental sustainability, the 12th plan stresses improving livelihoods, adjusting the pattern of socioeconomic development to foster balanced regional growth and structural transformation, deepening reform, and promoting scientific and technological progress. Economic policies emphasize macroeconomic stability, continued rapid economic growth, higher domestic demand, rural development by modernizing agriculture, accelerated growth of the services sector, and balanced development between regions. Infrastructure continues to be accorded a high priority for social development, with major programs being mounted to expand affordable public housing, create urban jobs, and ensure universal access to public pensions in the rural areas. Indicators directly related to poverty reduction in the 12th plan include: (i) increasing rural incomes by at least 7% per annum; (ii) providing public pension schemes to all rural residents; and (iii) creating more than 45 million jobs in urban areas.