Chapter 9

China: Poverty in a Socialist Market Economy

Ruizhen Yan and Wang Yuan

A history of poverty research in China

Poverty research in China was initiated in the 1980s. Before that time it had been generally thought that, although China was a developing country, there was not much difference in people's incomes and living standards, owing to the system of publicly owned means of production and equally distributed means of subsistence. Poverty was found only in certain individual families and these were treated as individual cases, which were supposed to be remedied from the public welfare fund established by the people's communes and the relief provided by civil affairs institutions.

When the mechanism of the market economy was introduced into China as a result of China's economic reforms starting in 1978, a big difference in economic growth resulted between the developed region of East China and the underdeveloped region of West China. The sharp contrast in growth attracted nationwide attention in China, especially as a greater part of the impoverished areas was densely populated by ethnic groups and used to be the old revolutionary bases that supported the Chinese communist revolutions during the era of China's revolutionary wars. Therefore, a political dimension was added to the poverty research that had just begun.

The emphasis on poverty research, apart from its political components, was also determined by great economic interests: the potential to escape from China's past low economic growth lies in the impoverished areas, which are of economically strategic importance. China's impoverished regions are concentrated in mountain areas where the land, accounting for 70 per cent of China's territorial area, is rich in natural and economic resources, which are not fully exploited. At present, resources in
the plains area are running out, and a shift in development from the plains area to the mountain area has become a strategic need for China's current economic growth. The eco-environment and its balance in the East China plains area, including the protection of water resources, soil conservation, the supply of clean air, the prevention and control of natural disasters such as floods, droughts, and wind and sand storms, depend on the protection and improvement of the eco-environment in the West China plains area, which acts as an ecological protective screen for the plains area. The underdeveloped mountain area and the developed plains area are complementary parts of the national economy, and their mutual dependence and promotion could give great impetus to the continued development of the national economy.

China's poverty research has so far been confined to the rural areas. This can be explained by the following two points: (1) for a long time a strict household registration system was used, which restricted the influx of rural population into urban areas; (2) the cities had a comparatively perfect system of employment and social security. Therefore, China's urban poverty had not become as serious as its rural poverty. In recent years there have been some changes. The market economy is beginning to break the barrier between the rural and urban areas, and this has led to a flow of some 70 million rural surplus labourers into the cities in search of employment. The introduction of an enterprise management system where bankruptcy is now possible and the abolition of the former system of lifetime employment in urban state-run industries have attracted greater attention to urban employment. An increasing gap between the rich and the poor in the urban population is inevitable when the old social security system is in decline and a new one is not yet established, due to the implementation of enterprise management. Research into China's urban poverty is, therefore, beginning to appear. The conclusion that follows from the above discussion is that the history of China's poverty research is rather short.

Concepts of poverty

The classification of poverty

Poverty may be classified as absolute poverty or relative poverty. Absolute poverty refers to a situation in which the labourer is engaged in a shrinking reproduction, and their ill-fed and ill-clad condition results from this limited production. Relative poverty is characterized by the income differences between people, and generally refers to the living conditions of low-income people, who account for about 20 per cent of the total population (Ministry of Agriculture 1989). This is the mainstream classification in China. Others tend to regard poverty as a state in which, under certain conditions (political, economic, social, cultural, natural), people are unable to make or earn sufficient income to maintain, in the long run, a basic standard of living that is physically, socially, and culturally acceptable. In this connection three points are especially emphasized:

1. Poverty is a non-self-eliminating phenomenon over a comparatively long period of time. Therefore, poverty alleviation targets should be worked out on the basis of a long-term and stable goal.
2. The connotation of poverty in essence consists of production and consumption.
3. The definition of poverty requires the examination of physiological as well as social and cultural standards.
   (a) Physiological needs include an intake of calories necessary for survival, the level of nourishment required to maintain human productive activities, and the necessary clothing and shelter in relation to the weather, as well as the needs of one's spouse and family.
   (b) Safety needs include safe drinking water, the prevention and cure of disease, old age care, job security, and a reliable and stable income.
   (c) Educational needs include being able to receive a regular education up to at least secondary level.
   (d) Consumption needs stem from social exchange and traditional customs include social exchange etiquette, traditional customs with regard to marriages, funerals, and birthdays, and religious conventions.

The study of poverty on the basis of absolute and relative poverty

Most Chinese poverty scholars tend to study absolute poverty using the definition of an absolute poverty line and poverty alleviation practices. Relative poverty, on the other hand, concerns social equality. It exists in any country and at any stage of economic development. Unbalanced growth, as an objective law of the material world, stimulates competition within reasonable limits (Ministry of Agriculture 1989). At present there are some seven viewpoints on how a standard of poverty should be formulated (Zhao Dongyuan and Lan Xumin 1994).
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the plains area to the mountain area has become a strategic need
for China's current economic growth. The eco-environment and
its balance in the East China plains area, including the protection
of water resources, soil conservation, the supply of clean air, the
prevention and control of natural disasters such as floods,
droughts, and wind and sand storms, depend on the protection
and improvement of the eco-environment in the West China
mountain area, which acts as an ecological protective screen for
the plains area. The underdeveloped mountain area and the
developed plains area are complementary parts of the national
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seven viewpoints on how a standard of poverty should be
formulated (Zhao Dongyuan and Lan Xumin 1994).
The Engel's coefficient

The generally adopted poverty standard worked out by the Food and Agriculture Organization (FAO) defines five categories according to the percentage of average income used for food:

- absolute poverty – over 59 per cent
- minimum subsistence – 50–59 per cent;
- well-offness – 40–50 per cent;
- affluence – 30–40 per cent; and
- most affluence – below 30 per cent.

In China, however, the adoption of this method is generally opposed for the following two reasons: (a) under low-income conditions an increase in income is first used to improve food intakes, thereby causing a counter-reaction shown by a rise in the Engel's coefficient; (b) in countries where subsistence necessities are subsidized by the state, the proportion of expenditure used for basic needs (other than food) accounts for only a low proportion of income, and incremental income mainly goes on food consumption, so that the Engel's coefficient often stays at a rather high level. This makes it difficult to use this coefficient as a standard measure for evaluating poverty and its intensity.

Per capita net income

The advantage of the per capita net income standard is its simplicity and ease of use. However, because of its great fluctuations, it is difficult to use it as the basis for an objective absolute poverty line. Moreover, because per capita net income varies with changes in the price index, what exactly reflects absolute poverty in one period may not do so in another. All this will result in measurement difficulties.

Daily necessities consumption expenditure

For an ill-fed and ill-clad peasant, basic physiological needs are of utmost importance. Then other needs will follow, e.g. safety needs such as a job, security, health insurance, savings in case of emergency, etc. Daily necessities consumption expenditure is composed of two parts: the minimum requirements of food for survival, and other needs for minimum daily necessities (including services). On this basis, the poverty line for Chinese rural areas in 1985 was calculated as Y200. However, this poverty line is not considered to be static. It should be adjusted according to changes in the structure of food consumption and the price index, as well as in family size, and taking account of regional differences (Tong Xing and Lin Mingang 1994). This is in accordance with the view held by most Chinese scholars on how to formulate a standard poverty line (Yan Ruijizhen and Wang Yuan 1992; Yao Quanzhuo and Yang Daojie 1994).

The World Bank's target system for evaluating impoverished countries

This system suggests a standard for absolute poverty according to the minimum level of nourishment per person (a daily intake of less than 2,250 kcal) and the proportion of total income spent on food (about 75 per cent).

The comprehensive target system

This is a poverty-evaluation system comprising the three components of a subsistence environment, subsistence quality, and a subsistence effect using fifteen targets. The targets include: per capita GNP and its rate of increase; the proportion of non-agricultural output value in GNP; the "four basic facilities" ratio (referring to the proportion of villages having access to electricity, telephone, public bus service, and running water); the index of natural defects (inverse); per capita net annual income and its rate of increase; per capita expenditure on clothing; per capita daily intake of three main elements of nourishment; the proportion of the expenditure on cultural activities; the proportion of expenditure on food; per capita meat consumption; per capita savings balance; the proportion of per capita family property; the ratio of natural population growth (inverse); average life expectancy; and the number of years of regular education per labourer. Each of the targets is presented a quantity ratio value. This is a comprehensive and systematic way of evaluating poverty, ranging from static targets to dynamic ones. However, a comprehensive evaluation has not yet been worked out and its actual operation is difficult (Zhao Dongyuan and Lan Xumin 1994).

The multi-level poverty line

This standard uses the extreme poverty line (the survival line), the food and clothing satisfaction line (the poverty line), and the growth line (the poverty alleviation line) instead of the current single poverty line (a poverty alleviation line). The three different lines were drawn as follows.

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capita of annual food consumption by rural residents was worked out for different groups. This figure was multiplied by the mixed average price of the food consumed that year, and the result was the minimum per capita annual income of rural residents required for survival. The final result was Y250.

For the food and clothing satisfaction line a formula was used to get the final result: the cost of minimum food consumption was divided by the Engel's coefficient of impoverished households in the poverty-stricken region. According to statistical data analysis the coefficient was 63.6 per cent and so the result (i.e. the poverty line) was Y350.

The growth line was created on the basis of a country-wide investigation of peasants, where peasant households were divided into groups according to the per capita net income of each household, and the relationship between household net income and the value of savings was defined. The marginal value of savings was then introduced so as to find the per capita net income group with the greatest propensity to save. Thereafter the savings ratio of each of the groups was worked out on the basis of the classification according to per capita net income, so as to decide which one was linked to the most obvious change in the savings ratio. Then, by comparing the per capita net income of the peasants of the whole country that year (as a publicly recognized average living standard) with the above-mentioned figure, the growth (poverty alleviation) line was calculated as Y600 (Tong Xing and Lin Mingang 1994).

China's official poverty standard
The following counties are considered to be poor, and therefore entitled to financial aid from the state: counties in rural areas where per capita annual net income was below Y150 in 1985; counties in the old revolutionary base areas and the minority autonomous counties of rural areas was below Y200 in 1985; pastoral counties in rural areas where per capita net income was below Y300 between 1984 and 1986; and semi-pastoral counties in rural areas where per capita net income was below Y200 between 1984 and 1986 (State Council 1989).

Hypotheses
Poverty is a comprehensive social and economic phenomenon, and different scholars make different assumptions when studying it. In China, most studies are based on regionalism.

Poverty in the peripheral areas
The so-called peripheral areas are regions located away from the economic growth centres (central areas). The economy develops slowly and contributes only little to the economic growth of the country. Judging from the distribution of the 667 poverty-stricken counties designated by the Chinese government, all of them are located in the peripheral areas of the national economic growth centres.

Poverty in the mountain area
In "The Development of China's Impoverished Mountain Areas", the co-authors Yan Ruizhen and Wang Yuan express the view that in the impoverished counties the population is mainly concentrated in the mountain areas. Some 80 per cent of the poverty-stricken regions in China are located in the mountains. Out of a total of 679 impoverished counties, 514 (accounting for 75.7 per cent) are located in the mountain areas, and most of them are located in West and Central China. In the peripheral and impoverished mountain areas the following conflictual elements are present:

- In poverty-stricken counties with low per capita income the birth rate is higher, leading to a vicious circle of increasing impoverishment and an uncontrollable population explosion.
- Because of a scarcity of cultivated land and the inability to be self-sufficient in food, hilly fields have to be reclaimed. This causes severe soil erosion and ecological imbalance, and grain yields get increasingly smaller. The more impoverished the people become, the more land is reclaimed; and the more land is reclaimed, the greater the impoverishment. Poverty and environmental degradation thus reinforce each other.
- The comprehensive use of resources and control of the environment demand a big effort and take time, but there is a scarcity of the necessary funds, materials, technology, and infrastructure (including communications, energy resources, water supply, level of urbanization, etc.)
- The isolation of the natural economy prevents the possible stimulus generated by a market economy outside the poverty-stricken counties from having an impact. As a result, poverty stays year in and year out, generation after generation (Yan Ruizhen and Wang Yuan 1992; Zhan Shaojin 1991).
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Poverty caused by policy miscarriage

Because a basically self-sufficient natural economy has been prevalent in the remote impoverished mountain areas, and the planned economy, in contrast to a commodity economy, has greatly encouraged the trend towards a natural economy, a superior structure for harnessing and allocating resources has been prevented from being established. In addition, policies aimed at helping the poor have misfired because the practice of relying on relief without promoting economic growth. It is like giving a blood transfusion without fostering the function of blood formation. Year in and year out this results in nothing but sustained poverty. The implementation of policy is also deficient in the following aspects:

- more emphasis is put on economic than on ecological effects in the exploitation of resources;
- more attention is paid to taking than to giving, as shown by the resource plundering mentality and management;
- more importance is attached to food production than to forestry and animal husbandry;
- there are frequent changes in property ownership, with subsequent destruction of resources;
- the population policy has been wrong (Yan Ruizhen 1990).

Short-run and long-run goals

What should be the goals in order for the impoverished mountain areas to achieve economic growth? In general there are two stages: the short run and the long run. Short run goals involve reversing the present fall in production and changing the resulting malnutrition and poor living conditions. The long run goals call for a policy that will provide areas with a flourishing economy, a good ecological cycle, a healthy environment, prosperity, and a sophisticated culture so that the differences between the mountain areas and the plains areas gradually disappear. This should be the future goal of economic growth efforts in the mountain areas (Du Keqin 1988; Lu Dongsheng 1991).

Theoretical systems

Generally speaking, poverty is normally studied under the guidance and within the framework of the theories of development economics, a theoretical system formed by different doctrines.

The growth pole/centre theory

There are two routes to the development of a growth pole: automatic formation, i.e. the concentration of industries and trades in the developed regions of certain towns, through the spontaneous regulation of the market mechanism, and deliberate formation by the government through economic plans and major investment. Ever since the 1980s, in the pursuit of different models of regional growth theories, most Chinese scholars have been in favour of the growth pole theory as an effective policy tool.

The theory of stages of economic growth (Shen Hong et al. 1992)

The Western economist Walt Whitman Rostow's theory of economic growth stages has been applied to the study of China's poverty and poverty alleviation strategy (Zheng Dahao 1990) - i.e. the stages of traditional society, preconditions for take-off, take-off, the drive to maturity, and the final stage of mass consumption.

The theory of the dualistic economic structure

The economic growth and development theories of "equilibrium vs. disequilibrium" and "balance vs. imbalance" have been perfected and revised by the Chinese scholars, who have applied them to the study of the issue of economic growth in the impoverished regions in China (Liu Jiaguai and Cha Hongwang, 1993; Ye Xingqing 1990).

The theory of the transformation of the economic structure

The mountain area needs to make use of both internal and external factors to change its economy from a natural economy to a socialist market economy, that is, to make the transformation from the middle stage of a simple commodity economy to the final stage of a specialized socialist commodity economy. This change requires two conditions: (1) surplus products or key elements of surplus production after self-sufficient consumption has been satisfied are a prerequisite for the exchange of commodities; and (2) comparative economic advantage of key
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elements of commodities, that are immune to competition from outside must be established. At present, only by satisfying these requirements will China be able to make full use of the internal and external elements critical to the development of a commodity economy in China’s impoverished mountain areas (Li Yunzhu 1993; Yan Ruizhen and Wang Yuan, 1992).

The theory of the differential land rent

Compared with the suburbs and the plains areas, the peripheral areas and the impoverished mountain regions have a disadvantage as regards the differential land rent. In these regions, low-quality land brings fewer profits from the same investment; long-distance transportation results in a higher purchase price for industrial products and a lower sale price for agricultural products. A big investment is also demanded of the regions to protect the ecology of the plains. Peasants have to suffer the economic loss resulting from the price scissors; and, as peasants in poverty-stricken regions, they have to suffer a further loss brought about by the differential land rent. This is the theoretical basis on which the government is expected to apply special preferential policies for these regions (Yan Ruizhen and Wang Yuan 1992).

Conclusions

Establishing a socialist market economy and developing a mountain-area economy

Yan Ruizhen (1992) has suggested the establishment of a socialist market economy and the vitalization of the mountain area economy by using the data collected from an investigation of typical examples to analyse the impoverished mountain areas in detail. According to him, the following elements should be taken into consideration as regards the development in this region: the ecological environment and its control; the exploitation of the natural resources; the problem of meeting nutritional requirements and a way of addressing it; economic growth and the introduction of technology and education; the lack of funds and finding a solution; the construction of infrastructure; and special economic policies (Tong Xing and Lin Mingang 1994). All these elements are necessary for a dynamic strategy of systematic development in the impoverished mountain areas (Sun Yingzhou 1989; Yan Ruizhen and Wang Yuan, 1992).

Establishing a regional economic growth pole and developing the economy of the impoverished counties

In view of the destitute situation of Midu County in Yunnan Province, Liu Jiagui and Cha Hongwang (1993), using the theory of the growth/centre pole and the investigative method of typical examples, have suggested the establishment of an economic growth pole as a way of solving the problems of the impoverished regions.

Establishing the centre–periphery system and developing the economy in the peripheral areas

Ye Xingqing (1990) advances a doctrine of the centre–periphery system in which the periphery is defined as being similar to the impoverished region and the central area as being similar to non-impovery-stricken regions. Three relationships are closely connected with the system: the export of capital from the central and provincial governments to the peripheral area is larger than that from the peripheral area to the centre and the provinces; the influx of high-quality labour into the peripheral area from the central region is greater than the outflow; the influx of average labour into the peripheral area from the central region is smaller than the outflow; and there are more technical exports from the central region to the peripheral area than from the periphery to the centre. This conclusion demonstrates the rule governing the circulation of key productive elements between the poverty-stricken area and the developed area (Ye Xingqing 1990).

Developing a system of new technology imports and achieving growth for small-scale peasants

Shen Hong et al. (1992) studied the process of achieving the satisfaction of food and clothing needs and alleviating poverty in an effort to break the chain of poverty (including periodic poverty). There seem to be two prerequisites for the completion of the process:

- A change in the external economic environment. Macro-economic development is considered to be an induced condition for economic growth in the peripheral area, and the induced function should be powerful enough to overcome
elements of commodities, that are immune to competition from outside must be established. At present, only by satisfying these requirements will China be able to make full use of the internal and external elements critical to the development of a commodity economy in China's impoverished mountain areas (Li Yunzhu 1993; Yan Ruizhen and Wang Yuan, 1992).

The theory of the differential land rent

Compared with the suburbs and the plains areas, the peripheral areas and the impoverished mountain regions have a disadvantage as regards the differential land rent. In these regions, low-quality land brings fewer profits from the same investment; long-distance transportation results in a higher purchase price for industrial products and a lower sale price for agricultural products. A big investment is also demanded of the regions to protect the ecology of the plains. Peasants have to suffer the economic loss resulting from the price scissors; and, as peasants in poverty-stricken regions, they have to suffer a further loss brought about by the differential land rent. This is the theoretical basis on which the government is expected to apply special preferential policies for these regions (Yan Ruizhen and Wang Yuan 1992).

Conclusions

Establishing a socialist market economy and developing a mountain-area economy

Yan Ruizhen (1992) has suggested the establishment of a socialist market economy and the vitalization of the mountain area economy by using the data collected from an investigation of typical examples to analyse the impoverished mountain areas in detail. According to him, the following elements should be taken into consideration as regards the development in this region: the ecological environment and its control; the exploitation of the natural resources; the problem of meeting nutritional requirements and a way of addressing it; economic growth and the introduction of technology and education; the lack of funds and finding a solution; the construction of infrastructure; and special economic policies (Tong Xing and Lin Mingang 1994). All these elements are necessary for a dynamic strategy of systematic development in the impoverished mountain areas (Sun Yingzhou 1989; Yan Ruizhen and Wang Yuan, 1992).

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- A change in the external economic environment. Macroeconomic development is considered to be an induced condition for economic growth in the peripheral area, and the induced function should be powerful enough to overcome
local traditions and the yoke of traditional circumstances
governing the economic behaviour of small-scale peasants.
• An effective transmission mechanism between the poverty-
stricken area and the external economic environment.

Therefore, the following should be taken into account as part of a
poverty eradication task: the transmission of technology as the
crucial link in the poverty alleviation chain; the principles for
choosing new technology, such as the comparative advantage of
technology and the low threshold entrance; and the policies
corresponding to these principles.

Another important conclusion drawn by Shen Hong et al. is a
d Doctrine of growth centred on small-scale peasants. The subject
for growth can only be the poor themselves, so we must do away
with the old concept that regards traditional small-scale peasants
as passive objects needing comfort and relief. However, they will
not be able to break their poverty chain without help, support,
and encouragement from outside. The government should take
responsibility for initiating the “first promotion”. Therefore, the
poverty alleviation process should be seen as a two-way inter-
action between the small-scale peasants and the government,
Demanding an equal and active “conversation” between the two
sides (Shen Hong et al. 1992).

Suggestions for the future

First, we call on social scientists to attach greater importance to
the study of poverty. Poverty will continue to remain a major
problem in the world for a long time to come. Even in Asia,
which is experiencing rapid economic growth, the gap between
the rich and the poor keeps widening. This can be considered to
be a source of instability.

Second, a worldwide system and an international institute for
the study of poverty should be established. Financial support for
relevant studies could possibly be obtained by raising funds from
international donor institutions and by forming a special poverty
study foundation.

Third, an international symposium on world poverty should be
held every three years in Asia, Africa, or Latin America, in turn,
to discuss the urgent and critical current issues on poverty and its
analysis and research.

Fourth, it is a good idea to undertake comparative studies on
poverty, and possible fields of study are as follows:
• concepts of poverty;
• definition of a standard measurement of poverty;

• evaluation of the current situation, and forecasts for the
  future;
• the causes and effects of poverty;
• the position and significance of the economies of impov-
  erished regions in the whole process of economic growth;
• poverty alleviation strategies;
• the exploitation of resources in poverty-stricken regions and
  their optimum use;
• ecological/environmental parameters in the regions;
• population and birth control;
• food strategy;
• the relationship between eradication of poverty and economic
growth, and the correct way to handle it;
• the industrial structure in the impoverished areas;
• the introduction of technology;
• raising funds and reasonable investment;
• cooperation between the developed zones and the impover-
  ished zones;
• the functioning of cooperative economic organizations;
• the way to mobilize a multitude of people and institutions
against poverty;
• aid for the poor from the government;
• preferential policies for the impoverished areas;
• theories of poverty; and
• the methodology for the study of poverty.

Fifth, data banks for the study of poverty should be formed and
abstracts from the literature of poverty study should be made
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