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Reflections on China's Inclusive Growth and Poverty Reduction: Progress and Policies¹

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INTRODUCTION

President Hu Jintao of China proposed a comprehensive approach to development to achieve inclusive growth in 2009-2010. The ultimate goal worldwide is to ensure that people from all countries benefit from the economic development fruits of globalization, so as to realize economic and social progress. For China the fundamental elements of inclusive growth comprise: continuous efforts on transforming its economic development model, improving the quality for people's well-being; adherence to social justice and equality, and ensuring equal access to development opportunities.

I. A Retrospect View of China's Process of Inclusive Growth.

The idea of inclusive growth has been up-held throughout China's reform and opening-up and modernization process. Its evolvement can be divided into three stages;

A. Nationwide Massive Poverty Reduction Driven by Rapid Economic Growth through Economic System Reform: 1978-2001

At the beginning of China's reform and opening-up, 1/3 of the population was poor. Consequently, the primary task of social and economic development was to address the pervasive poverty. In 1978 the Chinese government shifted its focus to socialist modernization which reformed the economic system to achieve a nationwide massive poverty reduction. The reforms undertaken encompassed both the rural and urban economic systems. Firstly, rural economic system reforms related to farming land; reformed the agricultural product circulation system; diversified agricultural production; undertook massive researches on agricultural science and technology; and set up an agricultural science and extension system to increase production. Secondly, the urban economic system reforms centered on state owned enterprises (SOEs) which reformed the income distribution relationship

between the state and the enterprises by levying an income tax and establishing independent rights to management. Further after 1992, SOEs were strengthened and revived following a restructuring to address defects in their operation mechanisms and difficulties in market competition. Also after 1992, the system of "socialist market economy" was officially established which since then the unitary planning system began to change and gave way to emergence of market actors.

Since the reform and opening-up, China has experienced rapid economic growth, with annual GDP growth exceeding 9% in recent years. This has enhanced the living standard of the poor population. Thus the very poor in China have dropped from 0.25 billion in 1978 to 29.27 million in 2001, and accordingly the poverty rate has dropped from 30.7% to 3.2%.

B. Coordinated Urban-Rural Development for an Equitable Growth Spurred by Policy Adjustment: 2002-2010.

Since the onset of China's continuous rapid growth and its accompanying process of industrialization, however, rural development has lagged significantly behind urban development, the latter phenomenon euphemistically called "sannong" (characterizing the situation of agriculture, rural areas, and farmers). This entailed poor agricultural infrastructure, backward rural

¹ Original paper presented by Dr. Huang Chengwei, Director of International Poverty Reduction Center in China at Hyatt Regency Dar es Salaam the Kilimanjaro Hotel, Dar es Salaam, Tanzania: May 24, 2012

social service, and widening urban-rural income gap, all emerging as problems hampering China's social and economic development.

At the beginning of the new century, the Chinese government issued a series of policies favorable to rural development. These included adjusting the distribution structure of national income and enhancing measures that favour the rural areas such as input of fiscal expenditure, fixed assets investment and bank loans into "sannong"; enlarging the coverage of public finance; establishing a unified labor market covering urban and rural areas, removing the barriers restricting farmers from working in urban areas, conducting training for rural laborers, etc. They are examined later in this Brief.

The policy reform on rural taxation system had by 2006 achieved a nationwide exemption of the agricultural tax, and in so doing increasing farmers' disposable income and motivating farmers for better output. These policy reforms laid down a foundation for sustainable development of agriculture that accelerated reduction of rural poverty, by resolving the problems of food, clothing and other basic needs. In the Outline for Poverty Reduction and Development of China's Rural Areas (2001-2010), the government managed to extend the coverage of its effort addressing geographic decentralization of the poverty-stricken population, and shifted the target areas from poverty-stricken counties to village levels. Eventually, the low-income population dropped from 58.25 million in 2002 to 26.88 million in 2010.

Comprehensive, Coordinated and Sustainable Development through Inclusive Growth Paradigm promoted by Development of Institutional Systems

Since reform and opening-up, China practiced an unbalanced economic development strategy which allowed part of its people and areas to become rich first before they could help the rest to become rich as well. Though this unbalanced development strategy helped to initialize China's economic system reform and spurred economic take-off, it worsened income disparity among regions and various groups and between urban and rural areas. These disparities limit access to different services, therefore hampering social justice, equity and stability. To address this, the government declared the inclusive growth paradigm, whose goal is to build an overall well-off society. It would also help to achieve the comprehensive, coordinated and sustainable economic and social development and nurture a coordinated and harmonious development between urban and rural areas, different geographical regions, economic and social affairs, as well as human beings and nature. It also aimed to a sound and rapid national economic development, enhance people's livelihood, and safeguard social justice and equity.

The components of inclusive growth are focused on perfecting relevant institutions, including the policies proven successful through piloting into national development plans and establishing effective institutional systems. In the coming decade (2011-2020), the poverty reduction strategy will refine the success of the whole socialist modernization agenda through the Outline Development-oriented Poverty Reduction for China's Rural Areas (2011-2020). The government aims to: meet peoples' needs for basic food, clothing, compulsory education, health care and housing. In this context, China has also identified 14 transprovincial areas in contiguous stretches as its major target areas, since they are the habitat for most of China's remaining poor.

II. Major Policies to Promote Inclusive Growth

The government has adopted the following policies to promote inclusive growth:

A. Adjusting and Optimizing Industrial Structure and Shifting Economic Development Pattern:

Over more than 30 years of development and through this approach, China has transformed from a low income country into a middle income state. This was achieved through industrial restructuring and transforming economic growth pattern; both have enabled China to become a middle-income country. In this respect, it was necessary to introduce more capital into weak industrial links and industries, apply high and new technology, restructure and revive few Key Industries; thus 4,441 projects were supported. It is estimated that the value added in the 6 emerging high technological industries will by 2020 account for 20% of GDP².

B. Major policies for transforming economic growth pattern

To avoid middle income trap, with the speeding up transformation of economic growth pattern declared in the 11th Five-Year Plan of 2006, 8 indicators have been applied to measure the transformation. This includes the areas of energy consumption, employment, environment protection, population control, endowment insurance, and rural health care.

C. Improving Labor Qualities and Capability, and Creating Opportunities for Employment and Career Development for them

This focused foremost on improving the Working and Social Security Policies for Migrant Rural Workers and particularly integrating them into urban development. The evolution of this area went through roughly the following steps: Controlling Migration, employment of urban immigrants by (from 1990), Allowing Migration

² Ma Xiaoho: A Report on the Strategy for Striding over Middle Income Trap, 2011.

across provinces (1994), Encouraging Migration of Rural Surplus Labor (1995), Assuring the Children of Migrant Rural Workers of Compulsory Education (2003), setting up dedicated Training Program for the Migrant Rural Workers Nationwide (2003-2010), and establishing social security and medicare insurance (2006). Meanwhile, training was also provided to local government officials under “Sunshine Project” and “Rain and Dew Project” designed mainly for training the migrant labors.

Surplus workers in poverty stricken areas have been organized to transfer outside their areas after they received training. Special programmes for this purpose included:

- i. **The Sunshine Project:** a program for transferring and training rural labor to provide them with rural jobs and increasing their income. In 2005, 2.8 million farmers were trained
- ii. **Rain and Dew Project:** It aimed at wide participation of the community, which includes vocational education, career training and agricultural technical training, to solve the problems for young and middle age farmers of poverty stricken areas; at least one laborer from each poor rural household has acquired 1 or 2 agricultural techniques. By the end of 2010, 5 million young and middle age poverty stricken farmers and 0.2 million demobilized soldiers had succeeded in obtaining jobs.

D. Readjusting Income Distribution and Narrowing Income Gap Individual Income Tax Policy

The aim of the adjustments in income tax adopted was to reduce the taxes of low income groups and effectively narrow income disparity. In 2011 the taxation threshold was increased to 3,500 yuan in 2011.

E. Agricultural Tax and other Taxes and Fees on Farmers

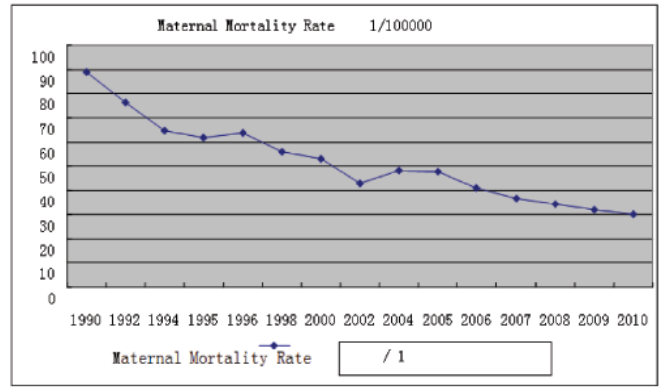
The tax reforms that started in 2001, had by 2006 exempted farmers of agricultural tax nationwide, together with fees collected by local governments. This exemption increased farmers’ disposable incomes and motivated farmers’ initiatives.

F. Strengthening the Development of Social Security Network and the Improvement of People’s Livelihood

The establishment of the compulsory education and medicare security systems have effectively reduced the high poverty rate in China that was caused by health care and education tuitions that relied on market mechanisms.

- **Popularizing Compulsory Education:** Compulsory education (established in 1986) played a key role in transforming the large population into rich human resources, and the subsidy policies to rural

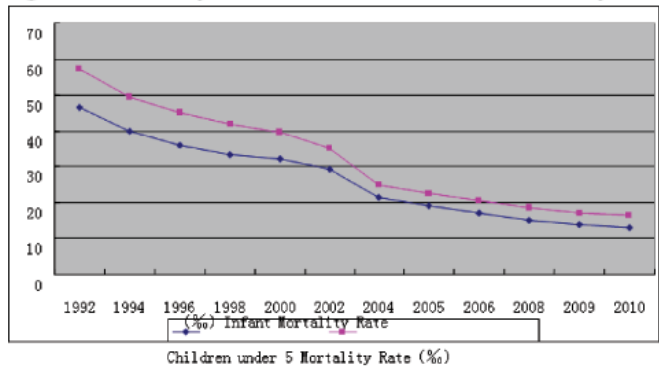
Fig. 1: Maternal Mortality Rate



Date Source: Statistic Report of China 2010

compulsory education have helped to improve the qualities of poor population and narrow development disparity between urban and rural areas. Milestones archived included for instance: average schooling years per person at 4.3 in 1985 rising in 2003 to 8.1. By 2010, all 2,856 counties had included in the compulsory education system, and the net enrollment rate of primary school was 99.70%.

Fig. 2 Infant Mortality Rate and Children under 5 Years Mortality Rate



Date Source: Statistic Report of China 2010

The Chinese government initiated Medi-Care Relief System first in urban areas and later extended to rural areas to improve vulnerable groups capability against the risks of high medicare expenses. It also increased investment in building medical institutions. These improvements have played a key role in promoting the health of urban and rural residents. The maternal and infant mortality rate has been reduced from 1500 per 100,000 and 200‰ in 1949 when new China was founded to 30.0 per 100,000 and 13.1‰ in 2010 respectively (see Fig.1 and Fig 2), both of which rank first among developing countries³. The average life expectancy has increased to 73 years in 2010 from 35 years before 1949, and the national health level has risen to a higher level among developing.

- **Establishment of Urban and Rural Subsistence Security System:** Subsistence Security System was first established in all cities and by 2007 it also covered rural areas. Its has laid a foundation for ensuring that rural the poverty stricken population have food, clothing, and other needs. The average

3 The Ministry of Health: Report on Maternal Health Care and Neighborhood Health Care, <http://www.moh.gov.cn/publicfiles/business/htmlfiles/mohfybjysqwss/s7901/201104/51206.html>

standard of urban subsistence allowance in 2010 was 251.2 yuan per month, with percapita subsidy of 189.0 yuan. The standard of rural subsistence allowance was 117 yuan⁴ per person per month, with percapita subsidy of 74 Yuan.

III. Suggestions on Furthering Inclusive Growth and Poverty Reduction in China

- Promoting the Change of Growth Pattern: from Rapid Extensive Growth to Balanced Sustainable Growth:** It is suggested to shift away from the growth pattern of over-reliance on investment, exportation, industry and consumption of material resources, and to move towards a moderated growth rate, which is domestic demand driven, with a consumption structure, promote development of a tertiary industry and a technology based intensive growth.
- Expanding Domestic Demand and Promoting the Formation of a Consumerist Society**
 This should be by: speeding up adjustment of national income distribution structure and reform of income distribution system; reducing the proportion of government enterprises in national income distribution and ensuring that residents, especially middle and low income groups, enjoy fast income growth rate; creating opportunities for people to increase incomes, through decreasing the amount of poverty stricken population as well as enlarging the population of middle income to expand domestic demand.
- Protecting the Labor's Rights and Improving Their Treatment**
 It would work through institutional changes related to migrant rural workers' rights and treatment, to facilitate settlement in cities, integration into urban social life, encourage better wages and effective social security.
- Adjusting the Distribution Structure, and Narrowing Income Disparity**
 China needs to establish an effective taxation system for adjusting the income distribution

between different groups. The system should regulate further the income of the high income group and boost opportunities for middle and low income groups to increase income.

- Further Improving Relative System and Mechanism to Expand the Coverage of Social Security and Social Welfare Level**

The existing social security system (for people's birth, aging, sickness, disability and unemployment) hardly reaches the middle and low income groups who are most in need in urban and rural areas. The system covers only 30% in China, although it was less than 16.6% in 2009. Reasons for low coverage include lack of a unified social security system for the different areas and weak government support. It is important to deepen reform of the social security system, by expanding coverage to the whole society, equalize basic subsistence security and also help to alleviate poverty.

IV. Implications

Though it is not long since the concept of inclusive growth was introduced, it is in line with China's open-up and reform and modernization, informing the formulation of development strategies at different stages. This concept is relevant for developing countries as they can use it positively when working out their own development strategies, for the following reasons:

- Inclusive growth deals with the question of who benefits from development, to ensure that at national and global level the maximum number of people benefit, in order to achieve coordinated and balanced economic and social development;
- During the reform opening-up and modernization stages, the Chinese government has adopted suitable policies according to the characteristics of the different stages;
- The need to continually explore and sophisticate the policies for inclusive growth and promote the relative institutional construction step by step;
- Due to their unique, historical and development characteristics, each country should tailor their own policies and practices to make them favorable for inclusive growth.

⁴ The Ministry of Civil Affairs: Statistic Report on the Development of Social Service (2011), <http://www.mca.gov.cn/article/zwgk/mzyw/201106/20110600161364.shtml>



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