

# Chapter 5

## Poverty Alleviation Policy in Rural China and the Strategy for Developing the Western Region

### *Introduction – Purpose of Poverty alleviation Policy*

While there has been much debate about the Strategy for Developing the Western Region, little mention was made of the poverty problem in either lectures by political leaders, reports by government ministries and agencies, or discussions by scholars or media. It seems that in China, the development of the Inland Region and alleviation of the poverty problem are still being discussed as separated issues. That is to say that a narrowing of the overall, national economic disparity is not yet on the agenda of the immediate objective of the Western development project.

The immediate objective is to “develop primarily regions and industries that now have potential for development.” This approach should be considered to share the same line of thinking as Deng Xiaoping’s “get-rich-first” doctrine, or the “regional core development” in terms of Japan’s experiences in its national land development policy. For example, the government’s priorities are the development of key industries in such big cities as Chengdu, Chongqing and Xi’an and related industries in nearby rural regions, and construction of infrastructures deemed necessary for such development is regarded as the most crucial task for the central government.<sup>1</sup> The intention of the policy is to accelerate overall economic development first and have the results of that development “trickle down” to poverty-stricken areas and the poor as promptly as possible. Industrial development based on competitive advantage within the market mechanism forms the foundation of the immediate strategy.

According to the “theory of the dual economy,” wages of unskilled workers will start rising when surplus labor in rural areas (the traditional sector) disappears and eventually catch up with the wage levels in urban areas (the modern sector), which is called “turning point.” Until this happens, the wage disparity is expected to keep widening between skilled workers in the modern sector and unskilled workers in the traditional sector. As the rural sector in China is said to have 50 million sur-

plus workers, it would take a long period of time before the above-mentioned turning point. There is no other way than adopting governmental interventions to raise the wage level of the rural poor while redundant labor is left intact. But the Chinese government, or the wealthy in China, cannot afford to take measures effective to help all the poorest in the country.

Efforts required to achieve successful development of “regional cores” would not give China a luxury of mobilizing the massive part of the state budget to eliminate the overall economic disparity among its people. If the successful construction of regional cores can be defined as the first stage of the Inland Region development and the narrowing of the overall disparity and full efforts to eliminate poverty as the second stage, then any debate about the second stage would have to be shelved for the time being.<sup>2</sup>

Regions or individuals that cannot claim competitive advantages in the market mechanism, more specifically, mountain and desert regions with inadequate transportation infrastructure or means to obtain information or individual residents who grew up under inferior educational or health conditions there, will likely be left behind the development of the country as a whole. The main thrust of China’s poverty alleviation policy is to raise the economic level of the poorest through considerably limited administrative intervention and prevent the overall imbalance from growing out of political control. If the government’s development efforts suffer a major setback due to political or social instability, it would further threaten to ruin the development of regional cores. As areas of ethnic minorities show a relative concentration of poor people, dealing with dissatisfaction among them is an important political issue. As the overall disparity is expected to keep widening in the coming years or decades, the primary objective of China’s poverty alleviation policy appears to be to keep problems of the poorest from developing into a major political issue.

The following sections discuss current poverty problems in rural areas, review an outline of the past poverty alleviation measures in rural areas and

study what should be done in the future. This chapter does not dwell on urban poverty problems, though they represent a very important issue.

## 5.1 Poverty Situation in Rural Areas

### 5.1.1 Size of the Population in Poverty

As shown in Table 1, the Chinese government estimates the present population of the rural poor at 26 million (as of the end of 2000), with the ratio of the poor to the total rural population (the poverty rate) at less than 3%. The government started its survey on the poor population in 1985, some years after the launch of the reform and open-door policy. In 1978, when China still embraced people's communes, the poor population stood at 250 million, meaning that one-third of Chinese in rural areas were living in absolute poverty. In those days, as almost everyone was poor, poverty was not recognized as a special problem. The poor population declined rapidly in the 1980s and slipped below 100 million at the very beginning of the 1990s. With the launch of the contracting management of cultivated land and the emergence of non-agricultural industries, some rural areas with favorable geographical and economic conditions were able to raise economic levels substantially. Toward the end of the 1980s, however, the pace of the drop in the poor population became more moderate as remote places in the mountains and desert areas were left

behind in poverty as they lacked conditions for developing viable agriculture or township and village enterprises.<sup>3</sup> These out-of-the-way areas not only lacked conditions to support industrial development but also lagged behind in education and health service, and the lack of qualified human resources was another reason why they were gripped by poverty for so long.<sup>4</sup>

In the 1990s, particularly after 1993 or 1994, the level of income and consumption per person rose rapidly, helping the poverty rate dip steadily by about a percentage point each year. This came along with the sharp rise in the economic level of China as a whole, and the decrease in the poverty rate was particularly pronounced in 1997 and onward (See Figure 1). The reduction of poverty in China so far was made possible with economic development in rural areas as the driving force.

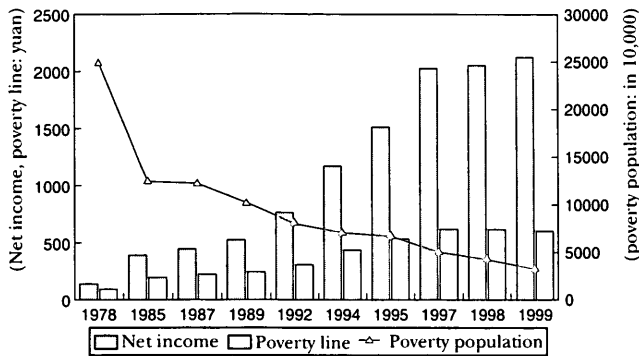
The standard for poverty used here is the level of subsistence where the basic need for food and clothing for living has basically been satisfied. In another word, it is the level of necessary consumption estimated by taking into consideration the minimum necessary calorie intake (2,100 calorie) and the level of consumption of other non-food consumption on the assumption that the portion of total consumption expenditure that is spent on food is about 85%. The level, expressed in monetary amount at the prices of each year, was 205 yuan in the introduction year of 1985, rising steadily to 300 yuan in 1990 and 625 yuan in 1999.<sup>5</sup> The poverty level is estimated under this standard on

**Table 1 Poverty Population and Poverty Yardstick**

	Yardstick of Chinese Government			International Yardstick		
	Poverty line (yuan/annual per-capita)	Poverty population (in 10,000)	Incidence of poverty (%)	Poverty line (dollars/ daily per-capita)	Poverty population (in 100 m.)	Incidence of poverty (%)
1978	100	25000	30.7			
1985	206	12500	14.8			
1990	300	8500	10.1	1.0	2.63	31.3
1992	317	8000	9.4	1.0	2.55	30.1
1994	440	7000	8.2	1.0	2.22	25.9
1996	580	5800	7.6	1.0	1.30	15.0
1998	635	4210	5.8	1.0	1.06	11.1
1999	625	3400		1.0		
2000		2600	3.0 less	1.0		

Source: Su Guoxia [2000] p.621, p.629. Numbers for 2000 were taken from reports at the "Western Forum" held in November of that year.

**Figure 1 Rise in Rural Income and Drop in Poverty Population**



Source: State Statistical Bureau's Rural Social Economy Survey Group [2000]

the basis of samplings collected by the State Statistical Bureau.

This standard might be suitable when “eating to one’s fill,” or subsistence itself, was the goal, but many now view it as too low to be applicable at present, after the standard of living increased.<sup>6</sup> For example, under the frequently used international standard of per-capita income of \$1, over 100 million people were categorized as poor even at the end of the 1990s, with the high poverty incidence of over 10% (see Table 1). Also, there were many instances where families that went above the poverty line fell back into poverty again after a short while, due mainly to their lack of management abilities that render them vulnerable to natural disasters or fluctuations of market prices of products. The reversion rate is said to be 10-15% in normal years and as high as 20% when hit by natural disasters.<sup>7</sup>

According to newspaper reports, the government (the Leading Group for Poverty Alleviation and Development, the State Council) claimed that “except for 26 million people under extremely unfavorable natural conditions, China has succeeded in eradicating absolute poverty across the country,” issuing an “declaration on the eradication of absolute poverty.”<sup>8</sup> The declaration seems to be intended to demonstrate a satisfactory success of the “State Seven-Year Plan to Help 80 Million People Get Out of Poverty” which will be described in this paper later on. With or without the “eradication declaration,” however, actual poverty problems in rural areas continue intact, and will remain important in terms of both its scale and

difficulty in resolving them.

### 5. 1. 2 Distribution of the Poor

The greater part of China’s poor people live in the Inland Region, in the Western Region in particular. Counties with a relative concentration of the poor are designated by the state as “poor counties,”<sup>9</sup> eligible to benefit from the government’s poverty relief policy measures. The rural population of the state-designated poor counties account for 21% of the total rural population, and about half the country’s poor live in those counties.<sup>10</sup> The poor can be found outside the designed poor counties as well, but they are relatively scattered around, making it difficult for the government to implement policy measures for them in a coordinated way. When poor counties were first designated in 1986 (331 counties named), some 70% of the country’s poverty population were in the state-designated poor counties,<sup>11</sup> and two-thirds of the poverty population lived in the Eastern and Central Regions.<sup>12</sup> But after the economic growth reduced the poor particularly in the Eastern Region, as of 1999, 56% of China’s population of the poor were found in the Western Region, 35% in the Central Region, and 9% in the Eastern region (see Table 2). In the Western region, the three southwestern provinces of Yunnan, Guizhou and Sichuan and the northwestern province of Shaanxi had the relatively high incidence of poverty. They have relatively large populations, hence large populations of the poor. The overall southwestern region, including Guangxi Zhuang Autonomous Region, with many mountain areas and compact communities of ethnic minorities, is the priority target of poverty relief policy measures.

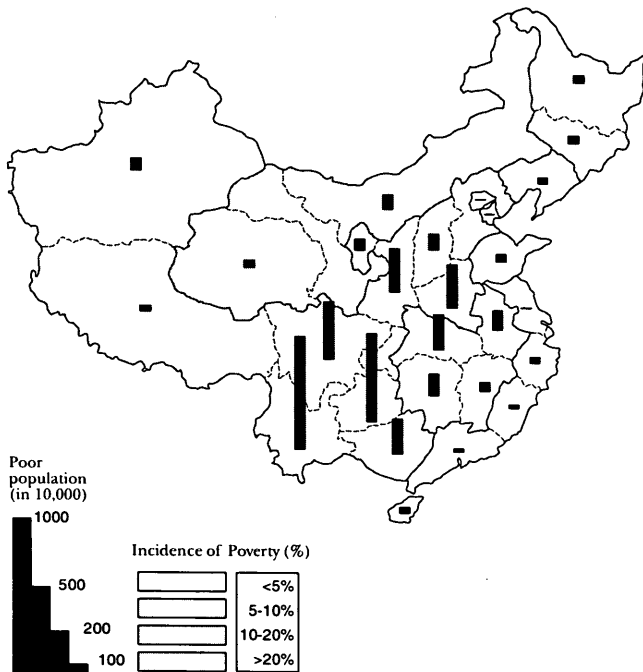
**Table 2 Poor Populations in Designated Poverty Counties, Ratio to Total**

(in 10,000, %)

	Total Poverty Counties	Eastern	Central	Western
1998	2177	204	750	1223
Share (%)	(100)	(10.6)	(33.1)	(56.4)
1999	1800	190	695	1015
Share (%)	(100)	(9.4)	(34.5)	(56.2)

Source: The Rural Social Economy Survey Group, State Statistical Bureau [2000], p.16

**Figure 2 Distribution of Poor Populations and Incidence of Poverty (at end-1996)**



Source: Lu Dadao, Xue Fengxuan et al, 1997 *Report on Regional Development in China*, Shang wu yin Publishing House, 1997, p.139

The northern provinces of Inner Mongolia, Gansu and Qinghai have fewer populations and thus fewer poor populations, but the highest incidence of poverty. These provinces present the difficulty in dealing with poverty problems because the population density is very low due to the concentration of deserts, heights and mountainous areas. The same can be said about Tibet and Xinjiang Uygur (see Figure 2). The poverty problem is a plain and direct indication just how the Western Region has been left behind China's economic development.

### 5. 1. 3 Causes of Poverty

Why are the poor in China in poverty? As described above, the prevalent view during the 1980s, when the poor populations in the Coastal Region and other areas with favorable conditions declined sharply, was that the poor people stay poor principally because of unfavorable natural conditions, such as mountainous areas and deserts, and

limited opportunities of employment due to fewer rural enterprises.<sup>13</sup> This observation is for explaining the regional disparity. Even a designated poverty county usually have a population of about several hundreds of thousands and some urban areas, and not all residents there live in poverty. Within a poverty county, there are poverty townships with a relative concentration of the poor, and within those townships, there are poverty villages. The above-mentioned observation focuses on the relative differences between counties, townships and villages. Meanwhile, in poverty townships or villages, there are people considered to be poor and those not considered to be poor because of differences in the levels of income and consumption stemming from family-based or individual attributes. These micro-level differences could range from educational backgrounds, health conditions and the number of workers in the household to diligence and simple luck. Those regarded particularly in deep poverty are often called "specially poor families."

The State Statistical Bureau's Rural Social Economy Survey Group conducted an analysis of the different characteristics of poor and not-so-poor rural families sampled in the four regions of China.<sup>14</sup> The first region is the coastal region, the richest region in China, that includes Shanghai, Beijing, Tianjin, Zhejiang, Jiangsu, Fujian and Guangdong. The region has only 2.9% of the country's total poverty population and the incidence of poverty is 1.6% or less in each of the provinces. The incidence is no more than 0.5% in Shanghai, Jiangsu and Tianjin, and it can safely be claimed that the rural poverty problem as a regional issue no longer exists in these places. The poor in the region are sparsely scattered around and the poverty problem mainly reflects differences attributable to families or individuals, not regional characteristics. The second region covers Hebei, Shanxi, Liaoning, Anhui, Jiangxi, Shandong, Henan, Hubei, Hunan, Guangxi, Hainan, Chongqing and Sichuan. The region has a medium-level poverty incidence (around 2-7%), but accounts for 55% of China's total poor population because of a sheer size of the regional population. Mountainous districts in Chongqing, Sichuan and Hubei have regional concentrations of the poor, but as a whole, people in poverty are thinly scattered across the region. The third region includes the southwestern and northwestern remote provinces of Guizhou, Yunnan,

Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang, a region most seriously suffering from poverty problems. The incidence of poverty is above 9%, and this region alone accounts for 35% of China's population in extreme poverty. The fourth region covers Inner Mongolia, Jilin and Heilongjiang, a cold and northern region that has 7% of the total poverty with the relatively high poverty incidence of 6-8%. The regional classification by provinces may be very rough, but can still prove clues to the causes of poverty that are thought to be different from region to region.

Based on Table 3, the following can be argued.<sup>15</sup>

### **(1) Unfavorable natural environment**

Many poor families live in mountainous areas, particularly so in the third and second regions. Table 3 indicates the per-capita area of land ownership is relatively small for poverty regions. The overall average is 10.7 ares for poor families and 14.1 ares for non-poor families. It may be assumed that the ownership of arable land is in proportion to this data. While the income gap and poverty problems in most other developing countries are often explained as resulting from the gap of the area of arable land held within the same regions<sup>16</sup>, such factors are probably not that decisive in China. Under China's public ownership of land, at least arable land to support self-sustenance ("basic farm land") is regularly distributed by the village equally according to the number of farm labors in a family.<sup>17</sup> But there is a big gap in land productivity. There are two possible factors to explain the gap: the allocation of land that is poor in productivity from the beginning or the difference in individual management abilities.

### **(2) Education and health**

The illiteracy rate of workers is high and the educational background is relatively low among poor rural families. For children of poor rural families, the school attendance is low, a situation that is presumably reproducing the existing disparity. These unfavorable indicators are particularly noticeable in the third region, which includes many remote mountain areas and compact communities of ethnic minorities. The ratio of families with a shortage of manpower is high among poor fami-

lies.

### **(3) Income and investment**

Except for the fourth region, poor families have less fixed asset for production and less investment for production each year. On the income side, poor families have high ratios of self-employed labor and agricultural income, while not-poor families high ratios of employed labor (employment at township and village enterprises, for example) and non-farming income. A larger proportion of poor families are engaged in traditional cultivation farming, while more non-poor families are in high-yield-ing fields of the primary industry, such as stock raising and culture. Poor families have a low ratio for color TV ownership, seen to show the more or less of means to acquire information.

### **(4) Infrastructure**

There are relatively few differences in access to basic infrastructure between poor and non-poor families. For example, there is little gap in their ratios for roads or schools in villages. It can be assumed that the very minimum level of infrastructure for subsistence is now considerably widespread in China. There remain wide gaps in the availability of telephones and health centers as well as in access to safe water to drink. These conditions are particularly unfavorable in the third region. It can be assumed that there still remains a wide disparity in the quality of basic infrastructure between poverty and non-poverty regions. China lacks a system for guaranteeing a national minimum level of basic welfare services to every citizen. Education, medical and health services, in principle, have to be financed by regional governments independently. Even when there are schools or medical and health centers, inadequate public finances in poverty regions can only provide very low levels of education or medical services. High service charges also make them less accessible to poor rural families.<sup>18</sup>

The above method of comparison does have some problems because factors stemming from regional gaps and differences attributed to individuals or families are used in a mixed manner. Still, it makes it possible to grasp the broad idea of regional characteristics. As for the Western Region, for example, it indicates that infrastructure, employment and farming management conditions are unfavor-

**Table 3 Regional Comparison of Characteristics of the Poor (average of family samplings)**

	Not-poor Rural Family	Poor Rural Family				
		Overall	1st region	2nd region	3rd region	4th region
<b>1. Employment and economic situation</b>						
1) Per-capita fixed assets for production (yuan)	940	596	412	601	446	1246
2) Per-capita output of grain (kg)	714	406	266	353	295	865
3) Per-capita housing floor space (sq. m.)	24.2	14.1	20.4	16.6	12.3	14.2
4) Color TV ownership (units per 100 households)	33.3	12.9	39.2	16.5	6.9	25.7
5) Per-capita living expenses (yuan)	668	289	259	316	274	572
6) Ratio of income from family-run business to total income (%)*	76.3	86.4	73.5	86.3	87.5	93.2
· Ratio of income from primary industry (%)	65	79	67.3	81.2	79.8	91
· Ratio of income from cultivation	45	58.4	47	57.5	60	78.3
7) Ratio of non-family members to total labor force (%)	14.9	9.3	15.9	8.8	5.1	3.1
<b>2. Infrastructure - ratio of rural families concerned</b>						
1) Have roads in village	95.6	92.3	90.4	94.2	92.6	88.8
2) Have school in village	91	92.7	72.6	93.2	95.2	90.5
3) Telephone service in village	79.4	59	90.2	65	52.4	74.3
4) Have sanitary facilities in village	85.6	71	82.4	79.8	65.9	74.3
5) Can see TV programs in village	97.4	92.7	100	94.8	91.4	96.7
6) Have electricity supply to home	98.4	92.8	100	95.8	91.2	97.2
7) Have access to safe drinking water at home	73.6	62.5	80.2	60.9	40.7	82.7
<b>3. Population, composition and education (%)</b>						
1) Ratio of families with 5 or more members	36.5	69.9	54.9	64.1	70.7	50.8
2) Ratio of those with up to elementary schooling	16.4	31.3	5.9	23.1	41.9	11.7
3) Labor burden coefficient**	1.5	1.64	1.42	1.63	1.74	1.52
4) Illiteracy rate of labor force	8.9	22.1	13.1	13.4	29.5	5.2
5) School attendance among 6-11 years old	88.5	80.7	83.3	84.1	80.1	75.4
6) School attendance among 12-14 years old	96.9	88.7	85.2	82.9	80	86.1
7) School attendance among 15-17 years old	92.1	81.7	85.2	82.9	80	86.1
8) Ratio of families short in labor	2.5	14.1	31.4	14.2	14.7	8.9
<b>4. Natural conditions and natural resources</b>						
1) Ratio of families in remote mountain areas (%)	24.8	51.1	29.9	37.7	69.9	7.5
2) Per-capita land ownership (are)	14.1	10.7	4.4	8.8	10.9	39.5
3) Grain output per unit (kg/are)	51.8	24.6	59.7	40	27	21.9
4) Ratio of families short in natural resources (%)	7.3	33.8	49.5	38.5	33.6	3.9

\* The ratio of income from family-managed business to the total household income (wages from labor, family business, transfers, property)

\*\* The coefficient showing the number of non-working people one worker has to support. Both males and females between 16 and 17, males between 51 and 60, and females between 46 and 55 are counted as half of a worker.

Source: State Statistical Bureau's Rural Social Economy Survey Group [2000], p.9 and p.12

able in the southwestern mountainous areas, north-western cold areas and remote and compact communities of ethnic minorities because of the poor natural environment. It also shows that unfavorable conditions regarding human resources in these areas are highly likely to widen the existing gaps in the future.

## **5. 2 Progress in Poverty Alleviation Policy in Rural Areas**

### **5. 2. 1 Policies before Reform and Opening-Up**

A variety of policies on agriculture and farming villages in China since its founding should be described as fundamentally policy measures to deal with poverty. With the distribution of land to farmers in land reform right after the establishing of the People's Republic of China, the landless poorest basically disappeared from the country. The ensuing rapid shift toward people's communes was blamed for hampering farmers' enterprising spirit and stagnation of farming communities, but the communes did play a part in spreading education, medical and health services and infrastructure to rural areas.<sup>19</sup> Also, members of the people's communes were ensured basic food supplies. The rapid drop in the rate of population increase in the 1970s presumably reflected the fact that rudimentary systems for ensuring the minimum standard of living were put into place in China's rural areas.<sup>20</sup> However, as discussed in preceding sections, one-third of the population are living below the poverty level. There were still many poverty areas, and many poor people existed even within less poor areas.

From 1956, people's communes were required to provide food, clothing, fuel, education and funeral services to families without breadwinners due to illness or other reasons, widows, old people living alone, orphans and others (they were called "Wubaohu" –five kinds families to be protected). When the people's communes were dismantled, they were provided with relief measures by the Ministry of Civil Affairs and its subordinate local bureaus. Families in distress because of natural disasters and families financially squeezed even in normal years were subject to such assistance. In 1990, for example, 3.65 million farmers were entitled to receive such assistance, and 80% of them were old

people. Poor people without the special status or those who were constantly poor for reasons other than natural disasters or other special reasons were estimated at 66 million in 1978 and 90 million in 1988. Poor people whose applications were granted (30 million in 1978 and 35 million in 1988) received relief funds. But these relief measures mainly were one-time monetary aid and supplies, and had little effect in raising the long-term productivity of farming villages and funding was short constantly. That was why long-term policy measures were called for to help raise the self-sustaining productivity, apart from poverty relief measures.<sup>21</sup>

### **5. 2. 2 Policies in Early Years of Reform and Opening-Up**

Public interest in the existence of poverty areas where poverty problems cannot be overcome with self-help efforts alone emerged in the early 1980s. First, the Ministry of Finance established the "Fund for Supporting Development of Underdeveloped Areas." When drought damage became serious in Gansu and Ningxia in 1981-82, the "Fund for Construction of Agriculture in Three Western Regions" to begin undertaking agricultural development projects there. In 1984, the State Council issued the "Directive Regarding Support to Help Poverty Areas Change Their Features" to spread a campaign to ease poverty problems across the country. Also in 1984, the State Planning Commission launched the Food for Work project to hire poor people for irrigation and construction works in return for the supply of surplus merchandise in kind. In 1986, assistance to the four categories of areas—former revolutionary bases, compact regions of ethnic minorities, frontier areas and poverty areas—was incorporated in five-year plan (the Seventh Five-Year Plan).<sup>22</sup>

In 1986, the Leading Group for Economic Development of Impoverished Areas (presently, Leading Group for Poverty Alleviation and Development) was established under the State Council as a specialized administrative agency to implement poverty alleviation measures across the country to coordinate lending and technical support activities, until then undertaken by related administrative departments,<sup>23</sup> designating poverty counties as described previously to provide official support funds to them. Local governments of provinces, districts, counties, towns and villages correspondingly set up

offices for poverty alleviation and development, designating poverty areas to receive their support.

### 5. 2. 3 Policies during the 1990s

In the 1990s, China's macroeconomic policy became more clearly oriented toward development of the Inland Region. Restrictions on the change of residence by farmers were relaxed, opening the way for them to work away from home. The Chinese economy's rapid expansion, with the 1993 "Southern Tour Lectures" as a turning point, spread to the Inland Region as well. Entering the 1990s, China moved to seek an overall balance in the nation's development by promoting development of the Inland Region, with the Eighth Five-Year Plan proposing the "strategy for coordinated development" of the Eastern Coastal Region and the Inland Central and Western Regions. The government's orientation toward the Inland Region became even more evident with the decisions to construct the Three Gorges dam and place Chongqing under its direct control. The government's stance to give priority to development of the Inland Region as a national policy had been initiated for a decade.<sup>24</sup>

In 1994, the government promulgated "the State Seven-Year Plan to Help 80 Million People Get out of Poverty" as the first national poverty alleviation project. Setting forth the objective of fundamentally solving the "Wenbao" problem meeting basic needs for food and clothing of the poor population, then estimated at 80 million, in seven years through 2000, the plan focused on the basic popularization of infrastructure (roads, electricity, water supply, merchandise markets, etc.), education and public health and medical services.<sup>25</sup>

The basic outline of the poverty-alleviation policies that are still in place is as follows:

- 1) Concentrated assistance is provided to state-designated poverty areas (usually state-designated poor counties).
- 2) Under "development-oriented" policies, assistance is offered to help poverty areas, villages and farmers stand on their own feet in a market economy by developing local industries. Projects are undertaken for industrial infrastructure, education for human resources development, and public health, not for easy "relief" measures.

Industrial development projects are aimed at supporting market-competitive industries making good use of locally available resources.

- 3) Poor people are guided to move out if their areas have insurmountably unfavorable conditions.

These policies are largely oriented toward self-reliance partly because of the strong awareness of those years when rigid controls were placed on the migration of labor to other regions (particularly into cities) that problems in a rural community should be solved within that rural community and also partly because of the perception that "relief-oriented" assistance given previously led to disappointing results.<sup>26</sup> Another feature was the principal role of county governments in implementing poverty alleviation projects. Based on this author's field survey in a state-designated poverty county in Inner Mongolia,<sup>27</sup> the county's poverty alleviation and development office files a project application to the Provincial government after the head of county approves the project plan worked out in consultations between a township government and the county's related bureaus (the forestry, agricultural, water resources and other bureaus). The province has authority to screen and approve various applications submitted by counties. The central government's poverty alleviation and development office, which allocates project funds to provinces, has final powers of approval, but the provinces effectively have decision-making authority. The central government's office tracks and monitors the performance of each province. In the country in Inner Mongolia, this basic line of procedures is still observed.

### 5. 2. 4 Means to Ease Poverty Problems

The central government distributes official funds for poverty relief projects many through the following three channels. The funds supplied via each channel increased sharply in the latter half of the 1990s (see Table 4).

- (1) Low-interest loans: preferential loans with low interest rates funded by the state finances to county projects for poverty alleviation. Each area's branch of Bank of Agriculture lends money after screening applications and state funds are used to cover



**Table 4 Investment of Poverty Alleviation Project Funds via 3 Major Channels**

(100 mill. yuan)

	Low-interest loan	"Food for work"	"Development fund"	Total
1986	23	9	10	42
1987	23	9	10	42
1988	29		10	39
1989	30	1	10	41
1990	30	6	10	46
1991	35	18	10	63
1992	41	16	10	67
1993	35	30	11	76
1994	45	40	12	97
1995	45	40	13	98
1996	55	40	13	108
1997	85	40	28	153
1998	100	50	33	183
1999	150	65	43	258
Total	726	364	223	1313

Source: The report by the State Statistical Bureau's Rural Social Economy Survey Group [2000], p.53

the differences between the lending rates and market rates. The State Council's Leading Group Office for Poverty Alleviation and Development, local governments and Bank of Agriculture must approve the disbursement of loans. Rates differ depending on lending time and regions.<sup>28</sup>

(2) Food for Work: funds used for construction of infrastructure in rural areas. The funding system originates in the farming off-season practice of providing farmers with surplus inventories of state-owned enterprises (food, clothing, etc.) to let them participate in the construction of road, irrigation, telecommunications and other facilities. Payments in kind were changed to monetary payments in 1996 when fiscal budgets began covering such projects. Payments are intended to cover labor, but there reportedly are many instances where farmers are mobilized for free and disbursed funds are used to purchase construction materials and equipment by local governments.

(3) Fiscal funds in grant (development funds): funds in grant provided specially to poverty areas. Ordinary governmental budget deficits in poverty areas have been compensated for with fiscal funds since before reform and open-door policy was adopted in the practice called "fixed-amount defi-

cit covering." In the reform and opening-up period, a variety of grant fiscal supplementation budgets, generally called "development funds," were created.<sup>29</sup> Since most of development funds had been provided since before the state designation of poverty counties in 1986, the bulk of these funds are said to be flowing to counties other than designated poor counties. Since they come under direct management of local governments, observers claim, a large portion of development funds are being diverted to their unintended purposes.

Apart from the funding channels described above, there are informal types of support to poverty areas: political support and popular support. In the political "pairing" support, government administrative divisions or enterprises are required to take care of specified poverty areas. Since 1996, the nine provinces (and municipalities) and four cities listed independently in the state plan have been paired with the 10 provinces in the Western Region for assistance from the former to the latter.<sup>30</sup> Also, a central state agency is assigned to take care of a state-designated poverty county, while administrative divisions of provinces, districts and cities as well as state-owned enterprises are in charge of poverty areas (villages and townships).<sup>31</sup> Even in villages, village leaders and affluent farmers are paired with poor farmers for assistance. An easing of the poverty problem earns points for the head of a local administration, a factor that can affect his or her future political promotions. The mechanism of political support for the poor is powerful because it is incorporated in the nationwide political system and network of the Communist Party.

Popular support means people's voluntary support for the poor, with projects diverse in scale. The "Hope Project" provides donations to schools in poverty areas or those who find school attendance difficult. Also known nationally is the "Brilliance Project," under which influential owners of private businesses establish funds to help create job opportunities in poverty areas.

### 5.2.5 New Trends and Changes in Recent Years

As discussed above, poverty alleviation project funds have been "development-oriented" and directed toward poverty areas and groups. In recent years, however, these funds are beginning to flow

directly to poor families and individuals for their relief and enhancement of the quality of life, shifting away from biased focus on economic and business development. From 1996, for example, qualified borrowers of loans with low interest rates are individuals, not the local government (county). The change was made because there were so many instances where funds primary directed toward the poor had not actually reached the intended recipients as county or township governments diverted the money to development projects or other purposes. Poverty alleviation funds had often been used for enterprises with ties to county or township governments. Moreover, those diverted funds showed higher rates of default than loans to poor individuals.<sup>32</sup>

When the Poverty Alleviation Policies started in 1980s, there were some reasons for the central government to disburse poverty alleviation funds to the local governments of poverty counties and let them handle funded projects at their discretion. Previously, there was a high concentration of poor people in designated poverty areas, and there was no other channel than administrative systems to have funds delivered to poor farmers. Besides, poor farmers usually lacked knowledge necessary to manage their farming operations and county or township governments were considered responsible for management on their behalf. Also, the designation of poverty counties was far from being free from politics, with priority in designation often given to former revolution bases.

However, after the number of poor people declined substantially, designated poverty counties cover only half of the poor around the country. As local governments grew more influential, many of them came to have the strong desire to use poverty alleviation funds for the promotion of local industries, one of the reasons behind the rampant diversion of aid funds. There also is a view that too little attention was given to the function of social security for the poor as too much emphasis was laid on economic and business "development."<sup>33</sup> If an investment is sought on funds provided, it becomes more difficult for those funds to find their way to reach the poorest people. Others say that when poverty alleviation comes mostly as government-funded projects, most of the poor cannot be expected to play out their independence or creativeness.<sup>34</sup>

As a new approach to overcome these prob-

lems, the small credit project has been in practice in recent years. These projects, under implementation around the world after the success of Grameen Bank in Bangladesh, were introduced by the World Bank, U.N. Development Program and other international organizations. In China, small credit projects are being carried out across the country mainly by local governments. Under a typical arrangement, a small amount of credit, usually about 1,000 yuan, is extended with the guarantee of several people within the community. Advisers make their rounds three to four times a month to collect repayments from farmers while giving guidance on farming techniques.

Attempts to help poor people without governmental involvement are also on the rise. For example, the World Bank is undertaking small credit projects in Sichuan and Shaanxi Provinces through organizations that are, at least on the surface, independent of the government.<sup>35</sup> These organizations call themselves NGOs (nongovernmental organizations). Many of projects entrusted to local governments failed, with the repayment rate worsening and technical training yielding noticeable results. The objective is to build an independent network for poverty alleviation and spread it as an NGO model.<sup>36</sup>

Foreign aid seems to have a major role to play. In particular, the World Bank has achieved much more than other international organizations or foreign governments in poverty alleviation in China. Since as early as the late 1980s, the bank has conducted many researches on the poverty problem jointly with the Chinese government, providing a great deal of intellectual support to Beijing's policies. The World Bank is also implementing comprehensive rural development projects, including the aforementioned small credit scheme, putting up \$250 million in the provinces of Yunnan, Guizhou and Guangxi, and \$180 million in the provinces of Sichuan, Shaanxi and Ningxia. In line with the global trend among aid donors, Japan in recent years is also shifting priorities in its official development assistance policy to poverty and agricultural problems in the Inland Region. Foreign NGOs are also becoming very active in recent years. For example, many environment-oriented NGOs from Japan are implementing afforestation projects in China since the 1980s. In recent years, an agricultural development project is also under way with the aim of eradicating

poverty in rural areas.<sup>37</sup>

Previously, foreigners were denied access to poverty areas, considered to be a “disgrace” to China. But now, after the Chinese Society has become affluent and open as a whole, China is mounting ardent efforts to bring more foreign aid and investment to these regions. Expectations are also rising on the role of NGOs, as calls are beginning to rise for policies geared more to individuals and social security than to regional development projects led by government authorities. China’s poverty problem is now open to the world as the problem of international implications.

## Conclusion

The Strategy for Developing the Western Region is often described as a far-sighted policy initiative whose success will require strenuous efforts by several generations. This is primarily because the ultimate objective of the strategy is to solve the poverty problem in poverty areas in the Inland Region. It also speaks of the awareness that solving the poverty problem is much tough and difficult. In the meantime, China faces a dilemma: it does not want to get absorbed too much with the poverty problem now to avoid heavy burdens before successfully meeting the immediate objective of building regional cores of economic development in the Inland, while only visible achievements could assure Beijing of political and social stability. After steady results achieved in poverty alleviation policies throughout the 1990s, there are efforts now under way to seek a switchover to policies more oriented toward individuals and social security from government-led development projects in particular regions. Public organizations from other countries and NGOs are getting on the same boat to seek ways to contribute to solving the poverty problem in China. While the government will most likely remain to be a principal player for some time to come, it is also certain that approaches to the poverty problem in China will become more diversified in nature.

(Moriki Ohara)

## Notes:

1. The ecological environment is also described as a major priority, but it mainly concerns the water problem, with construction of woodlands and anti-desertification being discussed in line with the need to secure water resources.
2. Many Chinese scholars of economics and think tanks forecast that it will take several decades for the economic disparity between the Coastal and Inland regions to start narrowing. For example, the Institute of Quantitative and Technical Economics of the Chinese Academy of Social Sciences predicted that the absolute disparity would gradually begin to narrow between 2010 and 2030 (*Chugoku tsushin*, June 11, 1999). Until then, the gap is estimated to widen further. The national economic and social development plan for fiscal 2000 also stated, “The grand development of the Western Region is a long-term mission full of difficulties and would require hard work and diligence by several generations.”
3. World Bank, China: *Poverty Relief Strategy for the 1990s*, China Financial and Economic Publishing House, 1993, p.3. (in Chinese)
4. According to the World Bank’s report referred to in Note 3, in the early 1990s, 50% of boys and almost 100% of girls in ethnic minority areas were unable to go to school, missing out on opportunities to receive education. The rates of diseases and deaths were high from tuberculosis, endemics or shortage of iodine. Children from poor families, to a greater or lesser extent, were in the underdeveloped state. The same as above, p.3.
5. For details, see The Rural Social Economy Survey Group, State Statistical Bureau, *Report on the Observation of Rural Poverty in China - 2000*, China Statistics Press, 2000, pp.130-132. (in Chinese)
6. The same as above, p.132. According to the sampling of poor rural families in state-designated poor counties, the breakdown of the average household expenditure in 1999 showed 60% of spending went to food, 11% on housing, 10% on cultural items, education and entertainment, 6% on clothing, 4% on medical service and health, 4% on household utensils, and 3% on transportation and telecommunications. The same as above, p.18.
7. Su Guoxia, “Study on Poverty Relief Strategy,” *Strategy for China’s Agricultural Development in Early 21st Century, 2000*, p.629. (in Chinese)
8. *Jiji Press*, 11th November 2000. (in Japanese)
9. Designated as poor counties were ordinary counties with per-capita net income of 150 yuan or less in 1985, autonomous counties of ethnic minorities with per-capita income of 200 yuan or less, and counties that were formerly bases of revolution with per-capita net income of 300 yuan or less. In the adjustment made when the “State Seven-Year Plan to Help 80 Million People Get Out of Poverty” in 1994, counties with per-capita net income of 700 yuan or more were removed from the designation but all counties with per-capita net income of 400 yuan

- or less were added, if they were not designated previously, increasing the total number of designated counties to 592. By geographical distribution, the designated counties are relatively concentrated in the Western Region, including 73 in Yunnan, 50 in Shaanxi, 40 in Guizhou, 43 in Sichuan, and 41 in Gansu. The report by the Rural Social Economy Survey Group, State Statistical Bureau, p.16.
10. The same as above, p.15.
  11. The same as above, p.52. In 1993, 73% of the poor population of 80 million lived in the state-designated poor counties (the above-mentioned paper by Su Guoxia, p.625).
  12. The same as above, p.8. A passage in that page gave the number of poor counties in 1986 as 592, but the statement seems to be a mistake.
  13. World Bank's above-mentioned report, pp.3-4.
  14. The following is based on the Rural Social Economy Survey Group, State Statistical Bureau, pp.8-13.
  15. The following is based on the same as above.
  16. For example, the relationship between the rural poor and land ownership was studied in line with actual conditions in Koichi Fujita, Ikuko Okamoto, "Real Conditions of Dry-Season Irrigated Rice Farming Economy in Myanmar – Field Survey in a Farming Village outside Yangon," *Research on Southeast Asia*, Vol. 38, No. 1. (in Japanese)
  17. For this reason, it seems that the inequality and poverty within a rural community have not been so seriously exacerbated. The above-mentioned paper by Su Guoxia, p.628. As reasons why the seriousness of the rural poverty problem is considerably lower in China than in India, Su cited the egalitarian right to cultivate land among all village members and the government's direct involvement in poverty alleviation measures in China. In India, nongovernmental organizations play a principal pole in poverty alleviation because of the governments' lack of ability, she says.
  18. In a 1999 survey in a state-designated poor county in Shaanxi Province, of the 313 villages surveyed, only 23% had medical centers. As many as 40% of the villages are 2-5 kilometers away from medical centers and 6% 10-20 kilometers away, while people in 0.6% of the villages had to walk over 20 kilometers of mountain passes to get there. The 1999 per-capita average income of 1,068 yuan was down slightly from the 1998 level, but medical expenditure shot up 42%.
  19. Reiitsu Kojima, "Economic Reform and Opening-up Policy of China," *Ajia Keizai*, July 1986, pp.2-11. (in Japanese)
  20. Keiko Wakabayashi, *Population Problem in China*, The University of Tokyo Press, 1986. (in Japanese)
  21. Based on the World Bank's aforementioned report, pp.92-96.
  22. Based on the World Bank's aforementioned report and the previously cited report of the Rural Social Economy Survey Group of the State Statistical Bureau
  23. A total of 39 state organizations were involved in the campaign to ease poverty, including the Ministry of Civil Affairs, Grain Bread of the Ministry of Commerce, the State Planning Commission, Agricultural Bank of China, the Ministry of Finance, the Ministry of Water Resources, the Ministry of Public Health and the State Education Commission.
  24. Moriki Ohara, "Background of Proposal for the Strategy for Developing the Western Region," (*Ajiken World Trend*, September 2000). (in Japanese)
  25. The previously mentioned paper by Su Guoxia, p.643.
  26. The previously mentioned report by the State Statistical Bureau's Rural Social Economy Survey Group, p.52.
  27. The survey conducted in Eershun Town, Kulun Country, Tongliao City, Inner Mongolia Autonomous Region. For the poverty situation in the township and concrete examples of poverty relief projects, refer to this author's paper, "Anti-Poverty Policy and Its Implementation in Development of China's Inland Region – Agricultural and Environmental Projects in Inner Mongolia Desert Area and World Bank Micro Credit Project in Sichuan Province" (*JETRO China Economy*, August 2000). (in Japanese)
  28. In Inner Mongolia in 1998, there were two interest rates applicable: 0.24% a month (2.88% annually) and 0.46% a month (5.52% annually). The interest rate farmers were charged for direct borrowings from banks was about 20% per year. See above.
  29. They mainly consist of the following four: "fund for supporting development of underdeveloped areas" (launched in 1980), "Three West fund" (launched in 1983), "remote area construction fund" (launched in 1977), and "revolving lending fund," "budgeted poverty relief fund" (launched in 1988), "Basic Living fund for ethnic minorities" (launched in 1990), and "newly increased poverty relief fund" (launched in 1992). In the revolving lending fund, a kind of publicly financed loans with interest subsidization, official funds are lent out free of interest to poverty relief projects and these funds, when repaid, are lent again to different projects.
  30. For example, Beijing is paired with Inner Mongolia, Tianjin with Gansu, Zhejiang with Sichuan, Shanghai with Yunnan, Guangdong with Guangxi, Jiangsu with Shaanxi, Shandong with Xinjiang, Liaoning with Qinghai, Fujian with Ningxia, Shenzhen, Qingdao, Dalian and Ningbo with Guizhou. The previously mentioned paper by Su Guoxia, p.626.
  31. A total of 138 state organizations are taking care of a total of 325 state-designated poor counties, and 2,808 divisions of 26 provinces are in charge of 825 counties. The previously mentioned paper by Su Guoxia, p.626. For example, the central government's Ministry of Agriculture is in charge of the Wuling district and have a bureau chief serve as secretary of the district for a year. The bureau chief brings over 10 staff to the district to

serve as deputy head of poor counties in the district. Ministry-affiliated enterprises are asked to provide funds or technical know-how to help found new enterprises in the district or undertake other projects. Beijing's Miyun county is responsible for the above-mentioned Kulun County of Inner Mongolia, while Tongliao (a district-class city to which Kulun belongs) takes care of Eershun Town, and poor villages in the township are looked after by the city's bureaus of agriculture and public security.

32. The report by the State Statistical Bureau's Rural Social Economy Survey Group [2000], p.54.
33. Poverty alleviation policies were applied to rural areas in lieu of the social security system for urban areas. In reality, however, there are many rural families that cannot be assured of the minimum standard of living with poverty alleviation alone. There is a need for a poverty alleviation policy that combines development and social

security, argues an article by Jiang Yuejin and Li Genglin, "The key of Poverty alleviation policy is establishing and strengthen poverty alleviation mechanism", *Manager's Daily*, June 8, 1999. (in Chinese)

34. This argument is made in the report by the State Statistical Bureau's Rural Social Economy Survey Group, p.51-53.
35. Actually, they remain under the strong influence of county governments. Refer to this author's previously mentioned paper for the current situation of the small credit project by the World Bank in Sichuan Province.
36. Based on a hearing at the China Western Human Resources Development Center that is carrying out the project.
37. An example is a bio village construction project being undertaken by the Japan Bio Village Association in Horqin Desert of Inner Mongolia.