

China's Economic Transformation and Poverty Reduction

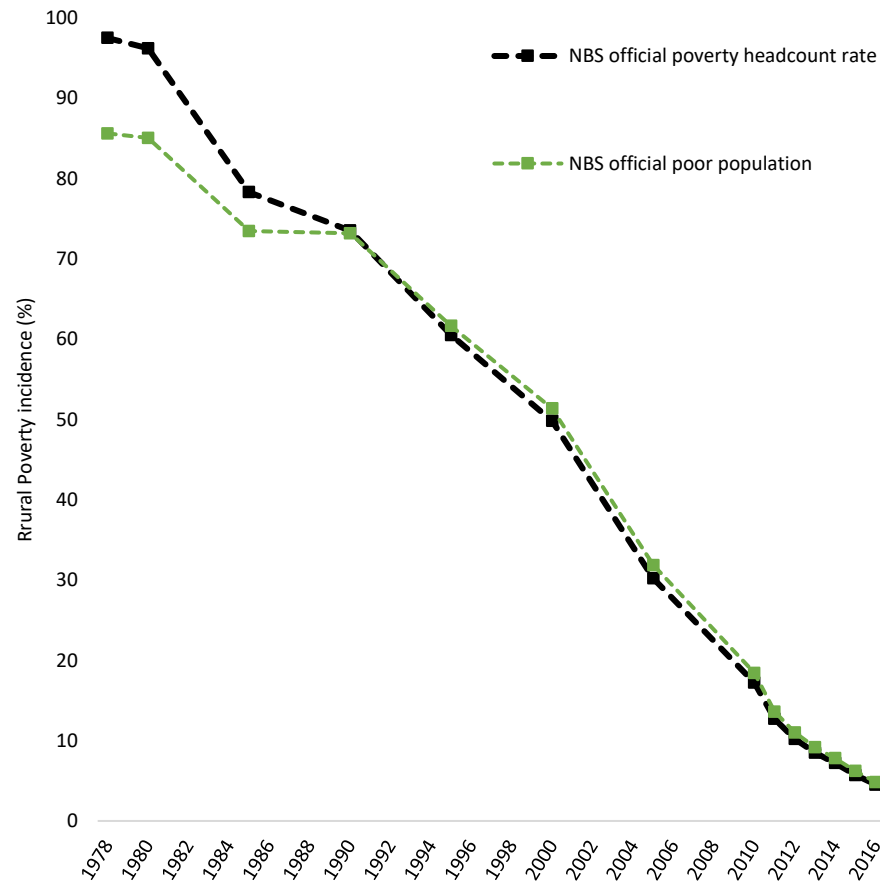
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World Bank*

*Views are the authors' and should not be associated with official views of the World Bank.

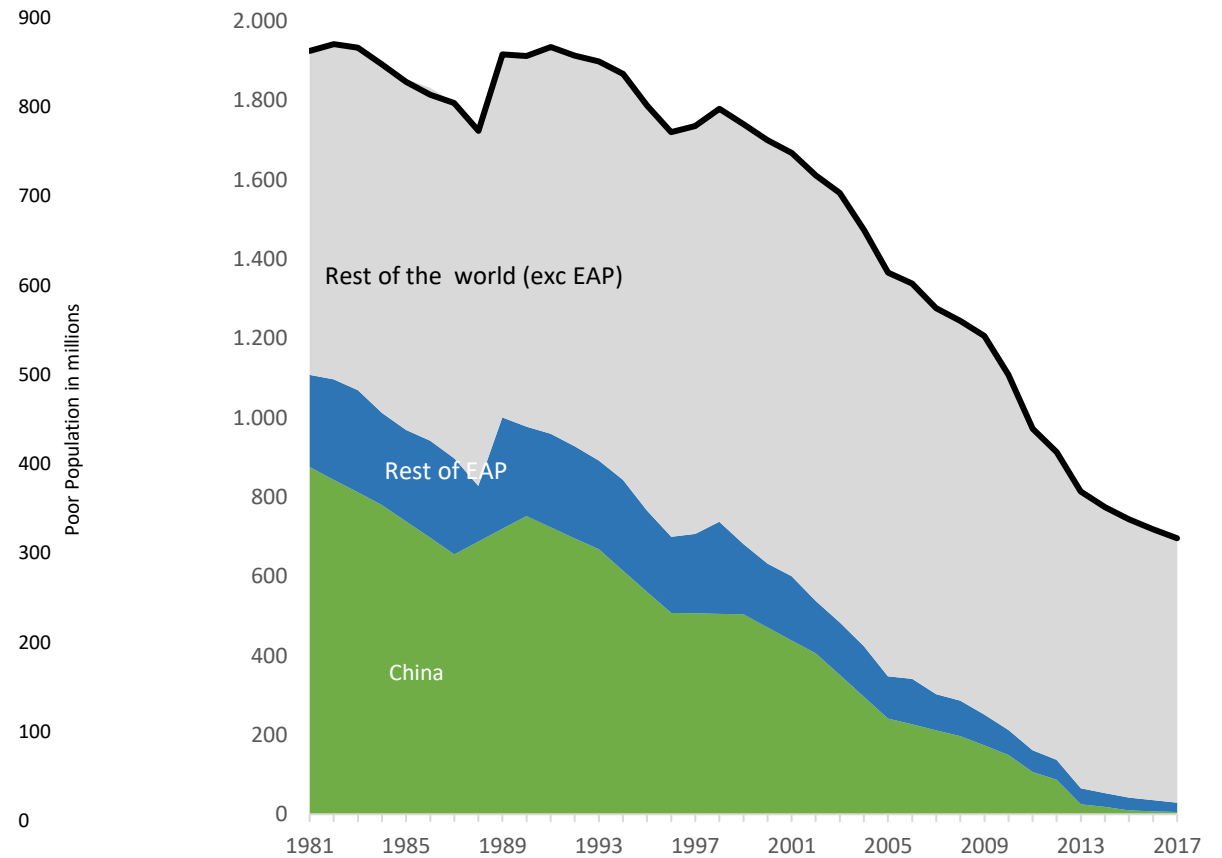
This Talk

- Summarizes three recent WB Working Papers on China's experience with poverty reduction since 1980
 - D. Merotto and H. Jiang, "What was the impact of creating better jobs for more people in China's economic transformation?"
 - J. Giles and R. Mu, "Migration, Growth and Poverty Reduction in China's Villages: A Retrospective and discussion of future challenges."
 - M. A. Lugo, C. Niu and R. Yemtsov, "China's poverty reduction and economic transformation: a decomposition approach."
- All three papers produced as part of a larger study, joint with China's Center for International Knowledge in Development
- Talk draws implications and lessons from the past for China's future poverty reduction agenda – these are our views, not WB or CIKD position

China's poverty reduction since 1980 is unprecedented: around 750m people, two thirds of global poverty reduction during this period

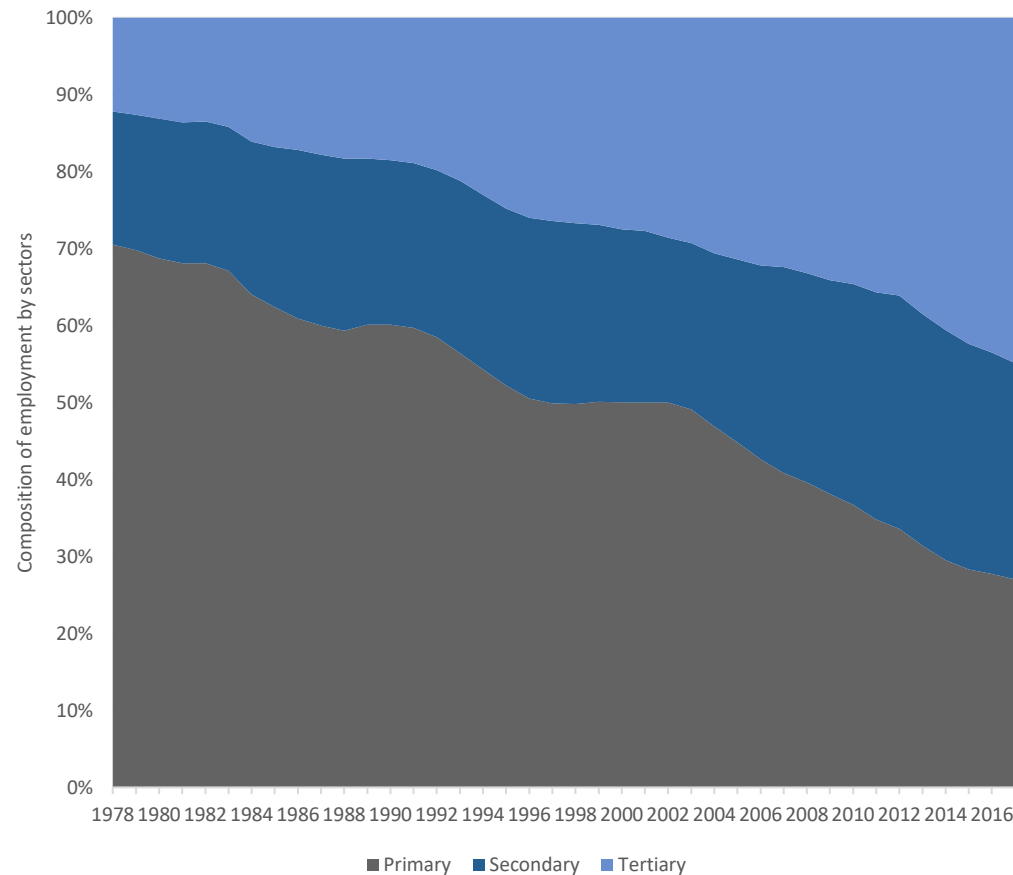


NBS, using national poverty threshold



PovcalNet, using 1.90 \$ per day

But the drivers of China's poverty reduction success are quite conventional: economic transformation and sustained growth

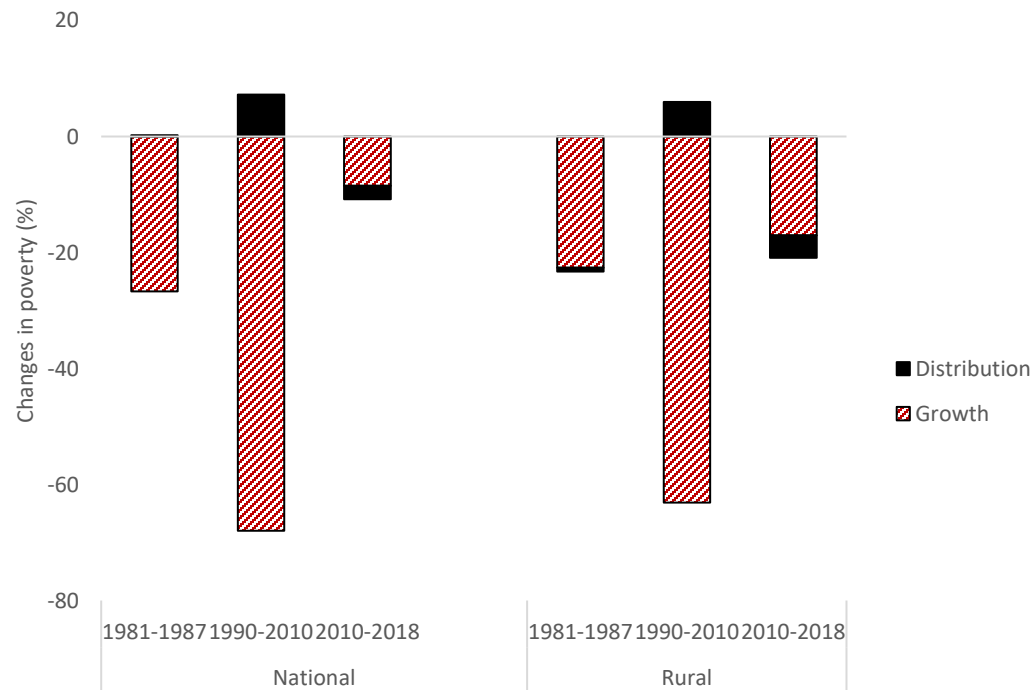


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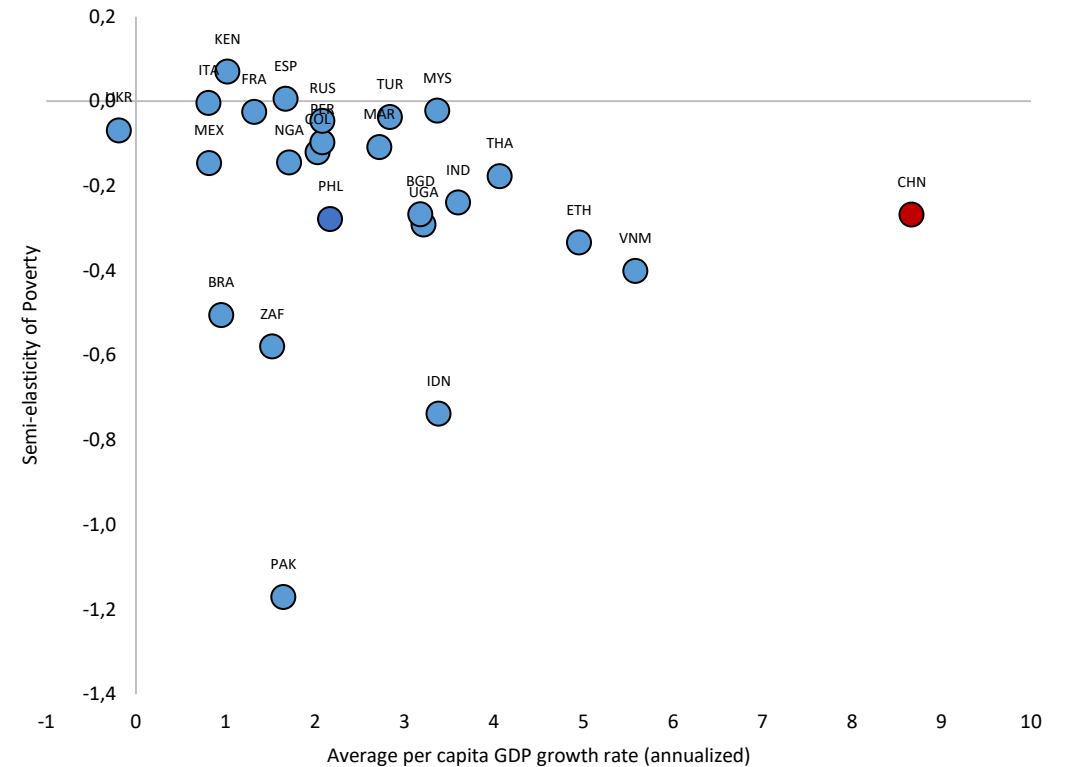
- China in 1980 was a predominantly a rural economy and among the poorest countries in the world
- But with much higher human capital than other poor, rural countries
- And a state endowed with high capacity
- China's sustained growth coincided with economic transformation – as predicted in the classical Lewis model of development...
- ...and as followed by other East Asian countries

Growth was rapid and shared, but in relative terms not that effective at reducing poverty – because inequality went up

Growth and distribution impact on poverty in China

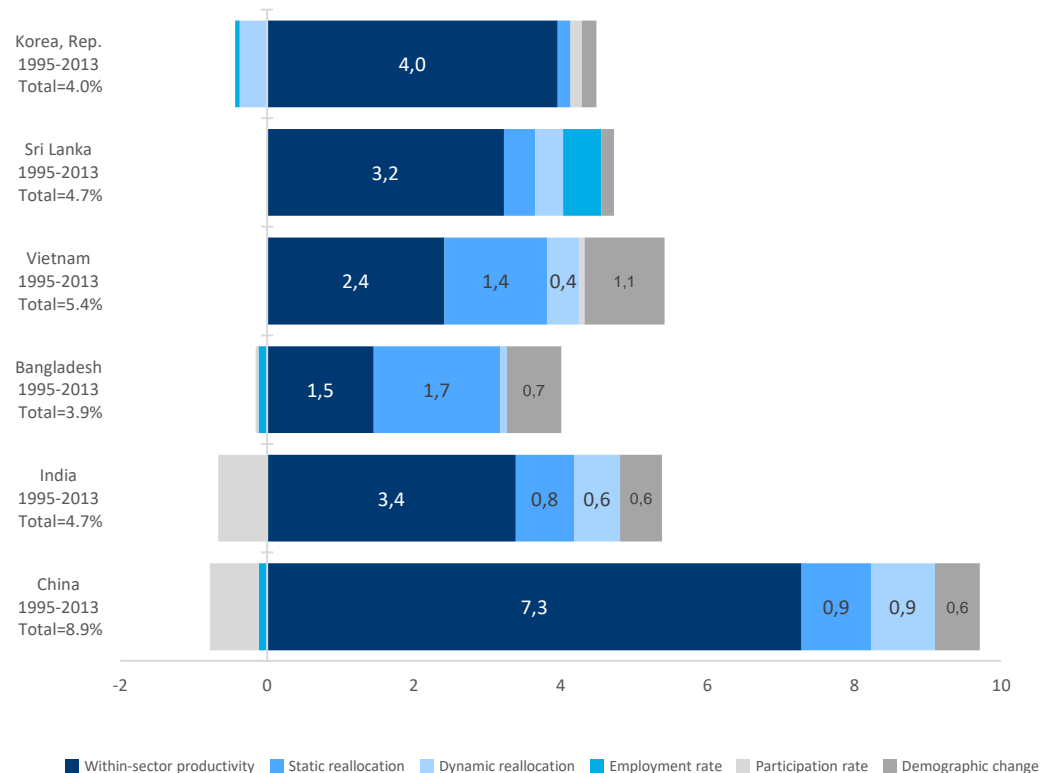


Growth and semi-elasticity of poverty to growth in China and peers



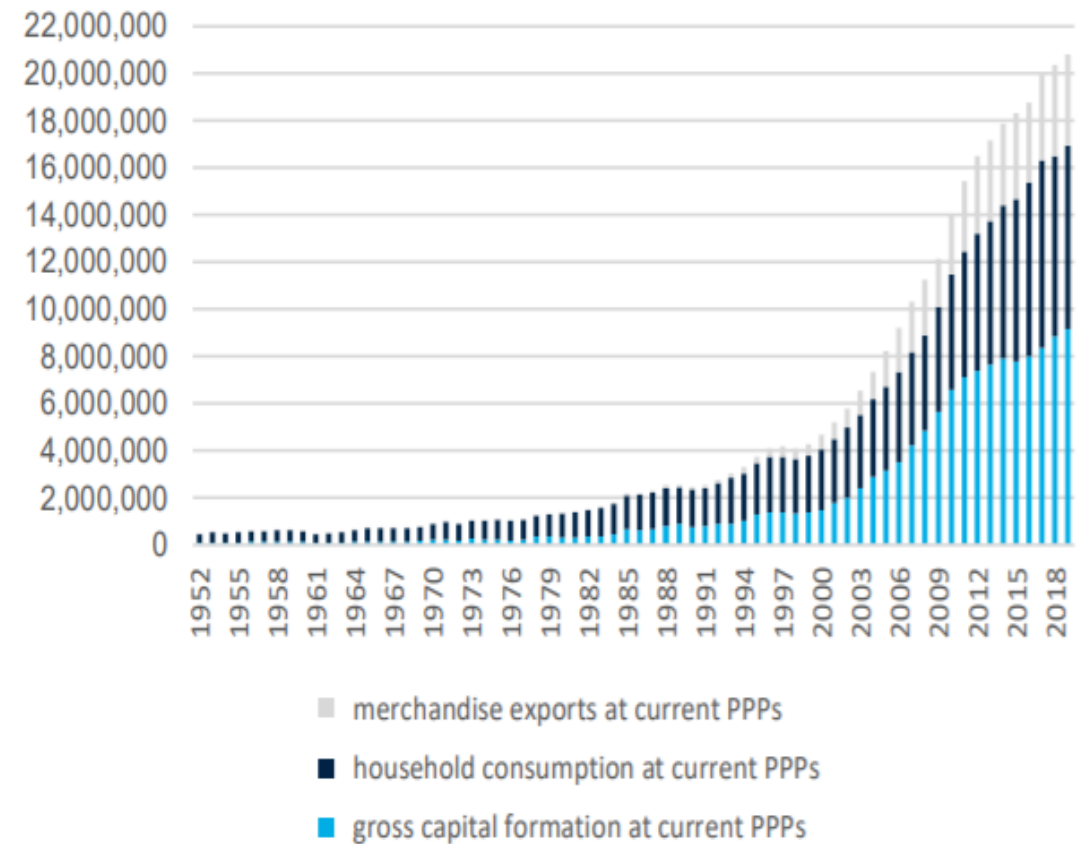
Rapid productivity growth was due to capital deepening and to a lesser extent labor reallocation

Composition of productivity growth
China and peers, 1995-2013

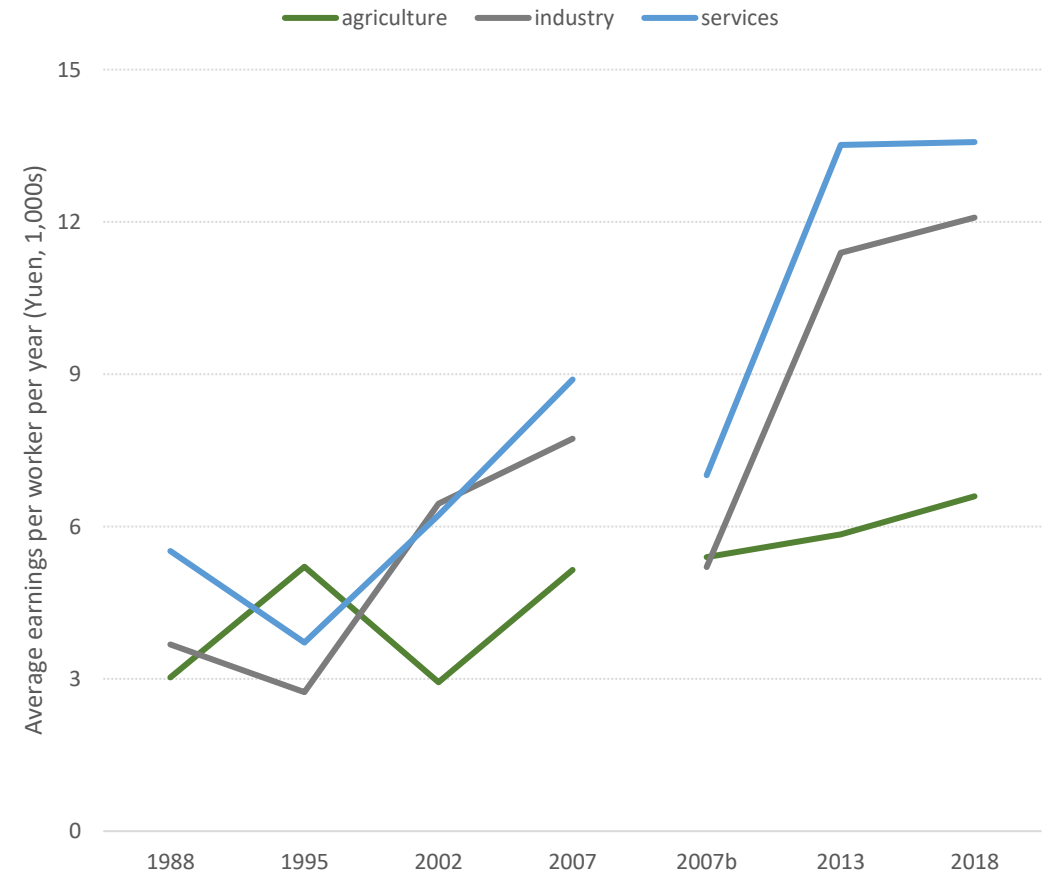
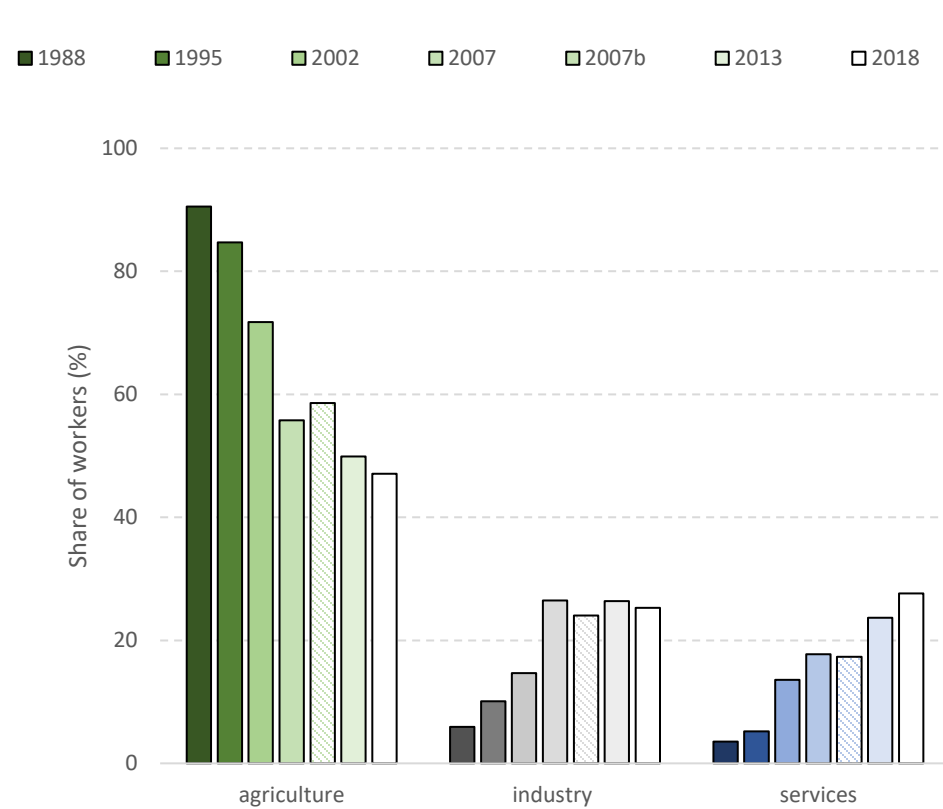


Penn World Tables

Investment rates >40% GDP led to rapid capital deepening, particularly after 2001



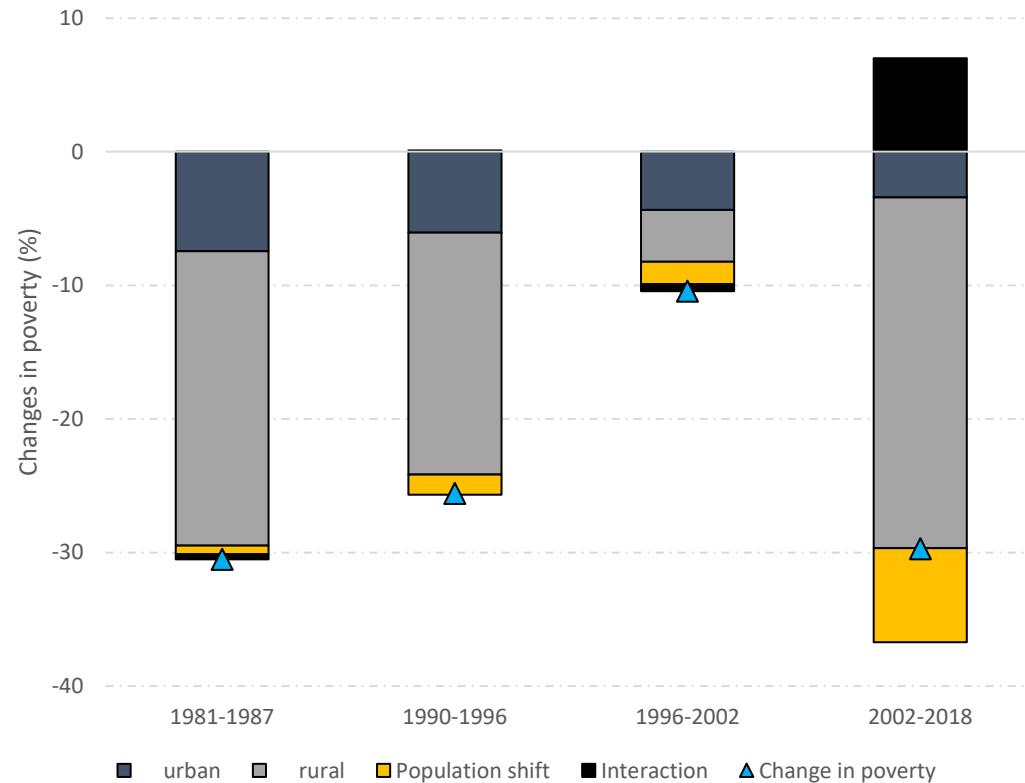
Rising agricultural earnings drove poverty reduction until 1995, rising earnings in industry and services and shifts of labor out of agriculture thereafter



CHIPS surveys, WB calculations

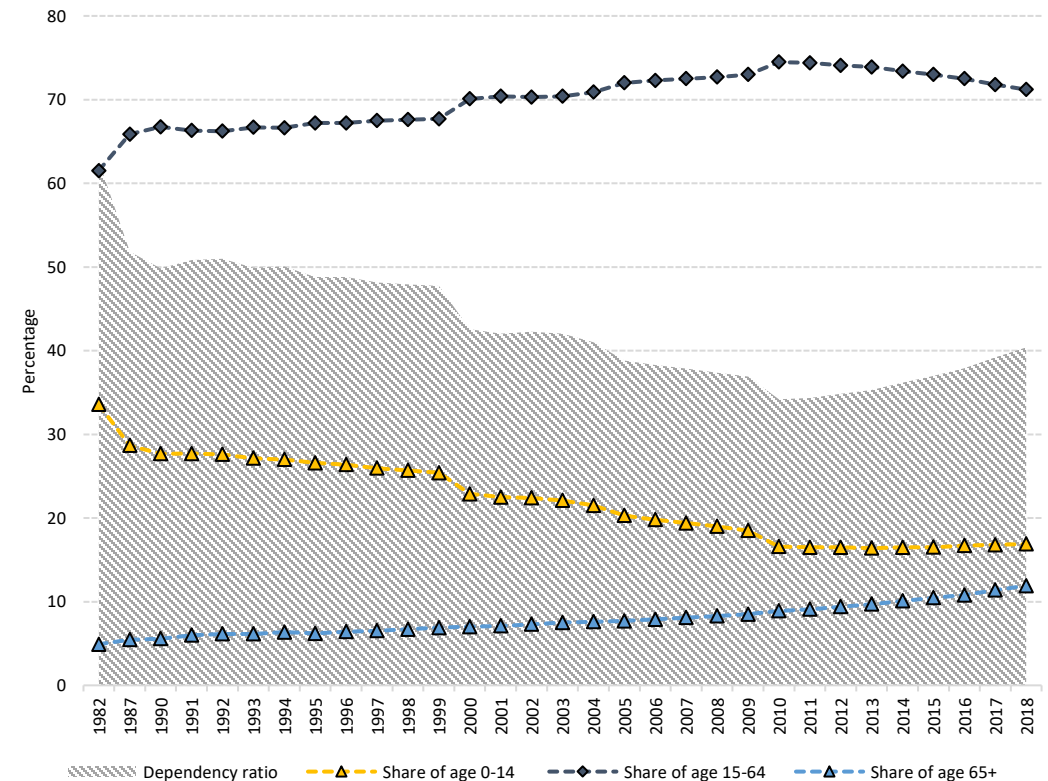
Demographic shifts and migration played an important role, too

The role of rural-urban migration



PovcalNet, based on NBS grouped HBS data

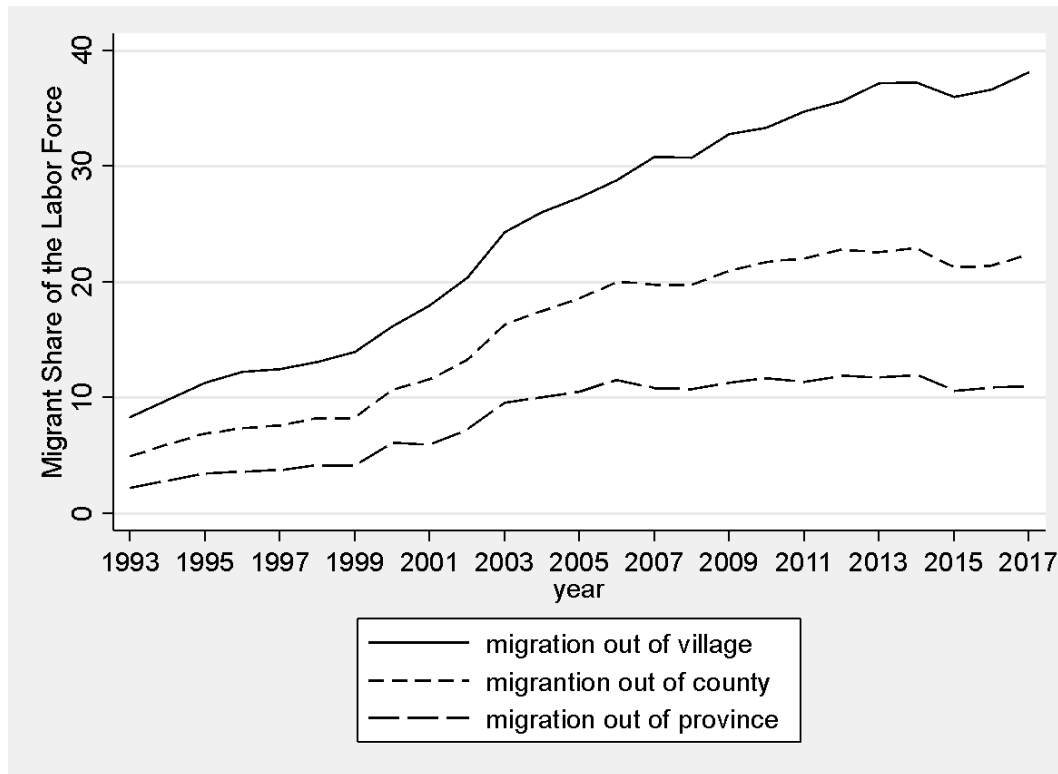
The role of demography



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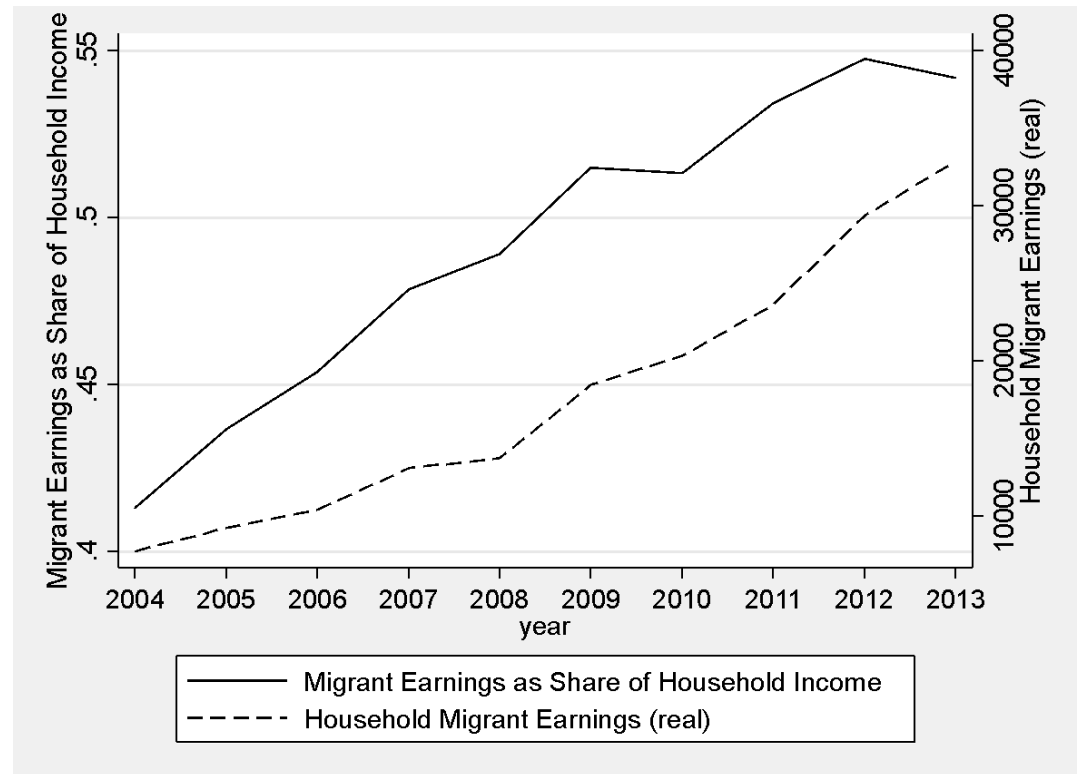
Migrant incomes contributed an increasing share of rural household incomes after 2000

Long-term trends in migration within China



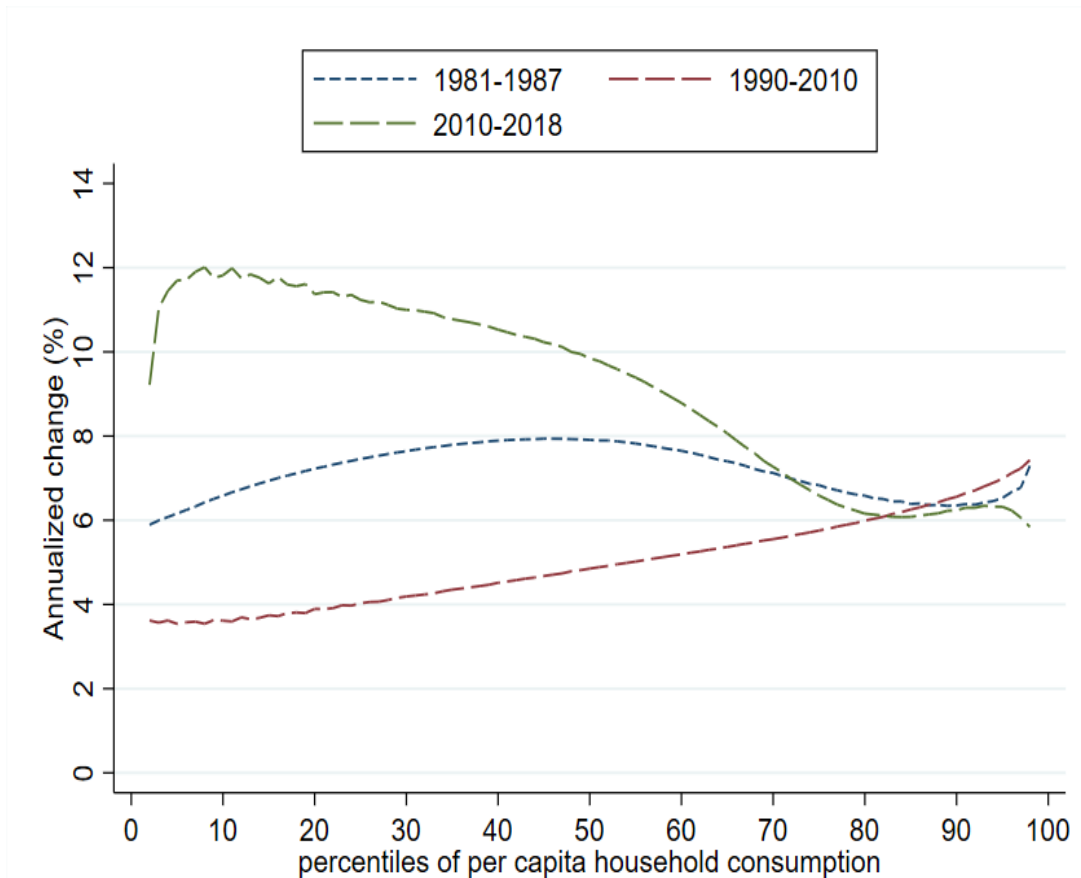
Annual Village Surveys, Min of Agriculture

Migrant earnings as a share of rural household incomes



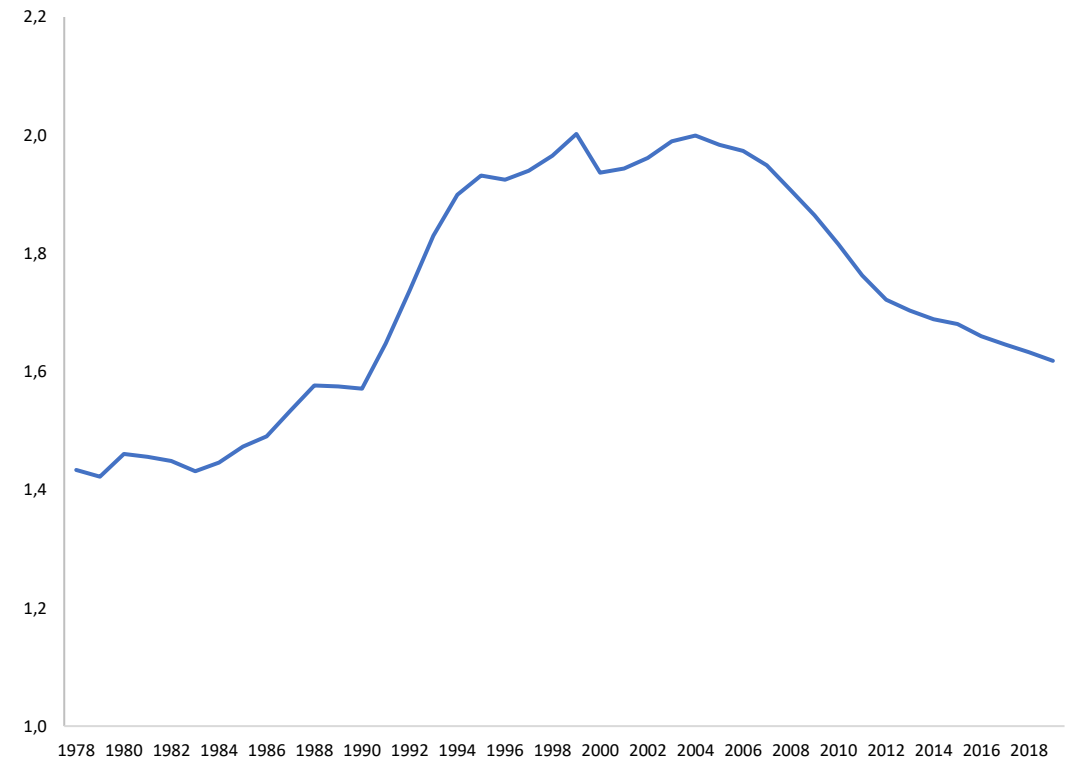
China allowed some “to grow rich first” but has been trying to reverse inequality since around 2010

Growth incidence curves, three periods



PovcalNet, based on NBS grouped data

Gap in GDP pc between coastal and non coastal provinces



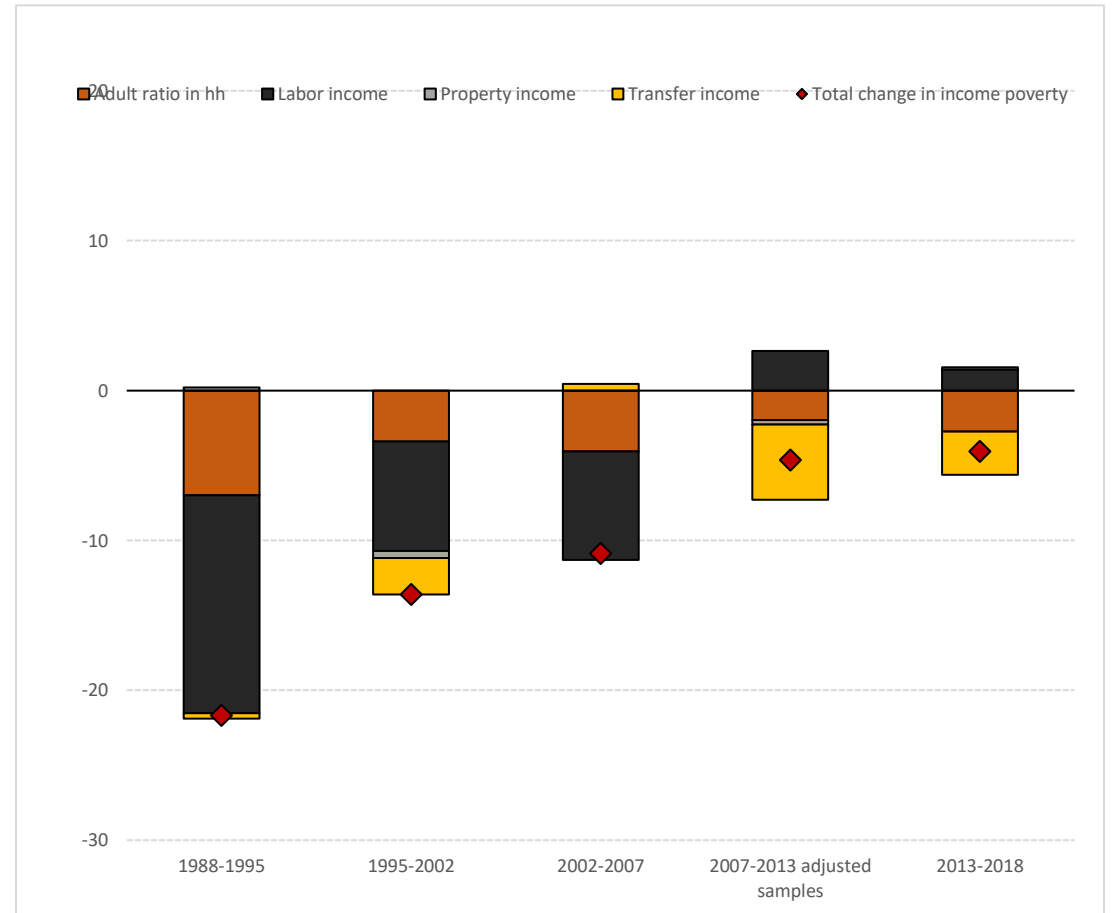
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Economic transformation and poverty reduction over five periods

Determinants of labor earnings



Labor earnings, household composition and transfers



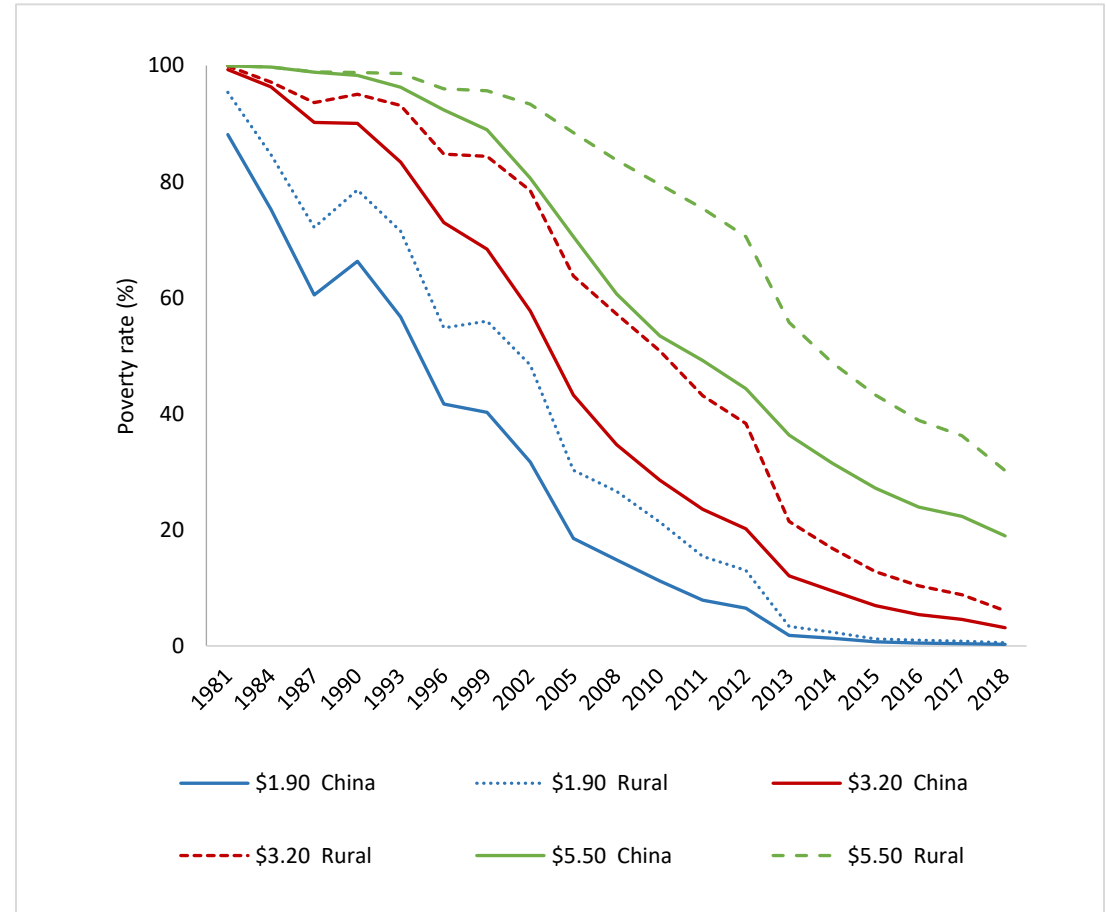
China's poverty reduction – what do we learn?

- A classic process of economic transformation, with sustained, high growth rates
- Market-oriented reforms combined with strong governance allowed China to leverage advantageous initial conditions and catch-up with East Asia
- Rising earnings, demographic change and the reallocation of labor drove poverty reduction
- In the last decade, growing and successful government efforts to tackle “the last mile” of extreme poverty – but little robust evidence on the cost effectiveness of these policies

China's Future Poverty Reduction Agenda: increase the poverty threshold and expand policies to cover migrants and urban areas

- China has eradicated extreme poverty, but its national poverty threshold is well below other middle-income countries
- At a typical US\$ 5.5 per day threshold, close to 25% of China's population was still poor in 2018
- For these poor, labor earnings remain key route out of vulnerability
- Economic transformation has not run its course – two thirds of the poor are rural – is rural revitalization the answer?
- But one third of the poor live in urban areas, many of them migrants
- Neither targeted poverty reduction, nor existing social security arrangements reach urban migrants and informal workers

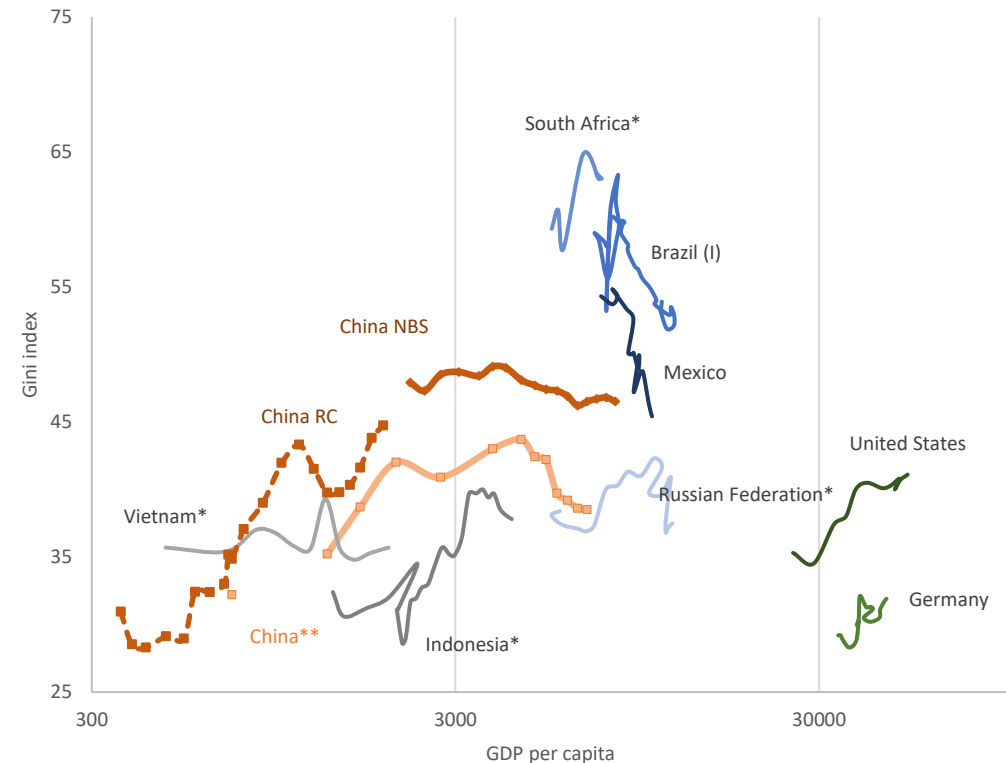
China's poverty at different international thresholds



China's Future Poverty Reduction Agenda: focus on underlying reasons for persistent inequality – hukou restrictions and unequal access to education

- Inequality remains high, despite recent efforts (and increased slightly in 2020)
- Social mobility has been declining
- Unequal access to quality education is a key reason – urban *hukou* residence status drives access
- The government's common prosperity agenda has diagnosed this problem...
- ...but local governments largely lack the fiscal tools to tackle it

China's inequality in comparison with peers



Final thoughts

- China's economic transformation is not over, but in future it will have to be driven by services
- Services can generate productivity growth but are more skill than capital intensive
- China has reached the saturation point in capital deepening, the next phase of growth will need to rely more on human capital
- China's common prosperity agenda – if successful – will be a key leg of its growth agenda
- Should China fail to address structural inequality, its growth rate may also begin to suffer