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**Research Report**

## Poverty in China's rural areas: Temporary or chronic?

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## **Poverty in China's rural areas: temporary or chronic?**

Curbing poverty can surely be deemed to be one of the most eminent objectives on socio-political agendas. Progress in reducing worldwide poverty achieved in to date, however, makes rather sobering reading. China has considerably reduced the number of poor since commencement of economic reforms in the late 1970s. Still, there are ca. 170 million people affected by poverty. This paper investigates the issue whether poverty in China's rural areas is rather of a chronic or temporary nature and what the opportunities are of escaping poverty. Simultaneously, there are discussions whether certain factors rather favour or counteract chronic poverty.

Our mission is a world without poverty. This is the emphatic vision of the World Bank. Thus, curbing poverty can be certainly considered one of the most significant objectives on the development policy agenda. Progress in reducing worldwide poverty achieved in to date, however, makes rather sobering reading. After the turn of the millennium, there are still well in excess of one billion people affected by extreme poverty in developing and transition countries; i.e., about one quarter of populations in such regions have to live on less than \$US 1.25 per day. By and large there is a reduction by 600 million people in poverty in the past ten to 20 years (World Bank, 2012).

This overall development, however, conceals enormous regional differences. Sub-Saharan Africa suffered an increase of some 300 million poor and close to 50 per cent of the population is living in extreme poverty. East Asia, however, attained the United Nations goal of halving absolute poverty by 2015 already at the turn of the millennium. In China alone, the number of poor was reduced since the beginning of economic reforms in the late 1970s from ca. 800 million to about 170 million in 2008, i.e. from ca. 80 to some 13 per cent of the population (World Bank, 2012). It is apparent that the achieved average annual economic growth of almost 10 per cent can be described as a main reason.

In spite of this very welcome overall development in the People's Republic of China, there are still marked regional differences in the extent of poverty in China. There is still an enormous poverty divide between cities and countryside as well as between the western and eastern provinces. While the poverty rate in cities has been below 1 per cent for one decade, there are still about 15 per cent rural populations poor. The rural poverty rate in western provinces is almost 30 per cent and thus more distinctive than in the booming coastal regions in the southeast where less than 7 per cent of rural populations have to live on less than \$US 1 per day. All in all, it can be stated that – despite an impressive reduction of poverty over the last three decades – there are still about 170 million people in China affected by extreme poverty and live almost predominantly in rural regions.

### **Is poverty a chronic or temporary condition?**

Both academic literature and socio-political debate are characterized by an eager discussion of at least two aspects of the development of poverty. On the one hand, there is a controversial discussion of causes, consequences and strategies for curbing poverty. On the other, a suitable measurement of the extent of poverty per se is also a subject of controversial academic discourses. Inspired by the groundbreaking work of Amartya Sen on the scientific basis of aggregated poverty dimensions, published in 1976, various authors have developed a variety of indices for the extent of poverty in a society over the past 30 years.

All such measures are basically static concepts that neglect critical dynamic aspects. Their common feature is that they describe more or less precisely the degree of aggregated poverty in a society. However, they do not provide indications whether affected people suffer poverty rather temporarily or chronically, i.e. whether a certain extent of social poverty is rather a consequence of persistent poverty among the same people or whether different people are temporarily poor at different times.

In both cases, persistent or temporary poverty, the well-known poverty measures, such as poverty headcount ratio or normalized relative poverty gap, may probably signal the same extent of poverty. A distinction between persistent and temporary poverty, though, is significant according to two different sets of criteria. Firstly, a societal assessment of poverty may very well yield different results, depending on whether in a society there different individuals are only temporarily poor or the same people are affected by poverty for a longer period. Secondly, a different temporary nature of poverty should also prompt other policies. Where people are persistently poor, social policies or long-term labour market programs appear to be suitable to reduce poverty. Poverty of a rather temporary condition suggests obvious problems in inter-temporal compensation of time-varying incomes and measures designed to stabilize short-term income fluctuations seem to be advantageous.

This is the starting point of this present paper which reports on a study into the persistency of poverty in agricultural households in three very different provinces: Zhejiang, Hubei and Yunnan. The study investigated the issue whether poverty in those regions is rather of a chronic or temporary nature and what the opportunities are of "escaping" poverty respectively what the risks are of "falling into" poverty. Simultaneously, a review was made whether certain factors, such as household or business characteristics or regional conditions, rather favour or counteract chronic poverty. Based on individual household data and regional information from the period 1995 to 2004, a first step included an analysis of the determinants of persistent poverty while a second step investigated the dynamism of poverty risk over time.

### **Distribution of absolute and relative poverty**

By reflecting the discussion about the most appropriate definition of the poverty line, this present paper uses both an absolute and a relative poverty line. The absolute poverty line was set according to international standards at \$US 1 disposable income per day. The relative poverty line was determined individually for each province at 50 per cent of the median income. Analysis of all three provinces showed that the share of relatively poor people was rather constant at about 12 per cent of the population in the period under review. Various differences were observed over the years and

across the provinces. The share of relatively poor in the economically advanced province of Zhejiang fluctuated between 12 and 19 per cent over the years. There was a similar situation observed in the quite underdeveloped region Yunnan where the share of relatively poor was 11 to 20 per cent. In contrast, only 7 to 10 per cent of people in the sample were found to be relatively poor in the province of Hubei. A completely different picture emerges in terms of the absolute poverty headcount ratio. This headcount ratio was reduced across all three provinces from ca. 20 per cent in the mid-1990s to 10 per cent in the mid-2000s. This development, however, conceals considerable regional and temporary differences between the three provinces. While the quite prosperous province of Zhejiang apparently had only a small share of absolute poor which was reduced from some 4 to almost 0 per cent, in 1995 there were more than 40 per cent absolutely poor and in 2004 still 30 per cent of the rural population in Yunnan. This is still a very alarming state. In the province of Hubei, absolute poverty was reduced from almost 20 per cent to 5 per cent of the population – a very welcome development.

As mentioned above, the central question was whether a certain extent of social poverty (relative or absolute) was rather a consequence of persistent poverty among the same people or whether different people were only temporarily poor at different times. Table 1 shows the distribution of poor households across the two categories as a function of poverty duration. Poverty spells of five and more contiguous years have been defined to represent chronic poverty. It is evident that all three provinces together had a share of about 20 per cent of relatively poor for five and more years in the period under review. 80 per cent of people, in contrast, were only temporarily poor, i.e. no longer than four contiguous years, while 50 per cent were persistently absolutely poor. A review of the individual provinces showed large differences. In the province of Zhejiang, some 20 per cent of poor were persistently relatively poor and no-one was persistently absolutely poor. A similar situation was found in Hubei with 8 per cent resp. 20 per cent. Yet, in the province of Yunnan there were more than 50 per cent of absolutely poor persistently. Those figures apparently suggest that relative poverty was rather a temporary phenomenon while a remarkable percentage of the population below the absolute poverty line was affected by persistent poverty.

**Table 1:** Shares of temporary and chronic poor in total number of poor (in per cent; rounded)

|                        | All provinces | Province Zhejiang | Province Hubei | Province Yunnan |
|------------------------|---------------|-------------------|----------------|-----------------|
| <b>Relatively poor</b> |               |                   |                |                 |
| Temporarily poor       | 80            | 80                | 92             | 67              |
| Chronically poor       | 20            | 20                | 8              | 33              |
| <b>Absolute poor</b>   |               |                   |                |                 |
| Temporarily poor       | 50            | 100               | 80             | 40              |
| Chronically poor       | 50            | 0                 | 20             | 60              |

Source: Calculations by the authors based on data by "China Research Center for Rural Economy"

Note: Temporarily poor: 1–4 years in the period under review 1995–2004; chronically poor: 5 years and more in poverty in the period under review 1995–2004

## Determinants of persistent poverty and opportunities of escaping

The next question arising was which households were persistently poor. Which characteristic features were discernible? Outcomes of conducted econometric analyses suggest that larger households are more prone to belong to the persistently poor group while higher school education of family members – as anticipated – reduces the risk of persistent poverty. This applies to both relative and absolute poverty. What may come a bit unexpected is the fact that agricultural households with larger farm sizes are exposed to a higher risk of persistent poverty. The findings of the study also provide several indications in terms of the importance of regional conditions for explaining persistent poverty. Households in densely populated near-urban regions appear to be less stricken by persistent poverty. In contrast, regions with high percentages of migration populations and high unemployment rates seem to be comparably severely affected by persistent poverty.

Besides the question which properties of agricultural households and which regional conditions are correlated with higher probability to persistent poverty, it also seemed to be of interest which opportunities arise over time in order to "escape" relative and absolute poverty. The findings of our analysis permit the following conclusions: Firstly, increasing exposure to poverty reduces the probability of overcoming this awkward situation. This applies both to relative and absolute poverty. Affected households are caught in a poverty trap. The province of Yunnan, not unexpectedly, was found to have the highest probabilities of remaining poor. Secondly, higher education levels of household members enhance the chances of escaping poverty. Thirdly, astonishingly households with larger land holdings (per working household member) have less opportunities of escaping poverty; while – as anticipated – higher business property assets have a contrary effect. Finally, households in regions with a high percentage of migrant workers have less chances of escaping poverty.

## Conclusions

The findings of the study permit several summarizing conclusions. Poverty appears to be less of a persistent and rather of a temporary nature in the rural areas of the three provinces under review – Zhejiang, Hubei and Yunnan. Increasing duration of poverty, however, means dwindling opportunities of "escaping" poverty. Persistent poverty appears to rather affect larger families in sparsely populated peri-urban regions with comparably high unemployment rates. Education seems to prevent chronic poverty. The temporary nature of poverty appears to indicate that it comes as a consequence of short-term income fluctuations. Therefore, measures counteracting such fluctuations and favouring inter-temporal compensation of incomes should be advantageous. Persistently poor households with only few chances of escaping poverty should be supported by long-term oriented social policy measures. This is presently a central objective of the Chinese government. On the whole, it becomes evident again that improving education in rural China should still be a main focus for curbing poverty.

## Further information

### The findings are documented in detail in the following publications

Chronic Poverty Research Center (2009): The Chronic Poverty Report 2008–09. Escaping poverty traps, University of Manchester.

Glauben, T., Herzfeld, T., Rozelle, S., Wang, X. (2012): Persistent poverty in rural China: Where, why and how to escape? World Development, 40, 4, pp. 784–795.

World Bank (2012): World Development Indicators 2012, Poverty and Inequality Database.

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