

World Bank Group President Jim Yong Kim's Remarks at the International Forum on China's Reform and Opening Up and Poverty Reduction

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40 Years of Reform and Poverty Reduction

I. Introduction

Good morning, it's an honor and a privilege to be at this important celebration. In December, it will be 40 years since Deng Xiaoping initiated China's reforms and opening up with his famous speech: "Emancipate the mind, seeking truth from fact, and unite as one to face the future."

That triggered four decades of reforms that would bring China where it is now: the second largest economy in the world, and one of the few countries that will soon have made the journey from low income country to high income country. Over the last four decades, more than **800 million people escaped poverty**. China's share in the world economy rose from **1.5 percent** in 1978 to **15**

percent today, and per capita income increased **25-fold** from **300 dollars** in 1978 to **7,300 dollars** in 2017.

China is now within striking distance of eliminating extreme poverty, and the 40th anniversary is a good time to reflect on the country's reforms, opening up, and record poverty reduction:

- First, we must understand China's journey and get the historical record right.
- Second, we need to understand China's past reforms, because they are important for future reforms.
- Third, more countries see China as a model of development, so understanding China's reforms is increasingly important for the rest of the world.

With the 19th party congress of October 2017, China has positioned itself as an example to emulate. President Xi Jinping's speech signified a departure from China's past aspirations. The Chinese model, he said, "*offers a new option for other countries and nations who want to speed up their development while preserving their independence; and it offers Chinese wisdom and a Chinese approach to solving the problems facing mankind.*" So how did China achieve such success in reducing poverty? Two elements stand out:

- First, China's reform and opening up program, which was the foundation for the rapid growth that allowed people to lift themselves out of poverty.
- Second, a focused and sustained effort targeted at poverty reduction throughout the reform period.

II. Reform and Opening Up

To a considerable extent, China's success in reducing poverty can be attributed to strong economic growth unleashed by reforms, which followed prescriptions that mainstream economists would recommend:

- Opening up for trade, foreign investment, and new ideas on economic management;
- Gradually liberalizing prices, diversifying ownership, and allowing the private sector to flourish;
- Strengthening property rights and investing in both infrastructure and people.

Such an account, however, conceals the important lessons of China's experience. The gradual, experimental, decentralized reform of the country's economic system – especially in the early days – was in sharp contrast to the “shock therapy” reforms in Eastern Europe and the Former Soviet Union. “*Crossing the river by feeling the stones*” became China's mode of economic reform.

China's approach to reforms has also been pragmatic, providing room for the country's own particular institutions to emerge. One example is the “dual track” system that allowed farms and enterprises to produce on their own account after delivering planned output to the state. This approach avoided the collapse of the planned economy and allowed a market economy to emerge.

III. China's Poverty-Reduction Strategy

As reforms and opening up took hold, “development-oriented poverty alleviation” became the banner for China's growth policies. We can draw some important lessons from the key features to China's poverty alleviation efforts:

- First, from the start, poverty alleviation received strong political support from the highest levels of government, beginning with Deng Xiaoping. President Xi exemplified this leadership most recently by making the eradication of absolute poverty one of his three “decisive battles.” This strong leadership set the tone for all levels of government to pursue poverty alleviation in their locality or area of responsibility.
- Second, China set up a dedicated organization to fight poverty. The Leading Group on Poverty Reduction and Development, and the local Poor Area Development Offices, have been key advocates for poverty reduction. They have designed policies to combat poverty and implemented those plans under local circumstances.
- The Leading Group has been our partner in China from the early 1990s – starting with our first poverty assessment – and we have worked together on many of the poverty programs we have financed such as the South West Poverty Program and the Loess Plateau project.
- Third, most of the poor resided – and still reside – in rural areas, so growth in agriculture was most effective for poverty alleviation. For every **1 percent** GDP growth, poverty declined by **0.97 percent** between 1981 and 2017.
- Fourth, China deliberately targeted resources to the poorest and most vulnerable. China’s poverty alleviation programs started modestly, with the “San Xi” program, but they gained prominence and resources with the “8-7” plan in the 1990s; the building of the Harmonious Society in the 2000s; and, since 2012, the Last Mile program that supports the remaining extreme poor to increase their productivity and incomes.
- Over time, China refined its targeting of those policies: from nationwide approaches at the start; to broad regional policies such as the Western Development Strategy; and the selection of at first poor counties, then villages, and finally poor households. In the past 5 years, “Precision poverty

targeting” based on a database of **70 million households** is supporting the government in targeting the remaining poor in the Final Mile.

- Fifth, rising inequality is a concern for policymakers and the public. In recent years, the bottom 40 percent of the population has gained more in income than the average. In the decade before 2012, consumption growth for the bottom 40 percent reached **8.1 percent** per year, slightly higher than the national average of **7.9 percent**.
- Finally, China focused on building Human Capital. The adoption of *pinyin* for language instruction in 1979 greatly improved literacy, and the gradual extension of compulsory education over the reform period improved equality in the labor force.

The rapid expansion of tertiary education since 2000 laid the basis for China’s current rise as an innovative nation. And by the 2000s, the rapid expansion of health insurance that now covers practically all citizens, and the reforms in health services since 2009, improved the health of China’s people.

We recently published the first *Human Capital Index*, which measures the investment that countries make in the health and education of their people. China ranks **46** in this ranking, higher than most Higher Middle-Income countries, and closing in on levels achieved in OECD countries.

IV. The World Bank Group-China Partnership

The World Bank Group has been a committed partner to China for most of its reform journey. Deng Xiaoping had set the tone for this partnership. When he met with then-World Bank President Robert McNamara in 1980, he said:

“China is determined to modernize and develop its economy. With the World Bank’s assistance, China will be able to achieve its goals faster and more efficiently. Without the World Bank’s assistance, China will still do it, but it might take longer.”

Reports such as *Socialist Economic Development* (1981), *Long Term Prospects and Options* (1984) *China 2020* (1997) and *China 2030* (2014)

influenced the domestic debate on directions of reforms, not least because World Bank staff worked on those reports with counterpart teams from China. We also delivered three *Poverty Assessments* in which we analyzed the evolving nature of China's poverty and recommended the policies and programs that would best address it.

And programs such as the *South-West Poverty Project*, the *Loess Plateau Project*, the *Poor Rural Communities Development Project* and the *Guangxi Poverty Reduction Program for Results* introduced new concepts and techniques that China used nationwide: multisectoral approaches to poverty reduction, environmental rehabilitation and poverty reduction, community participation, and program budgeting for poverty alleviation.

V. Outlook for the Future

China is now a higher middle-income country and will soon be a high-income country; however, its level of income is only **one quarter** of that of the average OECD country. While the days of double-digit GDP growth are in the past, China still needs strong growth to achieve its two *centennial* goals.

Sustaining rapid growth has become harder for China, now that surplus labor from the country side is almost exhausted, the marginal returns on capital are likely to decline, and demographics no longer provide a dividend. China's growth will have to rely increasingly on productivity increases and innovation. This new direction will require further reforms and opening up. Reforms will have to continue strengthening the institutions that will make China's mixed economy work. And further opening up will not only provide China the markets it needs, but also the technology, managerial talent, and ideas to further catch up with more advanced countries.

It's likely that China will have eliminated extreme poverty by the end of the decade, but the perception of poverty will change as China grows more prosperous. The World Bank is adopting the recommendations of the

Commission on Global Poverty and is now regularly producing poverty rates for China using two additional lines:

- **3 dollars, 20-cents a day**, the typical poverty rate in lower middle-income countries. **7 percent** of the population in China – **96 million** people – live under this threshold.
- And **5 dollars, 50 cents a day**, the typical poverty rate in upper middle-income countries. **27.2 percent** of China's population – **373 million people**, live under this poverty threshold.

As China is changing, so is the partnership with the World Bank Group. China's increasing power in the economy makes it a more significant contributor to global growth. The country has assumed leadership on key issues such as climate change and has been a strong voice for developing countries in international fora.

China has assumed a leadership role in development finance through growing engagement with International Development Association (IDA) and its initiatives in new development banks. The country is a key promoter of using knowledge for development through South-South learning and by sharing China's experience in development.

Other countries are looking to China as a source of knowledge and experience, and the World Bank Group will continue to support China's growing international role. We will continue to cooperate on the most important global issues and learn from China's 40 years of reform and opening up.

With China's help, we will share that knowledge with all of our clients, applying the lessons of the last four decades to help other countries build greater prosperity. Building on the foundation of the past, but focused on the future, together we can give everyone a chance to achieve their aspirations and finally end poverty on the face of the earth.

