1. Introduction

It is a great pleasure for me to be able to speak to you today. Having spent six of the most fascinating months of my life teaching here in Beijing in 1988, I always enjoy returning to the vibrant environment of an elite Chinese university. In those months in China, I found that students combined technical skill, a thirst for learning, and an extraordinary capacity for hard work — an irresistible combination for a teacher like me. My topic today is poverty: how to understand its dimensions and causes and how to eradicate it. Poverty in a world of plenty is the outstanding challenge of our time. What better place to come to discuss poverty and to learn about how to overcome it than China, which in recent years has established a record of growth and poverty reduction that is unparalleled both across nations and in the last few centuries of China’s history?

2. The multiple dimensions of poverty

Before engaging on the issue of how best to attack poverty, we must first form an understanding of what poverty is. Traditionally, economists and others have focused heavily on income poverty: those with household incomes below a certain cutoff level are regarded as poor. But income is just one dimension of poverty, albeit a very important one. Poverty is a multidimensional phenomenon, encompassing various types of deprivation that constrain the lives of poor people.
At the World Bank, we often express this idea using the concepts set out in the World Development Report (WDR) 2000/1 on Attacking Poverty.\footnote{World Bank (2000).} That report drew heavily on developments in our empirical and theoretical understanding of poverty over the ten years since our previous poverty WDR, including interviews with tens of thousands of poor people around the world on their understanding of the fundamental elements of poverty. The WDR of 2000/1 defined poverty as consisting, broadly speaking, of three key features of the lives of people:

- **lack of opportunity** to participate in and contribute to economic growth and development;
- **powerlessness** over key decisions that affect their lives; and
- **vulnerability** to economic and other shocks, such as disease or injury, crop failures, and macroeconomic recessions

Other approaches have also emphasized the multidimensionality of poverty, while expressing it somewhat differently. One important example is the International Development Goals, to which most of the world’s governments have subscribed through the United Nations and other forums. In setting goals, we also implicitly embody definitions of poverty. These international goals propose targets for poverty reduction — not just in terms of raising the incomes of poor people, but also in terms of improvements in health and education. The international community recognizes that by reducing illiteracy and child mortality, we are striking blows against crippling dimensions of poverty, whether or not income poverty falls. Better health and education are ends in themselves. But they are also means: reducing illiteracy has productivity payoffs both in terms of income and in terms of health.

We find our three-part WDR categorization very useful — and indeed, I will draw on it later in what I have to say. However, the most important point to establish at the outset is that focusing on income alone is not enough, either for an understanding of the meaning of poverty or of the construction of policies to fight it.
3. Poverty reduction in post-reform China

A history of rapid poverty reduction: In terms of the number of people escaping absolute income poverty, China has undoubtedly made the largest single contribution to global poverty reduction of any country in the last 20 years. Using official income poverty lines, the number of poor in rural China fell from 250 million in 1978, the first year of the reforms, to around 34 million in 1999. About half of this gain came between 1978 and 1985 (see Figure 1). These gains are impressive not only in themselves, but also in comparison with trends in much of the rest of the world. In fact, our best estimate is that while the number of poor people worldwide fell by 8 million between 1987 and 1998, the number of poor outside China actually increased by 82 million.

The locomotive pulling all these people out of poverty, of course, has been China’s two decades of extremely rapid income growth. The market-oriented reforms launched in 1978 have dramatically improved the dynamism of both the rural and urban economies. Calculations carried out by the World Bank a few years ago showed that if China’s provinces were each considered as separate countries – not an unreasonable idea, given their size – then the 20 fastest-growing countries in the world between 1978 and 1995 would all have been Chinese. This widely shared growth has dramatically reduced poverty.

In examining the remarkable experience of China, some have observed that, had it been possible to hold inequality constant but still achieve these growth rates, poverty reduction would have been even more rapid. However, this is not a very sensible hypothetical case. China had a centrally planned economy, few individual incentives, and a very equal income distribution. Greater income inequality was not only inevitable but also desirable in the reform process. It allowed the economic incentives necessary for much of the growth that happened in the past 20 years. Nevertheless, it is useful to understand how this inequality emerged, as it is basic to an

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3 By “absolute” income poverty we mean existing on an income below some specified monetary level. The specification of that level is discussed below. “Relative” poverty relates incomes to some average or other parts of the income distribution.

4 The official poverty line used in China in the most recent years is actually a hybrid income/consumption line.

5 The World Bank has been using a US$1 per day line (converted to local currency at purchasing power parity—PPP) which generates different numbers in poverty. The falls relative to this measure are also very striking.
understanding of the process of growth. This has been a continuous but sometimes uneven process, which it is analytically useful to split into phases as follows:

- From 1978 through the mid-1980s, growth took place largely in the rural sector, as the Household Responsibility System improved productivity in agriculture and prices for agricultural products remained high. Inequality fell between urban and rural areas.

- From the mid-1980s to mid-1990s, rapid growth was spurred by the growth in township and village enterprises (TVEs). This growth had special benefits in the intersection between rural and urban areas, as rural labor shifted more to the non-farm economy. Coastal areas grew more rapidly during this period, and those areas grew rapidly. In part, this was the result of more favorable public spending and tax treatment. More remote areas lagged behind.

- During the mid-1990s, the rural sector again enjoyed a growth surge. This was driven by improved terms of trade for agriculture, as grain procurement prices rose. As a result, rural poverty fell more rapidly than it had in the preceding period.

- From the mid-1990s to today, China has returned to a growth path characterized by greater dynamism in the urban sector and in the coastal regions of China than elsewhere. Overall poverty reduction continues, but the most remote areas and poorest population groups are not enjoying commensurate improvements in their living standards.

Beyond income, the reform period has also apparently seen substantial improvements in indicators of human development. Official estimates of the adult illiteracy rate have fallen by more than half, from 37 percent in 1978 to less than 17 percent in 1999. On the health front, the infant and child mortality rates have also fallen, although less dramatically; in the case of infant mortality, the rate has fallen from 41 per 1000 live births in 1978 to 30 in 1999. These statistics are only suggestive, and they deserve further attention as better data become available. I will not focus further attention in this talk on movements in the health and education dimensions. This

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6 Note that we have not made comparably disaggregated estimates for India, another large country with country-
should not be taken as an indication of their lack of importance. I hope to say more on these subjects on further visits to China.

This, then, is the backdrop against which to consider the poverty challenges facing China today: a record of great success, with unevenness in sectoral and geographical distribution. Further, there is also considerable unevenness within sectors and locations. But we must recognize that much of this unevenness has been an inherent part of a dynamic and poverty-reducing process.

The substantial poverty challenges that remain: Despite the great success of the last 20 years, there is still a lot of poverty in China. Consider the statistics on income poverty cited above. As a preface, let me take a moment to explain how income poverty lines are calculated, so that we can understand the differences among the various lines. Generally the measurement, for example by a statistical agency, starts first by calculating the cost of a minimally acceptable food basket for a household of a given size - a family of four people, say. It then calculates the typical share of food in household budgets and uses that share to scale up the food budget into a minimum total consumption cost for the household. The final step is to use an appropriate share of consumption in income to scale up to an income poverty line.

Using this methodology, the official poverty line for China has been set at about US$0.70 per day (calculated at 1993 PPP, or international prices). This is quite a low poverty line by international standards. If we take the more commonly used international standard for absolute poverty - US$1 per day - we find that the number of income poor in China in 1999 rises to 98 million, as compared to the official figure for that year of 34 million (35-40 million using a more comparable method of estimation, based on incomes). This difference also illustrates that a large segment of the population - around 60 million people - live within 30 US cents per day of the official line.

The extent of the challenge may be even greater than these figures suggest. As a gauge of a household's standard of living, consumption is often more useful than income. The measured sized provinces (states) that also grew rapidly over much of this period.

7 “Minimally acceptable” can be defined in various ways, but in poor countries it is often based on key nutrients, starting with calories.

8 “PPP” refers to “purchasing power parity.” PPP estimates, which draw on international surveys of the prices of carefully specified goods, are an attempt to allow meaningful cross-country income comparisons by adjusting for cross-country differences in the cost of living.
problem of absolute poverty is much higher when we use this metric: in 1999, 240 million people in China lived in families with consumption per person less than $1 per day.

Combating this remaining poverty requires an understanding of just who these remaining poor people are, where they live, and how they are affected by economic developments and government programs. So just what do we know about the remaining poor people? Consider these key elements of China’s poverty profile.

Individual and household characteristics of poor people. Analyses of poverty in other countries have pointed to key characteristics of the individuals that make up poor households. And although we do not have access to the detailed household data for China, other types of evidence suggest that some of these patterns hold here:

- **Ethnic minorities** are also much more likely to be poor. In China, such minorities make up less than 9 percent of the total population, but an estimated 40 percent of the remaining absolute poor. This preponderance of minorities among the poor is reflected in poverty targeting: minority autonomous counties account for more than 40 percent of nationally designated poor counties. Much of this poverty, as we will discuss in a moment, may be associated with geographic issues.

- **Less educated households** are highly over-represented among the poor. Even aggregated to the provincial level, the differences between rich and poor are very large on this dimension: average years of schooling range from 3.5 years in the poorest provinces to about 8 years in the wealthiest.

- **Female-headed households** are also more likely to be poor than other households, in many countries. Whether this is the case in China depends on the nature of these households. If they consist primarily of households that include no able-bodied adult males, then given disadvantages women face in the labor force, the household is more likely to be poor. If instead female-headed households in rural areas are those with an

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adult male who has gone to work in the city and is sending remittances back, then such households may be better off than average. The little available evidence from China suggests that women do not suffer from poverty at much higher rates than do men, suggesting that the first story may not predominate. That does not imply that it is unimportant, however, either for understanding or for policy.

- **Disability** is strongly correlated with poverty: In China, analysis of the available evidence suggests that disabled people represent a large and rising share of the poor. One estimate suggests that of 60 million disabled people in 1997, 17 million were in absolute poverty, and 12 million rural absolute poor – meaning that they are far more likely to be poor than the population as a whole.

Careful research based on good data is crucial for understanding the characteristics and situation of those living in poverty. China is blessed with high-quality basic data in many respects, but there remains considerable room for improving the data further and improving the quantity and quality of the research that is based on those data, as I will discuss later.

Sectoral and geographic characteristics of poor people: Whether or not a household is poor depends not only on who lives in the household, but also where the household is located. This is true in all countries: rural areas are generally poorer than urban areas in developing countries, for example, and this discrepancy is one of the drivers of rural-to-urban migration. But in China more than most countries, spatial discrepancies have the potential to be long-lasting. This is because the registration system and the lack of a well-developed housing market have sharply restricted worker mobility (even beyond the natural barriers to mobility found in most countries), thus weakening the natural equilibrating force of labor migration. Partly as a result, several major types of spatial disparities have emerged:

- **Urban-rural**: China has very large urban-rural disparities in income and poverty levels – vastly greater than India, say. While 27 percent of the rural population had total

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10 Chen and Wang (2001).
consumption of less than $1 per day in 1999, this was true of only 0.5 percent of the (registered) urban population. Even allowing for a cost of living that is 25 percent higher in urban areas than in rural areas, the proportion of urban residents living below $1 per day rises only to 1 percent.

• **Coastal vs. western provinces:** Within rural areas there are large differences in the incidence of poverty between and within provinces, but most notably between the coastal provinces and the western (north and south) provinces. Figure 2 illustrates the variation in provincial poverty.

• **Mountain and other poor counties:** About 30% of all counties in China have been officially designated as nationally poor counties, and there are others that have been designated “relatively poor” counties within provinces. About half of China’s poor people live in these designated poor counties (53% in 1999). Many of these counties are in mountainous areas, where the challenges of integrating with the national and international economies are especially great.

The role of data in the struggle against poverty: So far, I have outlined what we know about the poor in China. But there is also a good deal that we do not know; before moving on to a discussion of policy implications, therefore, I will close this section with a discussion of poverty data. There is a well-established tradition of household survey data collection in China. Since the mid-1980s, careful surveys have been implemented annually by the National Bureau of Statistics, in both urban and rural areas. In addition, roughly half of China’s provinces augment this national-level effort with surveys at the province level, based on the same survey instruments as the national surveys. These data have fueled many insights used to guide policy to fight poverty.

And yet with improvements in collection and dissemination, data can achieve still more than they do now. First, on data collection: the statistics cited in this speech mostly concern rural areas, in part because that is where the large majority of the poor are found, but also because the monitoring and evaluation system for tracking rural poverty is better developed. As the

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13 I will return later to the problem of getting data on the unregistered population of rural migrants living in urban areas.
government has pointed out, China has a pressing need to develop poverty monitoring of comparable quality for urban areas. Of greatest concern, from a data standpoint, is the growth in the floating population of unregistered rural migrants now living in urban areas, who are completely missed by the current urban household survey. Given this trend, as well as the increased worker mobility that will come from further reform of state-owned enterprises, China will need to learn much more about the identity and characteristics of its urban poor. The urban poverty monitoring and evaluation system proposed recently by the National Bureau of Statistics would go a long way towards filling this knowledge gap.

Second, let me say a word about data dissemination. In principle, the household data already collected can be used to track the evolution of poverty and inequality over time, as well as to compare levels in any particular year across provinces and sectors. To date, however, access to unit-record level data from these surveys has been restricted, and results have generally been available only in the form of tabulations published by the NBS. A review of this position is highly desirable.

In the last decade, partial access to subsets of the available household data was granted to researchers in the World Bank. This access has yielded many examples of how detailed analysis of household data can provide important lessons to policy makers concerned with the design of interventions to reduce poverty. They include many of the findings cited in this speech: (i) how policies aimed at poor-area development have been quite successful in reducing rural poverty; (ii) the way China’s foodgrain price policies affected trends in rural poverty between 1993 and 1996; and (iii) the distinction between chronic and transient poverty in China, and the difference in factors causing them.

While suggestive, these findings represent but a small fraction of the range of insights one could expect to emerge from a decentralized program of research, in China and abroad, prompted by a policy of open access to household data. International experience shows that open access to

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15 And one should bear in mind the qualification mentioned above on the unregistered population.
17 Ravallion and Chen (2001).
18 Jalan and Ravallion (1999).
household survey data greatly assists in the in-depth analysis of the determinants of economic well-being, as well as evaluation of possible policy interventions aimed at poverty reduction. It is also important to ensure that investigations of this type be carried out over the country as a whole, rather than simply a selection of provinces, and that they are continuously updated over time. In addition, new initiatives in survey design can be introduced to explore emerging questions of particular interest. For example, the more detailed breakdown of non-farm sources of income that was introduced in recent rounds of data collection offers important opportunities to learn about policy options in the important rural non-farm sector. Household-level analysis of this sector in India, including research colleagues and I have carried out in the small village of Palanpur in rural North India, are revealing in this respect. They show how personal characteristics such as education, family wealth, gender, and health, as well as community-level factors such as access to infrastructure, are key in determining involvement in non-farm employment opportunities in rural areas.

Open access to household survey data is likely to lead to significant changes in the way data are analyzed and interpreted, as well as constructive guidance by researchers on the methods used to collect and process data. Indeed, this is precisely what has happened in India in the past decade, after the National Sample Survey Organization decided to make publicly available the unit record data from its annual household surveys. The release of those data has sparked discussion and debate about how best to collect household consumption data, set the poverty line, and make price adjustments. Discussion of this type is integral to building capacity and knowledge. In the short run, these debates may appear to complicate some issues; but in the longer run, such debate ensures that survey instruments and methodologies remain relevant in the face of major demographic, social, economic, and policy changes.

4. Bringing greater opportunity to lagging areas and excluded groups

With these data as background, we turn now to the policy ramifications of a multidimensional focus on poverty. In doing so, I will organize the discussion around the WDR trilogy that I mentioned before — opportunity, empowerment, security. First, let us focus on opportunity. The opportunity pillar of poverty reduction is closely related to a focus on income growth, but it
represents much more than that. It emphasizes the need to ensure that poor people have real possibilities to participate actively in development - or, to use the language of Amartya Sen, that poor people are able to develop and use their capabilities. This focus is fundamentally different from one concerned only with outcomes, such as the level of income or even education of an individual.

The review of the evidence in the preceding section has made it clear that for all the progress China has made, absolute poverty remains a major challenge. Not only are there large disparities between rich and poor households and regions, but there also appears to be no tendency toward convergence of their incomes. In fact, the data show the opposite: the incomes of poor people rose at barely half of the overall growth rate in the 1990s. Specifically, while the overall growth rate in household income per capita was 7 percent, the mean growth rate for poor people has been a more modest 4 percent. For poor people in most countries in the world, of course, average annual income growth of 4 percent would be a great improvement. And yet in China, that rate was just one-third of the 12 percent yearly growth enjoyed by the wealthiest group. Indeed, Figure 3 shows that growth rates rose steadily with income all along the income distribution. In the 1990s, this trend was reversed only temporarily in 1993-96 (Figure 4), when, as noted earlier, (unsustainably) high grain prices lifted the incomes of rural households.

Geographic differences explain much of this divergence between poor and rich: rural areas are not only poorer than provinces nearer the coast, but they grew more slowly overall in the 1990s. Careful analysis of the micro evidence suggests strongly that this divergence is explained in part by geographic poverty traps. That is, once we take into account individual and household characteristics, geographic characteristics can lead to a divergence in incomes. Take two otherwise identical households, one living in a poorly endowed area, the other in a richly endowed area. Over time, as World Bank research has shown, the latter will typically escape poverty much more quickly than the former. For example, research using panel data from four southern provinces estimated that living in a mountainous area rather than on the plains has cost a household between 1 and 2 percentage points of consumption growth per year, even after we take many other household and geographic variables into account.20

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19 This section draws heavily on World Bank (2001).
was collected in 1985-90, and further work will be needed as more data become available to update these results. It would be important to establish whether these growth rate effects remain or whether they were reflecting post-reform adjustment to a new equilibrium. Nevertheless, what evidence we have indicates strongly that the remaining poor provinces face significant barriers to their development.

Expanding opportunity through policy: This evidence on who and where are the poor people suggests that there are large potential gains to further expanding the opportunities available to China’s remaining poor. In the overall rural strategy, this means fighting poverty by doing what is necessary to encourage both off-farm employment in rural areas and agricultural growth. Unlike other countries such as India, China has managed to generate substantial off-farm employment opportunities without migration on the scale seen elsewhere. Migration is growing as an option for off-farm employment of rural labor: some 12 percent of rural workers are now employed outside their township of origin, compared with perhaps 2 percent in 1989. And even a modest amount of out-migration can increase welfare in rural areas, by taking pressure off the labor market, providing remittances to rural households, and improving commercial ties between poor areas and the rest of the country. But the scale of poverty and the pressures on towns together indicate that most of the poverty gains will have to come from providing expanded opportunity to the much larger number of farmers and laborers who remain in rural areas. This means several things:

- **Improving rural infrastructure**, especially transport, is key for promoting both off-farm employment and agricultural growth. Evidence has shown, for example, that investment in rural roads may be essential to this process. For example, the study of growth in four provinces cited above showed that when other characteristics are held at their average value, counties with less than 6.5 kilometers of roads per 10,000 people did not enjoy any growth in consumption at all.21

- **Promoting development of off-farm small and medium enterprises (SMEs)** in poor counties is another avenue for accelerating income growth. Opportunities for

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21 Jalan and Ravallion (2000); note that 6.5 kilometers of roads is within one standard deviation of the mean for all counties in the sample.
improving the sector include reducing the barriers to entry for new enterprises, reforming the ownership and management of lagging TVEs (including where relevant by shifting them to the private sector), allowing the weakest TVEs to go bankrupt, and encouraging others to form joint ventures with enterprises from more developed areas.\(^\text{22}\) As I argue in my Qinghua University speech this week, an important avenue for growth may be small businesses spun off by TVEs - transportation businesses, for example, or vehicle repair shops. Such spinoffs could do much to encourage the dynamism of the off-farm sector.

- **Improving and expanding micro-credit** would help farmers and micro-entrepreneurs overcome a major barrier to growth. To expand access to microcredit, the government may need to improve financial management, supervision, monitoring, and internal auditing of the microcredit schemes, while also experimenting with devolving responsibility for implementation to grassroots organizations.

- **Expanding educational opportunity** is vital in the fight against poverty. It is not always feasible to set the same educational attainment goals nationwide, given the considerable constraints in the poorest areas, but educational policy needs to designed in such a way that it does not exacerbate problems of social exclusion. The Ministry of Education's national implementation plans for achieving universal basic education raises some concerns on this score. Whereas it would require nine years of education for all students in most of the country, it sets the minimum at only three to four years of education in the poorest areas – creating what seems to be a very large discrepancy.

- **Raising agricultural productivity** in the poorest regions should also be a priority. I have argued that the growth of off-farm incomes is important in overcoming poverty, but so too is the growth of agriculture. This sector will continue to be the mainstay

\[^{22}\text{As a sector, the TVEs are not likely to be as vigorous a source of employment growth in the lagging areas as they were in earlier growth provinces. In particular, manufacturing TVEs may be less of an option in sparsely populated areas that suffer from severe transportation and communications problems than they were in the coastal provinces. Even those areas may have room for SMEs in service industries to grow, however. One might note, only a little facetiously, that fewer and fewer of the Chinese people have long hair than in the past, and more and more have cars- leading to increased demand for barber and auto repair shops. Policy needs to make room for the growth of providers in service sectors like these.}\]
of the rural economy for some time to come. But mountain agriculture in the poorest regions suffers from low yields and poor market timing, making it difficult to compete with higher-yield areas. Better crop choice and improved technology would help, and these could be spurred by a government effort to increase funds and establish programs for training, access to technical information, and agricultural research specifically to address the problems of mountain agriculture.

- **Poor-area development programs** have been an important direct intervention for poverty reduction. World Bank research indicates that these programs have raised growth rates significantly in poor counties (by perhaps 1.0 to 1.5 percent), and that they earn quite reasonable rates of return (of perhaps 12 percent). In such programs, there can be particularly high payoffs to implementing programs that not only support agricultural development, but also invest in education, health, and migration assistance.

- **Providing assistance with out-migration** from rural areas is an important complement to, though not a substitute for, all these efforts to promote rural development. Migration should be on a scale and on a time frame consistent with the capacity of cities to absorb the migrants. It is an important equilibrating mechanism, however, and also a means of including rural areas in dynamic urban growth. And because it is both costly and risky for poor people, government may be have a role to play in reducing those costs and risks.

In addition, China confronts the issue of how to reach the poor people who live outside officially designated poor counties. As noted earlier, those counties are now home to only about half of all poor. And within poor counties, the large majority of people – some 85 to 90 percent – are not poor. As a result, much of the funding for poverty reduction is being diluted and is not reaching poor people in the current county-based system. One possible change to address this, which I understand the government is now considering, would be to channel poverty reduction funding directly to poor townships both within and outside the nationally designated poor counties.

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5. Empowering poor people

From the topic of expanding opportunity, let me move on to the challenge embodied in the second major dimension of poverty reduction: empowering poor people. This idea may sound very abstract, or even utopian. But what it is trying to express is a deeply practical notion: that development happens fastest when poor people have the ability to influence the decisions that most affect their lives.

Recent Chinese history includes at least two major examples, each of which has played a central role in driving China’s astonishing economic success of the past two decades. Each reform led to great improvements in incentives and helped fuel China’s off-farm employment growth without large-scale migration. The first of these reforms is the creation of the Household Responsibility System. This innovation gave vast numbers of rural poor people control over key decisions regarding the production of agricultural goods, control that they had lacked during the years of collectivized agriculture. The new policy marked a return to incentive-based mechanisms that were familiar from the past, carried out on land that had, for the most part, been family-cultivated just two decades earlier. In this case, the reform was first experimented with on the local level, then deliberately introduced on a national scale. This change dramatically improved agricultural productivity, with annual growth in grain yields nearly doubling to an average of 5.7 percent for the 1978-84 period. The result was the first great wave of reform-era poverty reduction, as well as the release of labor for off-farm production.

The second major example is the growth of the Township and Village Enterprises (TVEs) in the 1980s. By giving the TVEs greater responsibility for production and marketing decisions, the government released a dynamic force for growth and development, which drove China’s second wave of growth in the reform period. This innovation was built on the collaborations of the communes, but again also on earlier experience – in this case, experience with operating some of the factories two decades earlier. It also arose more spontaneously than the reforms in the agricultural sector, illustrating that when poor people are given the tools and opportunity to construct their own solutions to development problems, they will do so, often in ways unanticipated by economic policymakers or planners. Consider this 1987 quote from Deng Xiaoping:
Generally speaking, our rural reforms have proceeded very fast, and farmers have been enthusiastic. What took us completely by surprise was the development of township and rural industries. All sorts of small enterprises boomed in the countryside, as if a strange army had appeared suddenly from nowhere. This is not the achievement of our central government. Every year, township and village enterprises achieve 20% growth. This was not something I had thought about. Nor had the other comrades. It surprised us.

This quote makes it clear that empowering poor people is not only about equity, but also about efficiency, productivity, and growth. Those who are intimately involved in an activity, whether agricultural or industrial, will often have the incentive and knowledge necessary to allow them to find and exploit opportunities for greater productivity.

Another lesson from these examples is that empowerment can be either individual or social. In the first example, empowerment came from devolving power to the individual household, improving the incentives it faced and giving it a greater measure of power over its production. In the TVE example, by contrast, we see that increasing opportunities for collective action can also be empowering to poor people, and that by working together, they can sometimes best reach their goals.

There are other important examples of collective empowerment that improves development effectiveness. One example is water users' associations, which under the right circumstances can be more effective in ensuring and maintaining a supply of clean water to communities than can government alone. A further example in which social organization has empowered poor people elsewhere is the successful experiments with increasing local control of schools. Through programs such as EDUCO in El Salvador and the District Primary Education Program in India, committees of local parents and members of the community have been given greater power to participate in and monitor the way schools are run. Our research shows that such involvement can lead to changes in education delivery and to better incentives that improve attendance of both students and teachers.

In China, the concept of empowerment is also highly relevant to efforts to reduce rural poverty in areas most threatened by natural resources degradation, particularly in the hilly and mountainous areas and in the grassland regions. The government, which is well aware of the need for sustainable natural resource management in such regions, has devoted substantial resources to the problem through land conservation works and reforestation. There have been some successes, but also problems, some of which have been associated with inadequate participation of the beneficiaries. The Chinese researchers who have examined these issues argue that a better approach would start from a clearer understanding, based on views of participants, of what is constraining the development of rural communities and how those constraints are affecting the behavior of communities and individuals. Once equipped with greater input from the communities, the government would find it easier to develop investment programs (perhaps community-managed) that will reduce rural poverty without degrading the natural resources needed for long-term poverty reduction.

6. Addressing vulnerability

The third challenge, corresponding to the third broad dimension of poverty, is to increase the security of poor people by reducing their vulnerability to shocks. Poverty is not just a matter of numbers of people currently living beneath the poverty line, even if that is a sensible starting point. Beyond the number of officially poor, or even the larger number of absolute poor living on less than $1 per day, there are many more people in China who live just above the poverty line. These people are highly vulnerable to shocks. Research shows that a large share of all poverty in China – one-third to one-half, using poverty gap measures – is transient poverty. In other words, it is poverty suffered by households whose average consumption over a multi-year period is enough to keep them out of poverty, but who are thrown below the poverty line in a given year by some adverse shock. And of course shocks that hit those who are already poor can be catastrophic.

Uninsured risk is pervasive in rural China. It is emerging as a factor in urban China too, particularly because of the growth in the floating population. Our detailed knowledge of the

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urban case is limited by the lack of data on these populations, but in recent years we have learnt a good deal about risk in rural China.

What we have learned is that the rural poor are less well insured against shocks than are the non-poor. Employing theories of risk-sharing, Bank researchers have used household panel data for rural areas of southern China to study the effects of income changes on consumption of individual households, after controlling for aggregate village-level shocks. The same research also tested to see how well households were insured against covariate risk at village level (i.e., looking at problems affecting the village as a whole). The tests were done separately for different wealth groups, and whether or not the household resides in a poor area.

The research provided convincing evidence that households were not able to insure themselves fully against negative shocks, whether through savings, mutual assistance, or other measures. There is pervasive uninsured risk, both idiosyncratic (that is, household-specific) and covariate at village level. And the lower a household's wealth, the less well insured the household turns out to be.

The same research also suggests that, unless credit and insurance options for poor people can be improved, one should not be surprised to see persistent inequality, and an inequitable growth process, in rural areas of China. Research has also shown that poor people in rural areas take costly actions to address risk. For example, they keep a higher share of their assets in relatively liquid form, so that they can quickly convert it into consumption if the household is hit by an unexpected event. This precaution will tend to lower the returns that poor people earn on their already meager assets. But other risk-coping mechanisms are likely to be even more important. One such mechanism is a decision to stay put, rather than migrating in search of better earnings. Although risk considerations might be expected to increase migration, because it could diversify the household's earnings sources, our research on China has found the opposite. Households that are already subjected to greater risk apparently respond by forgoing migration opportunities:

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26 Jalan and Ravallion (1999).
27 In technical terms, the marginal propensity to consume out of current income is higher for less wealthy households.
28 Jalan and Ravallion (forthcoming).
migration might subject the family to the additional risk of losing farming rights for their plot of land, an unacceptable risk for them to take.

Policy implications: The vulnerability/security dimension has not been examined anywhere near as widely as the income dimension. In China, policy has historically targeted chronic poverty in lagging poor areas. But the factors behind chronic poverty are generally quite different from those causing transient poverty, or poverty caused by shocks that push households temporarily below the poverty line. Transient poverty and uninsured risk have received relatively little policy attention, except in cases of shocks that affect a large area – an entire province, say. The inability of poor people to insure against smaller-scale risk, and the lack of government policy response to that risk, threatens the sustainability of poverty reduction efforts. What initially seems to be transient poverty can quickly become chronic poverty, if the shock is severe enough.

These research results suggest that, while there are arrangements for consumption insurance in rural areas of China, they work considerably less well for households that are asset-poor. This strengthens the case, on both equity and efficiency grounds, for public action to provide better insurance. The specific form that such action should take in given circumstances is still an open question. A number of countries have been successful in using well-designed workfare schemes to provide cost-effective insurance for poor people. The key in designing such schemes is to set the wage rate at a sensible level — one high enough to provide real assistance to families, but low enough so that it will discourage the non-poor from participating, and also discourage poor people from becoming dependent on the program over the long term. When the wage rate is set at the right level, poor people will turn to the scheme only when they really needed it. They “self-select”. In such cases, workfare can be a valuable safety net.

7. Poverty reduction and the broader strategy for development

This speech has focused on more targeted micro interventions to fight poverty. But the battle against poverty is not a skirmish off to one flank; instead, it must be at the heart of the campaign for development. Successful long-term poverty reduction depends not only on well-constructed and focused poverty and poor-area programs, but on growth and development of the society as a whole. This development in turn hinges on how well the country makes progress on two fronts:
• Improving the investment climate, and
• Enabling poor people to participate in growth

I cover these ideas in detail in this week’s speech on “A Strategy for Development” at the People’s University, but it is useful to recapitulate briefly here. Most of the issues we have covered today would fall under the second point, that of enabling poor people. But it is equally important to move ahead on the first point, improving the investment climate.

By “investment climate,” we mean all the external factors influencing the risk and returns that entrepreneurs and investors face. Here we have in mind not only (or even primarily) the managers of large companies and multinationals, but also small farmers, owners of microenterprises, and even households making decisions about educational investments. Key factors in the investment climate include: macroeconomic stability and openness; governance and institutions conducive to growth (including absence of corruption and bureaucratic harassment, good delivery of basic education and health services, strong financial institutions, good regulatory structures that promote competition, etc.); and well-developed infrastructure (including power, transport, water, and communications). If government cannot ensure that these three sets of factors are improving, the economy’s engine of growth will sputter.

China has made great progress on all three over the past twenty years, but there is still much room for further improvements in the investment climate, in such areas as governance and rural infrastructure. It is important to stress that the issue here is not primarily the level of investment; as China’s investment levels are already among the world’s highest. The most important effect of a good investment climate is to raise the productivity of investment and increase the dynamism of private enterprise. No matter how well designed China’s poverty policy is, China will not be able to preserve its momentum in eradicating poverty unless these sources of overall economic growth remain strong.
8. Conclusion: The challenges ahead

In this speech, I have suggested an understanding of poverty that extends well beyond a narrow income-based definition – one that encompasses not only human development in such areas as education and health, but also the richer spectrum of opportunity, empowerment, and security. All of these are crucial to development and continued poverty reduction. There is no doubt that China has made remarkable progress in overcoming poverty in the twenty-three years since reform was launched. Growth has been the primary driver of poverty reduction, but it is unlikely that aggregate growth by itself will fully overcome the poverty that remains. What is now required to sustain the momentum of poverty reduction is a good understanding of who the remaining poor people are, where they live, and what barriers to development loom largest in their lives. A key step in this understanding is careful analysis of good household data, which is why I placed some emphasis on data issues today.

Even based on the research and experience now available, we know a considerable amount about the poverty that remains. For example, we know that the deep poverty of mountainous and western regions reflects special development problems and probably significant geographic poverty traps. We know that for many poor people, poverty is compounded by ethnic minority status or disability; that nearly half of all poor people live outside officially designated poor counties, raising the issue of how best to reach them. We also know that poorer households have poor insurance against shocks, and transient poverty makes up a large share of all poverty; and that empowerment of poor people has helped combat poverty in the past, but it is still not a prominent enough feature of development strategies.

But we still need to know much more. The challenge is to design well-targeted programs to promote growth in particular areas and for particular groups within the population. This will depend on knowing more about the characteristics of the poor – education levels, family size, health status, and gender breakdown, among others. This type of information is also crucial for well-targeted transfer programs. It is generally available in many other countries, and we have found that it is crucial for understanding the web of factors and complex interactions that affect a household’s poverty status.
Insights from analysis of available data make it clear that both growth and government transfers will be essential to reducing and eventually eradicating abject poverty in China. This conclusion has implications beyond the scope of today’s speech; for example, it means that increasing tax revenues over the medium term is essential if China is to invest in infrastructure and to fund the transfers necessary to cushion the severest poverty. Today, I have suggested some specific policies that build on the knowledge we have accumulated: policies to promote opportunity for poor people by stimulating growth of rural incomes and promoting human development, including basic schooling for all children; to empower poor people, by involving them in management of schools and natural resources; and to increase their security, through such means as workfare programs that provide a safety net.

Even as it makes inroads against current poverty challenges, China will face new ones in the years ahead. With greater labor mobility, poverty is likely to become an urban problem once again; indeed, this is doubtless happening already, as will become clear once the household surveys are extended to the floating population. Another issue is the aging face of poverty: the system of the iron rice bowl has protected the elderly in the past, but the shift away from lifetime association with a single enterprise will, in the absence of a more formal system of support for the elderly, increase rates of poverty in that group. In addition, China’s increasing integration with the world economy will also have effects that are hard to predict with any certainty. Even though our research shows that integration raises growth rates without systematically increasing inequality, different countries experience different effects from globalization. Finally, China will need to turn its attention to other non-income dimensions of poverty reduction, such as ensuring that the security of poor people is not threatened by a deterioration in social order. My experience with China over the years makes me confident that although these poverty challenges are great, this is a country with the dynamism and social cohesion necessary to address these problems. We at the World Bank, and I personally, look forward to working with you on them in the years to come.

Thank you.
References


Figure 1
Number of absolute poor in rural China, 1978-1999

Figure 2

Poverty Incidence in Rural China 1996
(Percent below $1/day)
Figure 3: Growth incidence curve for China, 1990-1999

Source: Ravallion and Chen (2001)
Figure 4: Growth incidence curve for China, 1993-1996

The poorest p% of population ranked by per capita income

Annual growth in income per person (%)

Source: Ravallion and Chen (2001)