



## The war against poverty is over in China

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Even in these times of Covid-19 came the surprise announcement from Chinese authorities that the war against poverty in China has finally been won. On Nov 23, 2020, Xinhua, the official news agency of China, reported that authorities in southwest China's Guizhou Province announced that they had lifted the last remaining nine counties in their province out

of absolute poverty. “This means that all 832 registered poor counties in China have shaken off poverty,” Xinhua reported. In 2012, China’s task force for poverty alleviation identified 832 “poverty-stricken counties” out of the total 1355 counties (districts) for focused poverty alleviation efforts — key poverty alleviation “battlefields” as they were called. A county is removed from the list if less than 2 per cent of its population lives below the poverty line, a threshold set at 4000 Yuan (roughly US\$606). At the end of 2019, 52 counties in the northwest, southwest and south of the country remained on the poverty list. By mid-2020, only 9 counties in Southwest China remained on the list, to be finally removed in November 2020. The average annual net income of impoverished people in these nine counties had risen to 11,487 yuan (about \$1,740), well above the 4,000-yuan national poverty line set for 2020. With that China achieves the poverty reduction target of UN SDG 2030 10 years ahead of schedule.

And all this happened at a time when poverty rates have been rising as the global economy falls into recession or recovers sluggishly in the aftermath of the Covid-19 pandemic. The World Bank estimates that 40 million to 60 million people will fall into extreme poverty (under \$1.90/day) in 2020, compared to 2019, as a result of COVID-19, depending on assumptions on the magnitude of the economic shock. The ongoing crisis, according to predictions by the World Bank, might erase almost all the progress made in the last five years. Clearly, that no longer includes China.

As we know, in 2015, the UN General Assembly adopted the Sustainable Development Goals (SDG) for eliminating poverty by 2030. It was a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The 17 goals committed under SDG 2030 were not only about eliminating poverty but these goals comprise a wholesome effort to improve the human condition around the globe, by devising effective policies to create wealth in an inclusive way, while sustainably harnessing the planet’s abundant natural resources. So both creation and distribution of wealth is very much on the agenda.

With so much poverty and deprivation around, there can be little argument about the need to eradicate poverty around the globe, sooner rather than later. There is also no doubt that the road to end poverty is fraught with daunting challenges. So a 15-year road map makes a lot of sense, though questions remain about the feasibility of this time frame. How feasible is it?

Historical and cross-country evidence offers some useful lessons for nations that are burdened with substantial poor population and with limited resources to fight poverty – in particular, the developing countries in Asia, Africa and Latin America. For them, no doubt the Chinese experience in reducing poverty could offer meaningful strategic guidance.

Though the emergence of Covid-19 pandemic added a new dimension to the poverty challenge globally, China's 40-year experience with poverty reduction remains relevant for developing countries, including Bangladesh. In 2015, China, the most populated country in the world, with 1.4 billion people, had some 10 million of its people regarded as extremely poor, i.e. living under \$1.90 a day by the World Bank's criteria. That worked out to 0.7 per cent of the population compared to 53 per cent in 1981. That is, in four decades, China's development strategy was able to lift some 700 million people out of poverty. That could be considered one of the fastest rate of poverty reduction in history for such a vast population.

Not all the population of developing countries have been so fortunate. The Chinese experience is proof that development strategies matter. The oft-quoted maxim, “as you sow, so you reap” is so apt when it comes to development outcomes. Following WWII, as countries began to gain independence from their colonisers, these economies were eager to industrialise, develop, and eliminate poverty. The path chosen was import substituting industrialisation (ISI). However, after two decades of failed honeymoon with ISI strategies, there emerged the new paradigm of export or trade-led growth. Like the East Asian newly industrialising economies (NIEs) China, although not a typical market economy, was quick to recognise the gains from trade openness and integrating with global markets. Recognising that an economy's growth, trade structure, income distribution and poverty are endogenous to its choice of development strategy, China wasted no time to adopt a development strategy of openness and global integration. The rest is history. By leveraging the global marketplace China was able to grow at double digits for three decades straight, raising incomes and lifting millions out of poverty, unlike anything we have seen in history. The Chinese experience and pace of poverty reduction is in some way unique, given that it adheres to socialist economic principles with limits on private ownership and significant state control over production.

Globally, there has been marked progress on reducing poverty over the past decades but the Chinese experience remains unparalleled. According to the most recent estimates, 9 per cent of the world's population live on less than \$1.90 a day, down from nearly 36 per cent in 1990.

That would still leave some 780 million people in poverty today, more than half of China's population – an unacceptably high number, indicating that the benefits of economic growth have been shared unevenly across regions and countries. Countries in East Asia and the Pacific have been most successful in routing out poverty, followed by South Asia and Latin America; but Sub-Saharan Africa still remains stubbornly resistant to poverty reduction (Table 1).

Poverty is indeed a curse regardless of where it is. The poor around the world live in squalor deprived of the basic necessities of life that the average person takes for granted- adequate food, housing, education, healthcare, and so on. In this 21st century of boundless technological advance the fact that 1 out of every 10 persons in our world (nearly 800 million people) lives in poverty casts a long shadow on all the achievements human civilisation has made over the past several centuries of progress. Key national and global challenges are standing in the way of progress and are keeping large pockets of people trapped in poverty. Slow growth, macroeconomic imbalances, escalating trade tensions, high levels of inequality in income and opportunities, climate change, and increasing fragility and conflict pose obstacles to further poverty reduction and inclusive growth.

It was, therefore, appropriate for the world community to finally realise that the time for action had come. Elimination of poverty is a desirable goal for any nation, and especially considering the UN SDGs. But progress in eliminating global poverty has been uneven and falling short of what is needed for achieving the goal of zero extreme poverty by 2030. Even that seems not to be on track, according to recent forecasts. UN 2019 progress report on SDG finds that the number of people living in extreme poverty declined from 36 per cent in 1990 to 8.6 per cent in 2018, but the pace of poverty reduction is starting to decelerate as the world struggles to respond to entrenched deprivation, violent conflicts and vulnerabilities to natural disasters. Also, global hunger has been on the rise after a prolonged decline. These challenges have now been compounded by the Covid-19 pandemic that has disrupted economic activities globally, causing tremendous negative shock to output, employment and income in so many countries and regions. This could set the clock of poverty reduction a few steps backwards. With the Covid19 pandemic upon us, which is a combined health and economic shock of unprecedented scale, it might now be practical to move the SDG target date to 2035.

So what are the key ingredients of a successful development strategy that is effective in eliminating poverty? Is there something developing countries can learn from the Chinese experience of rapid growth, job creation, and poverty reduction?

When China began its transition from a planned to a market-oriented economy in 1979, it was a poor, inward-looking country with a per capita income of US\$182 and a trade dependence (trade-to-GDP) ratio of 10 per cent. China's economic performance since then has been miraculous. Annual GDP growth averaged 10 per cent over the 30-year period (1980-2010), and international trade averaged 16 per cent per annum. China is now a middle-income country, with a per capita GDP of US\$4,488 in 2019, and more than 700 million people have escaped poverty. Its trade dependence ratio reached 65 per cent in 2006, the highest among the world's large economies. However, in the years following the Global Financial Crisis (GFC) of 2008-09, China, as part of its trade and macroeconomic rebalancing strategy, has increasingly focused on boosting domestic demand for sustaining future growth, resulting in declining trade dependence which reached a low of 35 per cent in 2019. In 2009 China overtook Japan as the world's second largest economy and replaced Germany as the world's largest exporter of merchandise. China is euphemistically called the world's "factory". What strategy of development brought this about?

The trend of globalisation in the last decades of the twentieth century has provided many opportunities and challenges for countries in the developing world. China was quick to recognise and adopt what worked best for its people. It would be too simplistic to suggest there was one strategy that produced this outcome for China. But its switch towards greater openness and trade orientation, among other things, definitely played a pivotal role. In the 1960s and 1970s, a new paradigm of development emerged from East Asia and the Pacific – the paradigm of trade-led growth. The now famous East Asian Tiger economies (South Korea, Hong Kong (China), Taiwan (China), and Singapore) showed the way to leverage the massive global market and grow faster. The vast global demand provided a deep, elastic market for their goods. China, in transition to more openness in 1979, went a step further. China was quick to recognise the criticality of two strategic sources of rapid growth – international trade and knowledge transfer. By opening up to trade in the international marketplace it was able to exploit the vast global demand for its manufacturing output while importing knowledge that helped raise productive efficiency.

What China meticulously avoided during the period of openness and global integration was to veer in the direction of comparative-advantage-defying (CAD) strategies, something many developing economies succumbed to with the result that significant public resources had to be diverted to subsidise the firms in priority sectors by distorting capital prices, foreign exchange, and other inputs; and use administrative methods to allocate price-distorted inputs to the firms.

Just as important, China followed the right sequence for its industrialisation: first, in contrast to the comparative-advantage-defying (CAD) import substitution strategy pursued by many developing countries, China's industrial expansion and exports were based on the country's vast army of cheap labour, a comparative-advantage-following (CAF) strategy. Next, it adopted greater technological sophistication by importing ideas, technology, and know-how from the rest of the world. China thus imported what the world knew and exported what the world wanted. World demand gave its industries the scale economies that the domestic market lacked.

A complementary strategy was in its pursuit of structural change that was inclusive in that job creation, industrialisation and urbanisation all went hand in hand. Historically, all countries in the world were poor and agrarian at the beginning of their modernisation. For those few countries that successfully transformed from poverty to prosperity, they all converted from rural agrarian economies to urban industrialised economies. So did China but with a difference. When people move from rural areas to urban ones without jobs, they simply change from rural poor to urban poor. Poverty remains. To avoid this situation, Chinese policymakers made sure that the migrant labour force had jobs in urban industries which catered to rising world demand.

Urbanisation is endogenous in some sense because in industrial production, the economies of scale are large, making concentration of work in one location important. While improving the logistical base of industries in terms of clustering or agglomeration, urbanisation is the outcome of reinforcing the concentration of workforce and people around the agglomerated location of industries, which may help them to avoid unemployment. To some extent, under the transformation starting in 1979, China's urbanisation followed this kind of process. Industrialisation came first, and then urbanisation, meaning that there were little urban unemployment issues in China. Unemployment and poverty were not the handmaidens of

industrialisation and urbanisation in the Chinese development story.

If a singular development strategy could be attributed to China's rise from poverty to prosperity, it was the combination of leveraging world demand through trade openness and executing the right sequence of structural transformation from rural-agrarian to urban-industrial societies. While incomes rose at rates faster than anywhere in history, poverty declined all across the board reaching all strata of society, thus making prosperity very inclusive. China was among the few countries of the world where the share of income of the bottom 40 per cent grew much faster than the average.

China is not alone among developing countries that successfully transformed from poor agrarian economies to prosperous middle income or rich economies (e.g. many East Asian and South Asian developing economies fall in this category). Greater global trade integration and the rise of Global Value Chains (GVCs) has been the common theme driving this prosperity. This interlinkage of economies – called trade dependence – that lifted billions of people across the globe out of poverty is now under threat from sinister forces of economic nationalism and unilateralism in some parts of the world.

While the rules-based trading system that evolved over the past 70 years under the multilateral trading regime of GATT-WTO has revealed some weaknesses in its governance framework, what the global multilateral institution needs is to be revamped with effective reforms to modernise the institution in keeping with the march of technological progress. To foster its gradual dissolution, as some members seem to hint at, would be like throwing the baby out with the bathwater. There is no denying that so many of the world's 800 million poor will be the ultimate losers if that prospect becomes real. To the relief of the global community, the recent change of leadership in the USA has signaled a much more rational approach to addressing multilateralism and its discontents.

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