

China's Urban Poverty in Early Years of the Twenty-first Century¹

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I. Background

Beginning from the end of 1990s, attention was drawn to the phenomenon of growing low-income and poor² groups in Chinese cities under the circumstances of rapid of economic transition. With the deepening of urban economic reforms in the end of 1990s, the whole set of long-existed social security system related to employment, income, housing, education and pension was under the transitional way and the income gap kept expanding, both resulting in the growth of urban low-income and poor population.

To estimate the scale of urban poor in the middle of 1990s, the results vary with the methods adopted by different experts. According to the study of National Bureau of Statistics, the poverty incidence rate for urban population and households were 4.4% and 3.84% respectively in 1995 as the urban poverty line was set at per capita annual income of 1500 yuan. Based on that, it was calculated that China's urban absolute poor population and families were 12.42 million and 3.33 million respectively. On the basis of the survey data of Income Distribution Investigation Team of Economic Research Institute of China Academy of Social Science, Aziz-Kahn estimated that the incidence rate of urban poverty in 1995 was 8.0%. A research report of Asia

1. This paper is one of the case reports of China's poverty reduction and development prepared for the International Conference on Taking Actions for the World's Poor and Hungry People Hosted in Beijing during October 17th to 19th, 2007.

2. The low-income group and poor group are two concepts with close relations but of different scopes. The paper distinguished them. But readers can find from the literature review that existed studies had not distinguished them and discussion on poverty group held large space. In addition, the existed studies did not distinguish the concepts between urban poverty and township poverty, the writers also mixed the 2 concepts in the following explanation.

Development Bank in 2002 showed that the incidence rate of China's urban poverty in 1998 was 4.7%. Xue Jinjun and Weizhong found that if the migrants were included in the urban populations, the urban poverty incidence rate in 1999 would be 7.4%, higher than that only including urban residents. So, they thought that China's urban poverty was of structural feature which included the general poverty of urban residents, the extreme poverty of urban families with unemployment members and urban migrants, with the migrant poverty being a new problem. In early 2000, it was found that the incidence rate of urban poverty in 13 cities was 10% higher than that in 1995 during a sample survey in 13 cities conducted by the Urban Poverty and Unemployment Investigation Team of China Academy of Social Science.

After the middle of 1990s, the diversification trend of urban poor groups has become more and more obvious, mainly caused by the increasing population of laid-off, dropped-out, unemployment, retirement and migrants from rural areas to urban areas. With regard to the industrial distribution, the higher poverty incidence rate were generally distributed in war industry with a later transition in market economy, labor-intensive industries like textile industry, fundamental industries like excavating industry related to energy and large quantity of small-scale medium and small commercial service industries.

A demonstration analysis by Lishi (2004) in why urban families and individuals getting into poverty showed that: the groups with highest poverty incidence were laid-off workers, unemployment people and disabled people, respectively with the poverty incidence rate of 23%, 21% and 26%. Unemployment and laid-off were the most important ones among the variables in explaining why families and individuals getting into poverty. His model further estimated that if the head or member of a family got unemployed or laid-off, then it was 3 to 6 times higher for them to get into poverty than ordinary people. The study also disclosed that the industrial distribution of poor people had the following features: they were urban collective enterprises or informal sectors, especially the profit-losing enterprises, with an obvious characteristic in the industries constantly losing market competition like manufacture, excavation,

construction, trade and catering.

Since related studies mainly focused on the urban poverty in the later of 1990s, few studies were conducted in the urban poverty after entering into the new century. Therefore, it is very important to analyze the urban poor groups in recent years, especially for their scale, living status, structural distribution, resulting causes and the characters of the family and individual. This paper will analyze the scale and extent of urban poverty, unemployment and laid-off and their relationship with poverty on the basis of data from the survey to urban residents in 2002.

II. Demonstration analysis in China's urban poverty status and its causes

At present, the typical analysis method in poverty study related to poverty incidence rate, poverty distance and its indicator was an index proposed by Foster (Foster et al.1984) and others. It was called FGT index :

$$FGT(\alpha) = \frac{1}{N} \sum_{i=1}^q \left[1 - \frac{y_i}{Z_i} \right]^\alpha = \frac{1}{N} \sum_{i=1}^q \left[\frac{g_i}{Z_i} \right]^\alpha$$

Of which, Z_i is poverty line, y_i is the income of No.i whoes income lower than poverty line; $g_i = Z_i - y_i$ is the No. i's poverty distance; α is a parameter, its numerical value varies the weight of poverty distance. When $\alpha = 0$, FGT becomes the index of numbers of poverty people (that is the poverty incidence rate); when $\alpha = 1$, FGT is the poverty distance pro rata; when $\alpha = 2$, FGT the square of poverty distance pro rata (weighted poverty distance), with a more sensitivity to income distribution of poor people.

Among the indexes, the numbers of poverty people is the index used more often, which is for measuring the proportion of population who cannot meet the basic nutrition and consumption requirements held in the total population. However, if the distance between the income of poor people and the poverty line changes, the numbers of poor people may still keep unchanged. So the index of numbers of poor people can not reflect the change of poverty status at that time. Under such a

circumstance, the index of poverty distance can measure the change. In fact, poverty distance index is the number by multiplying the index of the numbers of poor people and the average index of poverty distances. Similarly, when the income distribution of poor people gets improved or worsened, the numbers and average income of poor people may remain unchange. At that time, the decision-maker should pay attention to the change, however, as this change cannot be found by the index of pooe people numbers or the index of poverty distance, the weighted index of poverty distance can accurately relfect the it.

Here, the poverty lines we selected are the provincial poverty lines set according to the local living standards. As a result, the poverty lines vary to the living expenses. From the table 1, it is not difficult to see that the living expenses in Beijing and Guangdong are the highest among other provinces, so their poverty lines are the highest, 50% higher than that of national avergae level; the poverty lines in Provinces with lower living expenses like Shanxi and Gansu are obvious lower than that of national avergae level.

Table 1: Poverty Lines of Sample Cities in 2002

Province or cities	Poverty line	Per capita currency income	Poverty line measured by the percentage of per capita income
Beijing	3118	13620	23
Shanxi	1616	6481	25
Liaoning	2203	7713	29
Jiangsu	2228	8686	26
Anhui	2138	6612	32
Henan	1904	5953	32
Hubei	2283	6821	33
Guangdong	3061	11845	26
Sichuan	2004	6590	30
Chongqing	2214	8435	26
Yunnan	2359	7533	31
Gansu	1819	6381	29
Country	2310	——	——

Note: about the explanation of setting poverty line, please refer to the Analysis in the Status of China's Urban Poor and Low-income People since 1995 (Background Report), 2007.

1 . Poverty incidence rate and structure

After the poverty line confirmed, we calculated the poverty incidence rate of sample provinces respectively based on the family's per capita disposable income. The result was showed in table 2. it can be seen that the urban poverty incidence rate in 2002 was around 3.2%, which was calculated based on the data of sample provinces. So, we estimated that the urban poor population in 2002 was about 16 million. It should be noticed that the data did not involve in the people immigrated from rural areas, who have higher poverty incidence rate. To compare with the index in 1999, the rate reduced by about 3 per cent. The above data also showed the disparity of poverty incidence rates between different provinces. The poverty incidence rates in Beijing and Jiangsu were lower than those in other provinces, and the highest poverty incidence rate was in Sichuan, accounting for 6.9%, 44.3% higher than that of national average level.

Table 2: Urban poverty Incidence Rates of Sample Provinces in 2002

Provinces	Unweighted poverty incidence rate (%)	Weighted poverty incidence rate (%)
Beijing	0.14	0.14
Shanxi	3.11	2.02
Liaoning	3.46	1.81
Jiangsu	1.91	1.24
Anhui	2.46	1.36
Henan	3.67	3.26
Hubei	3.70	2.52
Guangdong	3.47	1.74
Sichuan	6.89	6.81
Yunnan	2.45	2.17
Gansu	2.18	2.18
Country	3.29	3.12

Note: the weighted sample is obtained by weighting the sample cities within the provinces.

We further analyzed in the disparity of poverty incidence rates among different age groups, especially in the relationship between gender and poverty incidence rate. We divided the samples into 14 age groups according to gender and calculated the poverty

incidence rates of each group. Please see the results in table 3.

Table 3: Poverty Incidence Rate of Different Age and Gender Groups

Age groups	Absolute Value			Percentage of the avergae value		
	Total	Male	Female	Total	Male	Female
Under 7	3.46	3.32	3.53	100	96	102
7—15	3.53	3.87	3.16	100	110	89
16—20	4.99	5.27	4.67	100	106	94
21—25	1.74	2.00	1.50	100	115	86
26—30	3.12	2.67	3.51	100	86	112
31—35	3.67	3.42	3.90	100	93	106
36—40	4.23	3.63	4.77	100	86	113
41—45	4.31	4.88	3.80	100	113	88
46—50	3.19	2.80	3.60	100	88	113
51—55	2.21	2.14	2.29	100	97	103
56—60	1.50	1.73	1.22	100	116	82
61—65	1.76	1.18	2.35	100	67	133
66—70	1.63	1.93	1.33	100	118	81
Above 70	4.24	2.76	5.78	100	65	136
Total	3.29	3.16	3.42	100	96	104

Source: survey data of 2002

The table shows that poverty incidence rate has no much disparity between genders and generally the female poverty incidence rate was only 0.26% higher than that held by male. The result was related to Chinese family structure, for the proportion of single mother family in China was relatively lower by comparing with other countries. However, with regard to the age groups, urban young people is more apt to poverty than old people. Relatively lower poverty incidence rates were occurred among people in age groups of 21 - 25 and 56 - 60. Supposing that they are members of two generations in a family and got employed at same time, then the support expenses to old generation would be low. This showed that urban poverty had a close relationship with unemployment. The data showed that: the poverty incidence rate at the retirement age (above 55) was not high. But the rate got higher in age group above 70, which was resulted from higher poverty incidence rate of female in the group.

To disclose the relationship between employment and poverty incidence rate, we calculated the rates among people with different employment status. We calculated the relevant poverty incidence rates by dividing all samples into 14 groups based on their employment status in 2002 and dividing each group into 2 sub-groups according to their health conditions. Please see the results in table 4.

Table 4: Health, Employment and Poverty Incidence Rate

Employment status	Poverty incidence rate			Percentage of the average value		
	Total	Healthy	Unhealthy	Total	Healthy	Unhealthy
Work of employed	2.35	3.84	12.61	100	164	538
Dismission	4.76	2.86	14.29	100	60	300
Retired	1.45	1.97	1.39	100	135	96
Disabled	6.56	0	9.76	100	0	149
Laid-off	7.45	5.88	8.02	100	79	108
Dropped out (or long-term leave)	8.40	9.80	0	100	117	0
Retired in advance	6.35	7.55	0	100	119	0
Internal retired	3.71	3.58	4.76	100	96	128
Unemployed	12.06	11.61	16.33	100	96	135
Job-waiting youth	9.79	10.07	0	100	103	0
Houseworkers	12.61	12.62	12.5	100	100	99
School students	3.84	3.82	7.14	100	99	186
Waiting for a job or further study	4	4.17	0	100	104	0
Other unemployment	3.93	4.19	0	100	107	0

Source: the survey data in 2002

Note: the total sample includes people with general healthy condition, which did not show in the table.

The 3 groups of the sample with highest poverty incidence rates were houseworker, unemployment and job-waiting youth, with the rate of 12.61%、12.06% and 9.79% respectively. The dropped out and laid-off workers also had higher poverty incidence rate. Besides, people with unhealthy condition were more likely to get into poverty

than those with healthy condition. If a person got sick, the likelihood for him to get into poverty was 3-4 times higher than ordinary people no matter he was in the status of retirement or houseworking.

2 . The relationship between poverty and unemployment

We tried to focus our analysis on the main factors causing poverty, especially the unemployment effect in poverty incidence rate, to further discuss the causes of families and individuals who were easier to get into poverty. Generally speaking, there were many factors to cause poverty, such as unemployment, disease and regional distribution. The Probit Model on poverty causes made by Lishi (2003) based on the survey data in 1999 disclosed three features: the first was the function played by unemployment. It was showed by analysis in the features of both families and individuals, the employment status had very significant influence in their poverty incidence rates. The second was the health condition of family head or members. The poverty incidence rate of unhealthy people was 74% higher than that of health people, of which, families with unhealthy head were 135% higher than those with healthy family head in getting poverty. The last one was regional factor. Analysis shows that people lived in Northeastern, Western and middle China were easier to get into poverty. Moreover, even in 2 provinces with similar poverty status, the poverty incidence rate would be different because of their internal features. Similarly, based on the Probit Model, The following analysis made a comparable calculation by using the 2002 data, in the hope to seek the changing trend in the progress.

From the data analysis, we knew that young people were easier to get into poverty than old people. When other condition remained unchanged, the poverty incidence rates among the groups of unemployment, job-waiting youth and housework were 5 times higher than those with normal work or employment. With a view to health condition, the poverty incidence rate of unhealthy people was 16% higher than that of healthy people, which was greatly lower than the disparity (74%) in 1999. this was explained by the improving health condition of individual's and its influence was fading out. For regional factor, with other conditions unchanged, people in Liaoning,

Sichuan and Henan were easier to get into poverty by comparing with other provinces. Regarding to the relationship between family members and poverty incidence rate, families with 1 member had the high rate similar to families with 4 or 5 members. The possible explanation was that family with 1 member was not easy to get help when encountering difficulties, resulting the higher poverty incidence rate.

3. Analysis in causes of poverty

With the analysis in the causes of urban poverty in early years of 21 century, we believed that the macro and micro impacts both existed. With a macro point of view, the most important factor was the rising numbers of urban laid-off people caused by the reform of state-owned enterprises and economic restructuring. Following that, it was the growing income disparity among the urban residents. With a micro point of view, poverty had strong relationship with some features of families or individuals, for example, the group with low cost in human resources was easier to get into poverty.

Specifically, because with the deepening of economic reform, the long existed social security system of employment, income, housing, transportation, education and retirement gradually collapsed and the new social security system adapted to market economy and flexible labor market had not completely established, great impact was made to urban residents caused by systematic conflicts of economic restructuring and special adjustment of national situation, moreover, the impact of macro economy was usually made to the entire society. Regarding to the macro economy, the influential factors to poverty included social and systematic restructuring and industrial transition, rising number of laid-off workers, incomplete social security system, large quantity of rural migrants in urban areas, urban income disparity and high urban consumption index etc.. the causes of urban poverty were economic restructuring, conflicts and problems in income distribution, lack of incomplete social security system and the effect made by enterprise reform towards the employment and salary of workers.

With regard to the relationship between micro features of individuals and poverty, as many studies showed, under certain systematic background, great disparity existed in poverty predicting rate for people with different micro features like gender,

age, education, health condition, occupation and work experience. The study conducted by Lishi and Knight found that people with the education of primary school or below had the poverty incidence rate of 15.62% or 21.15% respectively, While people with the education of college or university only had 3.58% or 1.42% poverty incidence rate respectively. The rate for people with technology and dilutees was 3.99% and 18.51% respectively. The study made by research group of National Bureau of Statistics showed that 70% of low-income people were those with an education of junior high school or below and the proportion of urban people with an education of junior high school or below accounted for 49%. Generally speaking, the survival and labor lossing people caused by various diseases, disability or incidents had great influence to urban poverty because of excessive burden coefficient. The data of National Bureau of Statistics showed that in 2002, averagely, the low-income families had 3.35 members and 1.46 employed persons; their employment rate was 43.6%, 13.7% lower than that of high-income families; each employed person was responsible for 2.29 family members, 0.54 person higher than the high-income families. It was also found in our model that families or individuals with the following features were easier to get into poverty: unemployment or laid-off, unhealthy condition, disabled, houseworker, low educated, working in urban collective enterprises or informal sectors and dilutee.

III. Conclusions and policy suggestions

Since the end of 1990s, the urban poverty in China had aroused extensive attention, various studies aimed to disclose the causes, development features of the new poverty and made significant researches in its potential effect factors. This paper calculated the relevant indexes by using the latest data of survey in urban residents based on the existed researches. Our study showed that in general, the urban poverty incidence rate in China for the past decade (after the middle of 1990) had progressed like an “Upside-down U Form” tendency, upward before 1999 and downward as entering into the new century. The result had relationship with China’s poverty reduction policy. In 1999, the Chinese government issued Regulations on Minimum

Subsistence Allowance for Urban Residents, which was carried on to the whole country in 2002 and 2003. The practice proved that the lowest living security system for urban residents played an important role in halting the expanding of urban poverty scale.

It was shown by analysis in the causes of poverty, unemployment, job-waiting were the most important causes for urban poverty. The estimation of our model showed that unemployment, job-waiting and houseworking people had 5-6 times higher rate to get into poverty than the people with normal work. In addition, healthy condition also played an important role in causing poverty. Unhealthy people were easier to get into poverty than healthy people. If a person had disease, the rate for him to get into poverty was 3-4 times higher than other ordinary people no matter he was in the status of employment, unemployment, retirement or housework. The factor of regional distribution was also important. It was not the pure natural factor, but more important was the disparity in employment opportunities and efforts made by local government in poverty reduction. To some extent, the more important influential factor to current poverty reduction was the government's design of macro policy and its implementation.

In light of the current urban poverty in China, we proposed the following policy suggestions:

The first is to increase employment. Because unemployment and laid-off were the most vital factors in causing urban poverty, to increase employment was undoubtedly the suitable method to address urban poverty. For the specific countermeasures to increasing employment, it is an important choice to enlarge the labor-intensive industry and the tertiary industry with many job opportunities. At the same time, attention should be paid to the obvious achievements in expanding employment made by private economy, and large quantity of medium and small sized enterprises can also increase employment. Therefore, policy should be worked out to encourage the development of these enterprises, or at least, give them same treatments as state-owned and large-scale enterprises. It is gratifying that the Chinese government recently passed the Law on Employment Promotion, which will undoubtedly play an

active role in promoting employment and realizing fair employment.

The second is to make more efforts in establishing social security system. The current urban lowest living security system has provided a basic line of social security network for low-income and poor people, but the good policy needs more support from governmental fiscal fund. In addition, the lowest living security system should be integrated with other social protection systems, for example, to carry out the medical care for low-income and poor people with insurance operation; to make policy of basic medical care superior to social medical care; to establish the emergency fund for social medical care; to set up medical coupon system for the urban people; and to build community hospitals to provide necessary medical service for poor families.

The third is to promote education. It is a fundamental way to solve the less capacity of poor people by improving their basic quality. Many papers show that there is a close relationship between the low-income and poor people with their education, personal skills and quality. With the same impact, individuals with higher educated skills can shake off the short-time disadvantages after a certain period of adjustment and earn more in a long-term run. On the contrary, individuals lack of necessary educated skills can not effectively transfer the risk and match resources by facing to the short or long term impact. Considering that higher requirements will be made to labor quality as the industrial structure is getting updated in the future. Therefore, on the one hand, the current education reform should be strongly promoted to enable more new laborers to get opportunity in accepting better skill education, especially, efforts should be made to carry out the nine-year compulsory education system and provide protection subsidies for the low-income people's medical care and their children's schooling. On the other hand, importance should be attached to actively develop various continuing and vocational education, extensively mobilize the enterprise and social enthusiasms in training unemployment and laid-off workers, do a good job in facilitating work preparation system and intensify the combination between training and employment.

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