

The Pursuit of Inclusive Development in China: From Developmental to Rights-Based Social Protection

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The Chinese Government has prioritized public policies aimed at promoting inclusive development, social equality and a 'harmonious society' while maintaining high rates of economic growth. Such policies are, however, facing growing challenges with rising income inequality and new forms of 'transitional poverty' resulting from recent economic and social transformations taking place within the country. China's strategies of promoting growth and poverty reduction are further complicated by environmental concerns, rising urban-rural disparities, changing demographic dynamics and new patterns of labour migration within the country. The key question addressed in this article is: How will the dual existence of extreme poverty in rural areas and transitional poverty in an urban-rural interface shape China's welfare strategy in the near future, as the country pursues a strategy of inclusive development? The article begins with a brief examination of China's achievements and challenges in relation to poverty and inequality reduction. Thereafter, the impacts of some of the most important social protection programmes currently being implemented in the rural areas of the country are critically examined before specifically highlighting the problems faced by migrant workers, the so-called 'left-behind' population, and landless farmers.

Keywords: *Poverty, Inequality, Inclusive growth, Human development, Social protection, China*

INTRODUCTION

An explicit and overarching objective of the Chinese Government in recent years has been to develop the country into a 'Xiao kang society', which prioritizes human well-being and a 'harmonious society' (*hexi e shehui*), guided by a 'scientific development concept' (*kexue-fazhan guan*). These ideas, introduced by previous leaders, starting with former President Jiang Zemin and continued by Hu Jintao in 2002, consistently followed Deng Xiaoping's national development strategy, and were subsequently incorporated into China's Eleventh Five-year Plan. At a forum organized by the UN Economic and Social Commission for Asia and the Pacific in 2009, President Hu emphasized the importance of encouraging

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'inclusive growth' in order to address the country's challenges as it attempts to ensure social equality and the development of a harmonious society while maintaining a high rate of economic growth. Further, in 2012, China launched a new National Rural Poverty Reduction Strategy that emphasizes the crucial role of social protection and gradual evolution of a social security network as the basis for ensuring subsistence for the masses while adhering to a 'developmental approach' to poverty reduction. Although China has recently witnessed a political transition under the new leadership of President Xi Jinping, the idea of a harmonious society continues to hold strong. There is now the added emphasis on realising a 'Chinese dream', which is widely considered to mean a rejuvenation of the Chinese nation and spirit that would enable the country "to achieve national prosperity, revitalization of the nation and its people's happiness".¹

The aim of promoting a harmonious, revitalized and happy society in China is, however, being challenged by increasing inequality, on the one hand, and poverty that is *produced* as a by-product of the economic and social transformations (or *transitional poverty*) taking place, on the other. China's poverty reduction strategy is particularly complicated in view of the on-going global economic crisis, and the changing demographic dynamics (including ageing, relative labour shortage and feminisation) and new patterns of labour migration within the country. Despite achieving impressive reduction of poverty and a marked improvement on most indicators of human development, substantial numbers of people continue to live in poverty (more than 125 million as per China's own poverty line, which is close to \$1.7 per day). Moreover, environmental concerns and increasing levels of inequality within China (including rising urban-rural disparities) remain a cause for major concern (UNDP, 2009; World Bank, 2012a).

This article provides an overview of human development and social protection in rural China and examines the impacts of newer forms of (transitional) poverty formed and reinforced by political, socio-economic, geographic and cultural structures. How will the dual existence of extreme poverty in rural areas and transitional poverty in an urban-rural interface shape China's welfare strategy in the near future, as the country pursues a strategy of inclusive development? The article begins with a brief examination of China's achievements and challenges in relation to poverty and inequality reduction. Thereafter, the impacts of some of the most important social protection programmes currently being implemented in the rural areas of the country are discussed. The third section of the article specifically focuses on the rise of transitional poverty, highlighting the problems faced by migrant workers, the so-called 'left-behind' population and landless farmers. The article concludes with some observations related to the future of the inclusive development agenda in China.

POVERTY REDUCTION: ACHIEVEMENTS AND CHALLENGES

Impressive poverty reduction has taken place within China. Based on the \$1 a day at the 2005 PPP definition of extreme poverty, poverty in China declined from 730 million in 1981 to 106 million in 2005 and a total of 624-627 million people have been moved out of extreme poverty in less than 30 years. Based on the \$1.25 per day measure, poverty has declined from 835 to 208 million during the same period. Also, if one were to apply a poverty

line of \$2 per day, poverty in China can be seen to have declined from 972 million to 474 million during the period 1981-2005 (Chen and Ravallion, 2008). In broad terms, most experts agree that within a period of 25 years, China has lifted at least 500 million people out of poverty. Moreover, the rate of poverty incidence has been reduced even more dramatically. For example, based on a \$1 a day poverty line, poverty incidence declined from 73.26 per cent in 1981 to 7.95 per cent in 2005, signifying a reduction of 65.31 per cent. The corresponding figures using the \$1.25 and \$2 poverty lines show a reduction of 68.2 per cent and 62.1 per cent, respectively (UNDP/IPRCC, 2011).

In addition to the dramatic declines in income poverty, China has also achieved remarkable progress in relation to social and human development. For example, China's score in the UNDP's Human Development Index (HDI) has improved from 0.407 in 1980 to 0.699 in 2012.² Primary and secondary school enrolment rates, together with the national coverage of nine-year compulsory education, have witnessed impressive improvements, and similar improvements have taken place in relation to infant mortality and maternal mortality rates (MFA/UN China Agencies, 2010). Moreover, the country has already achieved four specific Millennium Development Goal (MDG) targets: it has halved the population below the poverty line of \$1 per day, halved the number of people living in conditions of food scarcity, ensured that all children can complete secondary education, and reduced by two-thirds the mortality rate for children below five years of age. The Government also envisages that the remaining MDGs are likely to be achieved before 2015 (*ibid.*). China's achievements in the area of poverty reduction and its overall development are thus making a substantial contribution to the success of the United Nations in achieving the MDGs. Based partly on this success, China is interacting in numerous ways with poorer countries, including so-called 'South-South' cooperation. In addition, China's experience in dealing with poverty—both its extreme and relative forms—is already having a global impact (for example, in sub-Saharan Africa), which may only increase in the near future (Banik, 2013).

Despite the successes described above, and its current middle-income country status, however, poverty within China continues to be a major challenge (Taylor and Li, 2012). Consider the following: A majority of the middle-income countries adopt a poverty line above \$2 per day. Applying this to China means that almost one-third of the population (474 million) can be classified as poor. Moreover, while the rate of poverty incidence in China is closer to that of Honduras, Nicaragua and Kenya, the country fares relatively lower than these countries in terms of social and human development indicators such as health and literacy. And while headcount poverty has declined during the past couple of decades, inequality is on the rise—China is becoming a more unequal society, with inequality increasing within rural and urban areas (Ravallion and Chen, 2004). For example, China's Gini coefficient increased from 0.29 in 1981 to 0.47 in 2007, indicating that inequality in per capita income in China is rising rapidly (Taylor and Li, 2012). Of particular concern is the growth of *transitional poverty*, which refers to multi-dimensional poverty produced during the rapid social and economic transformation process, which has widened the urban-rural gap. It is in this context that it is particularly interesting to examine concrete attempts undertaken by the Chinese Government to improve human development and reduce poverty through selected social protection programmes.

THE CHINESE SOCIAL PROTECTION SYSTEM

It is now commonly accepted that the term 'social protection' refers to the entire range of protective transfers, services and institutional safeguards intended to protect the population at risk of being in need. Social protection thus constitutes "public actions taken in response to levels of vulnerability, risk and deprivation which are deemed socially unacceptable within a given polity or society" (Norton, *et al.*, 2001, p. 1). Development strategies that prioritize social protection aim to reduce absolute poverty currently faced by the poorest sections of the population while addressing the vulnerability of the currently non-poor in relation to future shocks. Most developed nations, in particular the Nordic countries, have a long history of social protection with a range of institutional arrangements that protect citizens against risk and uncertainty. Indeed, numerous government programmes all over the world provide assistance to those currently understood to be suffering from some form of deprivation. Many emerging nations in Asia (for example, India), sub-Saharan Africa (for example, South Africa and Tanzania) and Latin America (for example, Brazil and Mexico) have shown a growing interest to supplement economic growth strategies with social protection schemes. Not only have UN agencies, the World Bank and national governments in developing countries shown an interest in expanding social protection programmes, but there has also been a greater resolve to address the problems of targeting, coverage and misuse in existing initiatives (Barrientos, 2011).

Broad-based social protection in China was given attention from the late 1990s onwards, as the impact of the trickle-down effects of growth began to decrease while large groups in the country continued to live in poverty. Aware of the growing limits of its preferred 'developmental approach' to reducing rural poverty, China's Central Government began to publicly advocate in early 2000 the promotion of a more inclusive form of development, including a radical strengthening of the social protection system (Taylor and Li, 2012). The current institutional framework for broad-based social protection in China consists of a social insurance component, a social assistance component and a social welfare component. The social insurance system under the Ministry of Human Resources and Social Security (MoHRSS) consists of the several major insurance schemes in rural and urban areas related to pensions, unemployment, medical assistance and maternity benefits. The Ministry of Civil Affairs (MCA) is the main organ responsible for the social assistance system, which consists of livelihood support programmes and support for education, health, housing, emergency relief and legal assistance. The social welfare programmes, consisting of housing for the destitute, community service facilities, and access to community centres providing a range of facilities, is also the responsibility of the MCA (Juwei, 2010; Li, *et al.*, 2012). While some social protection programmes are universal in character, others are targeted at specific urban and rural groups.

Rural Social Protection Programmes³

With rising rural–urban disparities in the 1980s and 1990s, it became increasingly difficult for China to achieve rapid reduction of rural poverty. Although many social protection programmes in the country had their origins long before the start of the twenty-first

century, a series of systematic social protection strategies were introduced (starting in 2000) that directly targeted the poor and introduced the idea of inclusive growth and development. Among the first strategies to be introduced was an increase in fiscal transfers to the agricultural sector, with priority accorded to seeds, crop planting, livestock, machinery, fertilizers and pesticides. This has made a significant contribution to increasing the income of poor households. For example, while expenditure in the agricultural sector was 1.671 trillion Chinese Renminbi (RMB) in 2004, it jumped to 7.161 trillion RMB in 2009. Moreover, agricultural tax was abolished in 2006, and government subsidies increased from 14.4 billion RMB in 2004 to 94.9 billion RMB in 2008. Because of these initiatives, the World Bank (2008) observes that agriculture in China has now been transformed from a net-taxed to a net-subsidized activity. As Table 1 shows, the percentage of transfers and their impact on the total income of absolute poor and relative poor categories increased drastically from 2005 to 2007. Moreover, according to the National Statistics Bureau (2008), the fiscal transfer to agriculture in 2008 alone resulted in a decline in the national poverty incidence by 2 per cent.

Despite the impressive contribution of the above transfers to poverty reduction, there is ample evidence to suggest that existing agricultural transfers generally benefit bigger and richer farmers more than poor farmers. Another major trend in recent years has been the increasing rate of landlessness and some have estimated that 40-50 million farmers in China are entirely or partially landless (Han, 2005; 2010). Rapid economic development, combined with high population density, has created a very high demand for rural land to be used for urban expansion and infrastructure projects. This has resulted in the widespread use of compulsory land acquisition by the state, often with insufficient compensation. Indeed, it is now well acknowledged that “the biggest threats to farmers’ land rights come from the government in the form of land takings and land readjustments” (Keliang and Prosterman, 2007, p. 5). Further, a recent survey claims that local governments, on an average, expropriate land from approximately four million rural inhabitants every year (Landesa, 2011).

Social protection programmes in areas such as healthcare, education and old age pensions are being implemented in China for several decades and have functioned as an important safety net for the poor. Although China’s economic reforms have stimulated eco-

Table 1
Contribution of Fiscal Transfers to Farmers’ Income

| Year | Transferred Income (RMB) | | | % of Fiscal Transfer to Total Income | | |
|------|--------------------------|---------------|---------------|--------------------------------------|---------------|---------------|
| | National Average | Absolute Poor | Relative Poor | National Average | Absolute Poor | Relative Poor |
| 2005 | 147.4 | 33.1 | 42.1 | 4.5 | 6.0 | 4.9 |
| 2006 | 180.8 | 57.6 | 52.6 | 5.0 | 9.4 | 6.1 |
| 2007 | 222.3 | 62.8 | 72.5 | 5.4 | 9.4 | 7.4 |
| 2008 | 323.2 | 100.4 | | 6.8 | 10.1 | |

Source: NSB (2010).

conomic growth, they have also dismantled rural health and education systems that typically provided relatively inexpensive services to the poor. In the 1990s, however, the rising costs of healthcare and education became a burden for a large proportion of the country's rural population. For example, while the average income and consumption of a farmer during the period 1980-2003 increased 12.7 times and 10.9 times, respectively, health expenditures increased 32.9 times. Further, according to the National Statistics Bureau's (NSB's) 2004 poverty monitoring survey, health expenses represented 45 per cent of the total annual family expenditure for poor households living in conditions of extreme (or absolute) poverty.

Because of the above developments, China initiated the *New Rural Cooperative Health Programme* in 2002, with the aim of covering 80 per cent of farming households by 2010, and by 2009, around 833 million rural residents, or over 94 per cent of farmers nationwide, were covered by the programme. As a result of this health initiative, the percentage of rural residents without access to healthcare in the poor counties of the country declined from 16.2 to 11.4 per cent during the period 2002-2009, and the percentage of households without access to healthcare due to economic reasons also declined from 65.8 to 58.5 per cent during the same period (see Table 2). In order to cope with the high costs associated with serious health problems that cannot be compensated through the cooperative health system, the government launched a complementary health programme in 2004. In 2009, the total annual expenditure on this complementary programme reached 4.94 billion RMB and 7.3 million rural people were covered as programme beneficiaries (NSB, 2010).

Another relatively recent initiative that is universal in character is the *New Rural Cooperative Health Insurance* (NRCHI) scheme. It was introduced in 2003 and currently covers 82 per cent of the rural population. The scheme is being financed by contributions from the central and local government as well by farmers themselves. Despite its short existence, the NRCHI has become one of the most important social protection programmes in rural China.

Although the above two programmes have drastically improved access to health facilities for the poor, healthcare in general remains an area that creates new groups of poor households while deepening the existing forms of poverty (Taylor and Li, 2012; Li, *et al.*, 2012). As shown in Table 2, 56.3 per cent and 57.9 per cent of the poor at the county and village levels, respectively, did not enjoy access to healthcare in 2008, and health-related

Table 2
Changes in Access to Healthcare in Chinese Counties and Villages (Percentage)

| <i>Access to Healthcare (%)</i> | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|------|------|------|------|------|------|------|
| Without access in poor counties | 16.2 | 14.7 | 14.8 | 13.9 | 13.5 | 11.4 | 10.7 |
| Without access due to economic reasons in poor counties | 65.8 | 65.2 | 64.7 | 61.9 | 62.7 | 58.5 | 56.3 |
| Without access in poor villages | 20.2 | 18.7 | 19.5 | 17.4 | 16.6 | 13.8 | 11.9 |
| Without access due to economic reasons in poor villages | 64.2 | 65.7 | 64.9 | 63.9 | 61.5 | 59.0 | 57.9 |

Source: NSB (2010).

expenses as part of total expenditure for poor families in counties and villages increased between 2000 and 2008. Moreover, due to inadequate information and the rising disparity between rural and urban incomes, large groups of the rural poor are exposed to low-quality food and medicines, thus making them more vulnerable to various types of illnesses (UNDP/IPRCC, 2011). Under-nutrition among children, in particular, is a major problem affecting poor rural households, and stunting affects around 20 per cent of children in the 1-2 year category in poor areas in comparison to a national average of approximately 10 per cent (World Bank, 2012, cited in Taylor and Li, 2012).

Towards the latter half of the 1990s, many rural households were struggling to cover the rising costs of education, which continue to remain high (see Table 3). The direct costs of education in 2000, for example, constituted approximately 15 to 30 per cent of an average farmer's income (Taylor and Li, 2012). In response to this, the Chinese Government decided in 2004 to implement a policy of 'two exemptions and one subsidy'— an initiative that provides poor households with exemptions from tuition and study material fees as well as with subsidies for school boarding fees. This programme was subsequently expanded into a *Compulsory Education Programme* in 2006, which abolished all school fees, thus substantially reducing rural household expenditures on education. From 2006 to 2010, the total investment in this programme reached 2.652 trillion RMB and during the period 2002-2008, the enrolment rate for 7-12 year-olds and 13-15 year-olds in poor counties increased from 94.9 to 97.7 per cent and 83.3 to 94.0 per cent, respectively (World Bank, 2009).

Despite such impressive achievements, there are more than 5 million children of school age who cannot complete their compulsory (primary and middle school) education, and most of these live in poor areas in the western parts of the country. In the case of non-compulsory education (high school and University level), the high cost of tuition has restricted the access for many children from poor households; children from low-income and poor households drop out of school and lose out on educational opportunities, and though there has been a decline in education-related expenses as part of the total family expenditure among poor counties and villages (as borne out in Table 3), educational costs are nonetheless substantial for poor rural households.

One of the most enduring social protection programmes in the country is the *Five-Guarantee Scheme* (5G), which was first introduced in the 1950s (converted into a national fiscal transfer system in 2002) and targets the 'three no' population: no ability to work, no savings or other income sources, and no relatives to depend on. The programme is administered through county level civil affairs bureaus and village councils, and a large number of beneficiaries include widows, the disabled and orphans in rural areas. Although the

Table 3
Share of Education Costs in Total Family Expenditure (Percentage)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------|-------|-------|-------|-------|-------|------|------|
| Poor villages | 10.23 | 10.82 | 12.05 | 11.38 | 9.58 | 5.95 | 6.80 |
| Poor counties | 10.61 | 11.26 | 12.74 | 11.92 | 10.03 | 5.92 | 7.20 |
| Rural average | 11.46 | 12.13 | 11.33 | 11.56 | 6.77 | 9.48 | 8.60 |

Source: NSB (2010).

Government revamped the programme in 1994, and stipulated benefits such as subsistence living expenses (provided in kind or in cash), healthcare and funeral expenses, the actual level of benefits vary largely across regions.

Complementing the 5G programme is the *Minimum Living Standards Scheme (MLSS or dibao)*, introduced in the early 1990s in recognition of extreme rural poverty. It provides in-kind and cash transfers to households with living standards below the regional poverty line (with the national poverty line of 2300 RMB in 2011 set as the lower bound poverty line). A three-tiered funding mechanism requires counties to provide a large share with towns and villages sharing the remainder. In 2004, China began experimenting with the *Rural Minimum Living Standard Programme*, which was scaled up to the national level in 2007. The programme aims to cover those individuals and households that do not take part in economic activities for various reasons. Since 2004, the Government's investment in this programme has increased significantly, from 1.74 billion RMB in 2004 to 22.23 billion RMB in 2008, and 42.843 million rural poor are covered (with each receiving 82 RMB per month).

Similarly, the *New Rural Old Pension Programme*, though initiated as recently as 2009, is now growing in importance and presently covers 45 million elderly rural residents all over the country. Any elderly person who is not covered by the urban pension system and is above 60 years of age is entitled to at least 55 RMB per month as a cash transfer from the Government. Further, all rural residents over 60 years of age and whose households only have one child or two daughters are theoretically entitled to an annual pension of 720 RMB. Another important initiative is the Poverty Reduction Subsidy programme that is particularly targeted at poor farmers and provides special loans and subsidies for daily living and housing expenses in addition to support for biogas construction subsidy and special relief. This programme has been growing steadily: While the per capita transferring cash income in 2000 was around 70 RMB per month, it had increased to 453 RMB per month in 2010. China has also launched a series of programmes to promote *environmental and ecological protection*, including *Land Conversion to Forestry*, *Subsidy for Grazing Prohibition* and *Compensation for Ecological Forest*.⁴

Despite the recent push for expansion, China's rural social protection system faces numerous challenges. The programmes are often managed by a large number of institutions, which in turn, results in high transaction costs and inaccurate targeting. With distinct and embedded urban and rural categories, in that bureau and departments at various levels are involved. And since most programmes have been developed at different times and under different socio-economic and political contexts, there are serious problems of overlap. Moreover, the level of financial contribution by provincial and local governments varies enormously between, and within, regions. Another common problem is that many private companies tend to evade contributing to social insurance schemes, and in 2008 alone, the evasion rate was 27 per cent of the total payroll (Juwei, 2010, p. 390). Further, most social protection initiatives are characterized by discrimination in the selection process, preferential treatment for some provinces over others in resource allocations, and a general low level of participation of citizens in the formulation of programme objectives and goals, which in turn negatively affects village governance and programme performance (Chen and Barrientos, 2006; Li, *et al.*, 2012). Having achieved considerable success in

reducing absolute poverty, the next challenge for China is to critically address the 'social disconnect around rapid growth' (World Bank, 2011) and make the transition from a developmental to a rights-based and more inclusive approach. This entails forcefully addressing growing inequalities within, and between, various provinces and extending coverage to specific groups that are particularly vulnerable to transitional poverty—migrants, the 'left-behind' populations, and landless farmers.

THE CHALLENGE POSED BY TRANSITIONAL POVERTY

In spite of China's sustained economic growth and impressive poverty reduction over the past few decades, the country faces newer problems and challenges. Indeed, there are good reasons to argue that attempts to promote human development will be constrained by increasing income inequality, a low and complex poverty line regime that continues to omit a substantial number of the poor, and an increase in transitional poverty resulting from the process of urban–rural integration. We also posit that economic transformation and urbanization leading to large-scale migration will pose challenges for the participation of the rural poor in daily issues of village governance, which in turn, will affect the implementation of rural development and poverty reduction programmes.

The future success of China's social protection programmes aimed at poverty reduction is intrinsically linked to macroeconomic and social conditions. Despite the negative impacts of the recent financial crises on Chinese economic growth and the lower demand for its products in Europe and North America, the economy has showed signs of bouncing back and being on track of becoming the largest economy in the world by 2016 (OECD, 2013). However, recent data released by China's National Bureau of Statistics shows that the annual growth of the Chinese economy during the first quarter of 2013 has been slower than earlier anticipated (7.7 per cent, down from 7.9 per cent from the fourth quarter of 2012) as a result of falling factory output and investments.⁵ There are also fears that rising labour costs are reducing the global competitiveness of the country's industrial products. If this trend continues, then labour-intensive sectors (which employ a great number of the population living in poverty), will be affected and unemployment may rise. Moreover, government expenditure on social protection programmes will increase with rising unemployment and a rapidly ageing population.

A major reason for China's impressive achievements in poverty reduction in the 1980s and 1990s was the relatively low level of income inequality during this period. For example, the Gini coefficient in the late 1970s for urban and rural areas was 0.16 and 0.21, respectively. In 2010, inequality had increased dramatically, with a national Gini coefficient of 0.481 (NSB, 2013). This growing inequality, in turn, poses serious challenges for the inclusive development agenda. The problem is particularly acute in rural China where during the period 2000–2007, the average income of a farmer increased by 83.74 per cent while the corresponding increase for those classified as absolute and relatively poor increased by only 26.6 per cent and 21.09 per cent, respectively (NSB, 2010). While the authorities, in recent years, have radically increased social protection spending (3.26 trillion RMB in 2000–2010), it appears that the country's previous success with inclusive growth for pov-

erty reduction would be difficult to sustain in view of growing social and income inequalities.

A persistent obstacle for further improvements in human development through social protection is the continued use of an inadequate poverty line. This results in the omission of many poor households in both urban and rural settings. Despite an increase in rural per capita income, the rural poverty line (adopted first in 1985) has been kept consistently low on purpose in order to suppress the magnitude of rural poverty in the country and to limit the Government's burden of initiating new and costly measures to combat rural poverty. The inadequacy of the rural poverty line results in an under-estimation of the actual number of rural inhabitants who require benefits from social protection programmes. The under-estimation of the number of households requiring social assistance also creates difficulties for justifying an increase in resources for social protection both politically and vis-à-vis the general public. Moreover, the annual urban minimum living standard per capita (RMB 2733 in 2009) is almost three times that of the rural poverty line (RMB 1196). This dualism means that rural inhabitants (with incomes over the rural poverty) who migrate to urban areas, and have not received their official living permits (urban *hukou*), are excluded from social protection in their new areas of residence.

Social Transformation and Transitional Poverty

China is witnessing a major social transformation, with one of the largest migrations of a country's population within its own territory. More than 150 million people have moved from rural to urban areas in the recent past, and their numbers are growing, and projected to further increase in the next couple of decades (World Bank, 2009). Rural citizens who migrate to urban centres in search of work face numerous challenges in terms of accessing social protection programmes.

The foundations of the basic social and economic order in China that are based on two arrangements—the household register system (*hukou*) and land systems—have created a 'dual segmentation' in that virtually all social policies and programmes are attached to these systems (Zhu, *et al.*, 2009; Juwei, 2010). Before the onset of market-oriented reforms in the 1990s, China had established a social security programme for residents with urban *hukou*, while the main social policy for rural residents was land-based livelihoods provided through a system of collective land ownership with individual peasants enjoying user rights. With the introduction of market-oriented reforms, restrictions on rural to urban migrations were eased, and the subsequent large flow of migrants to urban areas has created a class of people highly vulnerable to poverty as they lack urban *hukou*. Moreover, these migrants are often engaged in '3-D' (dangerous, dirty and demanding) jobs that local residents avoid (Cook, 2008).

It is now widely recognized that most migrant workers face social exclusion of various types. For example, children of rural migrant workers do not enjoy educational rights equal to those of urban children. Indeed, studies show that more than half of the migrant population does not possess formalized employment contracts and most have very long working hours (particularly those in the hotel and catering industry, who work more than 60 hours a week) (UNDP/IPRCC, 2011). The available data from 2009 also demonstrate

very clearly that very few employers contribute to insurance schemes related to pensions, accidents, medical costs, unemployment and maternity leave.⁶ Hence this 'floating rural population' of migrant workers (some estimates put this at over 150 million) cannot access basic social services, leaving them vulnerable to unstable employment and heavy workloads, inadequate guarantees of medical care and personal safety. Even for urban residents, new challenges have surfaced, including greater reliance on the informal sector for employment, which in turn, results in large groups of urban residents without access to basic social protection (Juwei, 2010; UNDP/IPRCC, 2011).

In addition to the rapidly growing floating migrant population, others that experience transitional poverty include the so-called 'left-behind households' (*liushoujiating*) in many parts of rural China. Migrants often have no choice but to leave some of their family members in the village, including women (*liushoufunv*), children (*liushouertong*), and the elderly (*liushoulaoren*), many of whom face greater health risks due to heavy workloads and insufficient care, inadequate old-age insurance and psychological problems (Ye, 2011). Around 58 million children, 20 million elderly above the age of 65 years, and 47 million women currently constitute the 'left-behind' population in rural China (UNDP/IPRCC, 2011). Many children in such households have much closer contact with their peers than with their parents and are consequently more inclined to experience psychological problems and depression than other children who live with their parents. Some 'left-behind' women report experiencing considerable loneliness, and there is evidence of an increase in divorce rates in the 'left-behind' households, which has led to the creation of social tensions at the local level. With an increasing trend of the feminization of agricultural work, the intensity of work undertaken by 'left-behind' women has increased manifold. This often has serious repercussions on issues of health, as many are unable to afford medical expenses (Ye and He, 2008). Similarly, many of the elderly, separated from their children and grandchildren, as they are, experience frequent bouts of depression and anxiety, and generally feel excluded from social life with their children being far away. Moreover, the 'left behind' elderly suffer from heavy workloads, insufficient care and ill health. Studies in rural China indicate that almost 81 per cent of these groups of the elderly remain engaged in agricultural production and only 8 per cent of them receive some form of government support (*ibid.*).

Another large group of people facing transitional poverty are landless farmers living on the outskirts of large and middle-sized cities and in relatively economically well-developed areas. Because of the rapid urbanization and an increase in the production of non-agricultural products in rural China, there has been a tremendous demand to convert agricultural land for other purposes, including the construction of residential buildings, factories and warehouses, and roads. For example, the provinces of Zhejiang, Jiangsu, Fujian, Guangdong and Shandong contain 41 per cent of all landless farmers in the country (UNDP/IPRCC, 2011). Many farmers lose their lands when the latter are requisitioned by the State for various development-related purposes; and the decline in agricultural employment has rendered the ability of these groups to find alternative employment as minimal. Landless farmers are classified neither as farmers nor as urban residents, and enjoy limited access to social security; their numbers are expected to swell to over 100 million by 2020 (*ibid.*). In addition to the inadequate compensation they receive for the loss of

their agricultural lands, most landless farmers face great difficulties in acquiring non-agricultural skills in order to compete in the job market. Acquiring such skills is particularly difficult for older farmers.

THE FUTURE OF THE INCLUSIVE DEVELOPMENT AGENDA

We have thus far highlighted the impressive achievements of China in reducing poverty within its borders as well as the growing challenge of sustaining rapid and high levels of economic growth that it has faced. It may be argued that the future success of the Government's inclusive development agenda is dependent on the mechanisms by which State-led development institutions and politics in China promote economic growth while at the same time producing new types of poverty and inequality that constrain the State's overall ability to further human development. Hence, it is important to examine the extent to which a strong State-led development regime in China can adopt a more inclusive approach of development in order to cope with the challenges of increasing poverty and inequality.

It is no surprise that there is a general lack of consensus on a common definition of inclusive development. Nonetheless, some common strands of thought in the literature can be identified. For example, 'inclusive growth' is understood as growth that entails participation and contribution by all members of society, irrespective of their individual circumstances, in creating opportunities that are accessible by all (Rauniyar and Kanbur, 2009). While the growth process, in general, creates opportunities, these are often uneven, and therefore, the potential for poverty reduction is dependent not only on the rate of economic growth but also on how the resulting benefits are shared (Ali, 2007; Ali and Son, 2007). Developmental states in East Asia have historically been successful in addressing investment and industrialisation challenges, but this does not necessarily guarantee an inclusive path of development (UNCTAD, 2011, p. 63). On the other hand, there is now a well-established body of research, which argues that "equality is compatible with strong economic performance" (ibid.) and the Scandinavian countries, in particular, are good examples of the equal distribution of income and wealth in their welfare state model (Moene and Wallerstein, 2006).

Indeed, it is now widely accepted that the Nordic countries have done exceptionally well in "achieving social goals of equality and worker security, without obvious macroeconomic costs in terms of inefficiency and stagnation" (Moene, 2010, p. 2). This performance appears to challenge those who claim that there is an inevitable trade-off between equality and efficiency in the process of economic development. Indeed, the Scandinavian or Nordic recipe for inclusive development, which includes small wage differentials, high and progressive taxation, very large public sectors, powerful trade unions and generous welfare states, typically violates what many economists consider to be necessary conditions for strong economic performance and prosperity. There is considerable evidence to conclude that the Nordic model's success should be viewed as a 'cumulative evolutionary process' facilitated by political and economic systems that tend to benefit both workers and employers. Most importantly, the special brand of equality in the Nordic model appears to "stimulate rather than hamper innovation and structural change" (Moene, 2010).

The lessons from the Nordic model suggest that it is possible to build a resilient social contract through a process of inclusive development (UNDESA, 2008; UNRISD, 2010). And the Chinese Government has repeatedly signalled in the recent past that it is keen on applying some of these features within its own territory. The main constraint withholding the further expansion of social protection programmes is the fiscal burden of covering a large population, and the Chinese government continues to prioritize economic growth aimed at maintaining a high level of employment.

Social inequality generally increases when large groups of people are excluded from the benefits of development because of gender, ethnicity, age, religion, disability or poverty. In order to combat this growing inequality, there is now general acceptance of the importance of participation of all groups in decision-making, non-discrimination in policies targeting the poor, and accountability of power holders (UNDP/IPRCC, 2011). An inclusive development policy approach, therefore, includes enhanced public investments and a strong role of the State in relation to economic governance and fiscal policies aimed at more efficient collection and spending of public resources and improving access to public services (Banik 2010). The Chinese State must, therefore, play an even more proactive role in the creation of productive and gainful employment, and in the design and implementation of an efficient system of social protection, wherein the poor and vulnerable groups are prioritized. How the new regime under President Xi Jinping addresses the dual existence of extreme poverty in rural areas and transitional poverty in an urban–rural interface will be instructive in shaping China’s welfare strategy in the near future as the country targets inclusive development.

As discussed earlier, China has made creditable attempts towards implementing various public policy initiatives aimed at poverty reduction at the village, provincial and national levels. Some of these initiatives have also included a specific focus on improving targeting and participation by the poor in designing the content of poverty reduction activities. For example, the development-oriented rural poverty reduction programme, implemented from 2000 to 2010, was designed to apply a participatory approach. Accordingly, an estimated 1,48,742 poor villages all over the country were identified for poverty reduction. Despite this explicit focus, the results of the participatory village development programmes have been uneven. For example, the results from a national poverty monitoring survey clearly demonstrate that the percentage of villagers playing a role in the determination of project content decreased from 54.6 per cent in 2002 to 45.9 per cent in 2009 (NSB, 2010). Nonetheless, this new focus on targeting anti-poverty policy has significantly enhanced the amount of funds available to poor villages and households. However, the degree to which the project meets the needs of the poor, and the degree to which the poor define the project content, continues to be major challenges for policy formulation and implementation (*ibid.*). These preliminary results suggest that while a participatory method could generate a significant improvement in development interventions (for example, in terms of resource allocation and identification of needy individuals and households), genuine participation, wherein the beneficiaries decide the nature, content and type of intervention, continues to be an elusive goal for many in rural China. Related to this is the rise of the ‘elite capture’, which is highly correlated with unequal access to economic resources, knowledge and manipulation of political processes, higher levels of educational

attainment and privileged networking. A small group of village elites often control policy-making processes and the poor are largely excluded from matters of village governance.

An important conceptual approach in this context, and one that has gained popularity in recent years, relates to 'social inclusion', which can be defined as "a process which ensures that those at risk of being left out gain opportunities and resources to participate fully ... in the society they live in" (World Bank, 2012b, p. 7). The physical and emotional conditions and needs of individuals and groups which are to be socially included are, however, heterogeneous and vary immensely depending on whether they risk future exclusion or whether they have already been excluded for a certain amount of time. This, in turn, may affect the capability and willingness of these individuals and groups to respond to concrete programmes that target them (Sen, 1988; 2000).

It is our view that any attempt to promote social inclusion in China ought to include the broader concept of vulnerability. For this to effectively take place, political and administrative actors must develop a nuanced understanding of the 'identity of individuals and groups that are the targets of social inclusion and welfare policies. Thus, one must understand what counts as exclusion, and for whom. Relatedly, one must consider the question: Who is pushing for (or resisting) inclusion, and why? Some minority groups may prefer not to aggressively claim discrimination by the state or be unwilling to criticise the lack (or failure) of social protection policies in the hope that they would be socially included in the future. Such tactics may be adopted in order not to displease majority groups or bring unwanted attention on the plight of the minority group concerned. Thus, there is a danger that a low profile strategy may be mistakenly understood as an indicator of successful social inclusion. Therefore, it is important to identify and examine the sets of actions adopted by powerful actors in local society to *produce* exclusion (e.g. through discriminative practices and promotion of social stigma) and their *active or passive* efforts in preventing or stifling the success of social inclusion measures (for example, making unrealistic demands of social acceptance bordering on the notion of 'assimilation').

In the academic literature, 'assimilation' is mainly perceived to be one-sided while 'integration' involves a larger element of compromise from opposing parties. Attempts to promote social inclusion must, therefore, take into account the fact that many individuals face greater barriers to integration than simply being a part of a defined minority group. Thus, a combination of axes of exclusion can reinforce each other (for example, gender, ethnicity, age, religion). Accordingly, measures to promote inclusion may prove counter-productive if they do not take into account the heterogeneity of needs and social standing within a particular group (World Bank, 2012b). The above discussion is particularly relevant for China since the attempt to promote social welfare in the country cannot simply be equated with social inclusion. A welfare state may provide tangible and material benefits to its population without successfully including marginalized groups in social and political decision-making.

The global stage currently appears to be dominated by various types of risks and uncertainties. There is growing concern that rising income inequalities, demographic changes in many parts of the world (as a result of population increases and migration to urban centres) and lack of adequate employment opportunities may further worsen the already substantial impacts of recent financial, economic and environmental crises. Related to this

is the fact that many governments all over the world are worried that political chaos within their territories may ensue if the above challenges are not satisfactorily tackled. Hence, there appears to be greater urgency by many developing country governments, including China, to ensure that vulnerable groups are effectively targeted by (and actively included in) social policy.

China provides useful lessons for countries that are fast approaching the middle-income category. A large number of developing countries, particularly in sub-Saharan Africa and East Asia, are attempting to copy China's experience in stimulating economic growth and reducing poverty. These countries are, however, not always aware of the negative impact that China's rapid development process has had on inequality. While the developmental approach pursued in the 1980s and 1990s has indeed boosted the rate of economic growth, growing inequality within Chinese society and the need to strengthen rights-based social protection has received comparatively little attention from the authorities. And this, we have argued, is a worrying trend, which left unaddressed, would have severe and negative consequences for human development in the world's most populous country.

NOTES

1. Ren Zhongping, "The Building of National Revival 'China Dream'", Editorial, *People's Daily*, 28 March 2013.
2. Available at: <http://hdrstats.undp.org/en/countries/profiles/CHN.html>, (Accessed: 19 April 2013).
3. This section builds on Li, *et al.* (2012).
4. The land conversion to forestry project, launched in 1999, included 28.38 million beneficiaries from farming households and the total subsidy amounted to 23.6 billion RMB in 2009. The subsidy for grazing prohibition is mainly implemented in northern China (for example, in Ningxia province), with each household getting 500 RMB per annum.
5. "China's Economic Growth Slows to 7.7%", *The Guardian*, 15 April 2013, Available at: <http://www.guardian.co.uk/business/2013/apr/15/china-economic-growth-gdp-slows-q1>. (Accessed: 16 April 2013).
6. In 2009, only 7.6 per cent of employers paid pension insurance for rural migrant workers; 21.8 per cent paid work-related accident insurance, 12.2 per cent paid medical insurance, 3.9 per cent paid unemployment insurance, and 2.3 per cent paid costs associated with maternity (UNDP/IPRCC 2011).

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