中國國際扶貧中心
IPRCC International Poverty Reduction Center in China

THE QUALITY OF GROWTH AND POVERTY REDUCTION IN CHINA

WANG Xiaolin WANG Limin WANG Yan

SOCIAL SCIENCES ACADEMIC PRESS (CHINA)

图书在版编目（CIP）数据

中国经济增长质量与减贫 = The Quality of Growth and Poverty Reduction in China：英文/王小林，王立敏，王燕著. —北京：社会科学文献出版社，2012. 4
ISBN 978 -7 -5097 -3100 -0

Ⅰ. ①中… Ⅱ. ①王… ②王… ③王… Ⅲ. ①扶贫 - 案例 - 中国 - 英文 Ⅳ. ①F124. 7

中国版本图书馆 CIP 数据核字（2011）第 282743 号

Cataloguing in Publication Data

Title: The Quality of Growth and Poverty Reduction in China

Author: WANG Xiaolin, WANG Limin, WANG Yan

Date: April 2012

ISBN: 978 -7 -5097 -3100 -0

Published by Social Sciences Academic Press (China)

Bldg 3, Jia No. 29, Beisanhuan Zhonglu, Xicheng District

Beijing, China

Postcode: 100029

Editor: ZHU Debin YAO Ying

Proofreader: ZHAO Huaiying

Printed in Beijing, China

Acknowledgements

This policy report draws on the academic background paper prepared by WANG Xiaolin and his team (Research Division, IPRCC) for the 5th China-ASEAN Forum on Poverty Reduction and Social Development. The team includes Dr ZHANG Deliang, XU Liping, and YU Min.

During the preparation of the research topic, valuable comments were provided by Dr HUANG Chengwei (Deputy Director General, IPRCC), HE Xiaojun (Deputy Director General, IPRCC), Dr CHENG Enjiang, Dr LI Linyi, Ms ZHANG Xiaoying, and Dr ZHANG Jianlun.

We are grateful to XU Liping for excellent research assistance, Sabrina Snell for editing, and Dr Salehuddin Ahmed, Dr LIU Qianqian, ZHU Jiming, and QIU Liyu for polishing and proofreading.

Finally, the team gratefully acknowledges support from Dr Vinod Thomas, Director General of Evaluation, Asian Development Bank.

Main Messages

The quality of growth matters for development and sustainability. The global growth experience, in particular the last three decades of growth in China, reaffirms that it is the quality of growth, with its emphasis on growth rate, poverty reduction, equity and environment and resource sustainability, that can advance development and improve well-being. The global experience shows that a narrow focus on the pace of economic growth can hinder economic development and even reverse social progress. More alarmingly, the blind pursuit of rapid growth can eventually bring a country to the brink of environmental challenge, limiting any prospect of future growth and harming the welfare of its population.

Economic growth in itself is not sufficient to achieve social progress and the role of government is critical. The rapid growth of the past three decades was instrumental in lifting over 500 million people out of poverty in China. But growth in itself does not guarantee the achievement of desirable development outcomes. The goal of development lies in capacity building through improvement in health and education, and promoting equity and equality of opportunities — ultimately providing freedoms and rights to people to participate in economic and social life. The progressive social policies and government-led investment in social services and rural development before the 1980s underpinned China's success in achieving impressive human development outcomes in health, education and gender equality with a very low level of per capita income. As China experienced unprecedented growth, with per capita income rising by over 16 times, the role of government in social services provision diminished and improvement in health outcomes stalled. Consequently, social disparities in health and education began to widen while gender equality likewise deteriorated. Despite the intimate connection between income disparities and growth during a country's transformation into an industrialized economy, inequality in China has risen to an alarming level, posing a serious threat to social and political stability.

As a result of its economic reforms, open-door policies and integration into the global economy, China has seen growth unmatched by any other country in history. In the first two decades of China's reforms, economic growth was largely driven by productivity growth, resulting from more efficient resource allocation as the centrally-planned system was replaced by a more market-oriented economy. The productivity growth also came from production and technology upgrading through the restructuring of SOEs and technology transfers brought about by FDI and industry policies such as those creating Special Economic Zones. The integration into the global economy through trade, FDI and exchange of people provided a catalyst to spur growth by allowing China to explore its comparative advantages in low-cost labor and economies of scale. Government-led development, both in hard infrastructure (such as roads, telecommunication networks and access electricity) and soft infrastructure (such as knowledge, information, management skills and the development of a set of legal and regulatory institutional frameworks) provided a business friendly climate that was crucial to sustaining growth.

To sustain growth and ensure the benefits of growth are shared more equally, China must advance its structural transformation. China's first two decades of growth are marked by the transformation from an agriculture-based economy to one dominated by industry and services sectors and a process of rapid urbanization. The majority of Chinese people benefited from this inclusive pattern of growth through expanded employment opportunities. However, the pattern of growth in the past decade has been accompanied by major structural imbalances, namely: excessive capital accumulation and weak domestic consumption, an over-dominating industrial sector and underdeveloped service sector, and a skewed national income distribution (with enterprises and the government taking a disproportionate share of national income while households' portion became progressively smaller). Despite being the second largest economy in the world, China lagged behind in knowledge-intensive and high-technology industries and services. In the 21st century, an educated labor force combined with advancement in science and technology and innovation, rather than just abundant energy and resources, underpins sustained growth and prosperity. China must advance its transformation to sustain growth and remain competitive — moving from low value-added and energy-intensive manufacturing to high value-added industries and services. This requires economic policies focusing on the promotion of science and technology and innovation and on the accumulation of human capital.

China plays a critical role in addressing the two greatest global problems of our time: poverty reduction and climate change. Despite China's success in achieving rapid growth and a massive reduction in extreme poverty, the country is still home to about a seventh of the world's poor. Scaling up targeted anti-poverty development programs and government social spending in improving health and education, together with promoting an inclusive pattern of growth by expanding employment opportunities, can further reduce poverty in China, and thus globally. In combating global warming, China plays a pivotal role, not only because it surpassed the US to become the world's largest emitter of greenhouse gas, but also because it has been the world-leading renewable energy producer and investor in renewable energy technologies. The development targets set in China's 12th Five-Year Plan emphasizing energy efficiency, renewable energy sources and environment protection, if achieved, can bring enormous economic and environmental benefits both to the Chinese population and to the rest of the world.

Environment and resource sustainability must be placed at the center of economic growth discourse and policymaking. International evidence made it clear that a global economy based on current patterns of consumption and production is simply not sustainable. Policymakers have been advised repeatedly that economic growth, poverty reduction, equity, and environment and resource sustainability must be integrated into national development strategies. In reality, however, as illustrated in China's three decades of growth experience, pursuing fast growth at great costs has always been the most important national policy that overrides other development objectives and social concerns, reflecting the intrinsically political nature of policymaking. The severe environmental and resource degradation resulting from the pursuit of fast growth at great costs will bring negative consequences to the Chinese population and its future generations. While some environmental and resource degradation might be reversible, the potentially enormous cost of cleaning up and depletion of natural resources, in particular water, will impede future growth. Future generations in China are likely to be deprived of the opportunities to live in a safe and clean environment and in an ecosystem with biodiversity.

Looking forward, this study provides us with cause for optimism about China's development over the coming decades. The Chinese government has set out three development goals in the 12th Five-Year Plan for 2011-2015, including rebalancing the economy, mitigating social inequality, protecting the environment and addressing climate change. Its commitment to achieving these goals is demonstrated through the implementation of a wide range of social policies and programs in both rural and urban areas and massive investment in clean technology and production upgrading. Meanwhile, China has become the world-leading renewable energy producer and investor. It is the hope of both the Chinese people and the rest of world to see a rising China that embarks on a development path that is equitable, sustainable and low-carbon, setting an example of successful social and economic transformation for other countries.

Contents

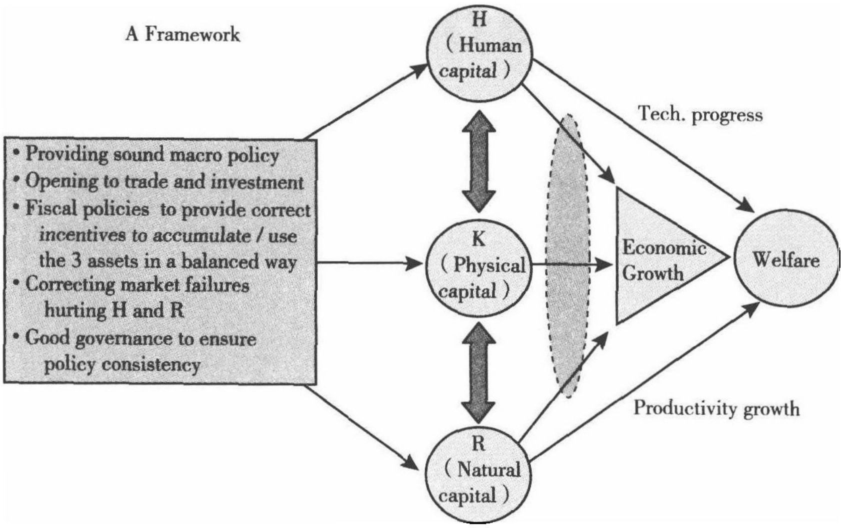
Introduction and Overview

The growth experiences from a large number of countries over the past several decades, in particular China, highlight that both the pace and pattern of growth are critical for achieving desirable development outcomes. While fast economic growth is essential to lift poor people out of poverty[①], some growth patterns are more effective than others in reducing poverty, improving well-being and promoting equity.[②] And some growth patterns can generate fast economic growth while safeguarding environment, conserving natural resources and ecosystem, and emitting less carbon. It is the quality of growth that ultimately advances development and improves welfare.

---

① The 2010 OECD study also shows that extreme poverty persists in many parts of the world, despite the fact that world gross domestic product (GDP) has increased by roughly 60 percent since 1992. Based on cross-country comparisons, a number of papers in the literature have found that measures of absolute poverty tend to fall with economic growth (Montalvo and Ravallion, 2010).

② See, for example, Ravallion and Chen 2004; Christiaensen, Demery, and Kuhl 2006; and Loayza and Raddatz 2005; World Bank 2005, and the Annual Review of Development Effectiveness (IEG 2007a) and the Development Results in Middle Income Countries Report (IEG 2007 b).



Source: Thomas et al, 2000.

The quality growth framework

The quality growth framework developed by Thomas, López and Wang (2000, 2008)[①] emphasizes three key aspects of growth, namely poverty reduction, equality and environmental sustainability.

Broadly speaking, countries are endowed with at least three types of assets that matter for growth and welfare: human and social capital, natural and environmental capital, and physical and financial capital. Technological progress and the institutional environment that affect the use of these assets also affect growth and welfare. In traditional neoclassical growth theory, much attention has been given to the accumulation of physical and financial capital. In the endogenous growth models, more attention has been given to ideas, knowledge, and institutions, while physical capital has been put on a back burner. For

① Thomas, et al (2000), and Thomas, López and Wang (2008).

poverty reduction, human (and social) capital as well as natural (and environmental) capital, such as land and water, are particularly important as those are the primary assets possessed by the poor.

The role of government in accumulating human capital and conserving natural capital is crucial. In many countries, there are market failures that lead to an underinvestment of human capital and overexploitation of natural capital. For example, the social returns from primary education and preventive health care are much higher than the private returns; therefore, the levels of investment in these public services would be sub-optimal if the government fails to provide them.[①] There are also market failures in the form of under-supplying certain types of physical capital such as rural roads, irrigation systems or agricultural technology and innovation with some characteristics of public or semi-public goods, while over-producing pollution and greenhouse gas emissions that have negative externalities.

Government also plays a critical role in achieving a pattern of growth that is equitable and inclusive through equal opportunities, enhancing accumulation of human capital through equal access to basic health and education services, fiscal policies and direct social assistance. In addition, government also plays a facilitating role in promoting economic growth by providing both hard and soft infrastructure, with the former including infrastructure investment and the latter Research and Development (R&D) and innovation, market information, and legal and regulatory framework to provide an inductive business climate (Lin, 2010).

---

① The term public goods is often used to refer to goods that need to be supplied or at least be promoted by government because the private sector tends to under-supply them. This is due to the fact that a market is missing (such as with clean air) or there are severe market imperfections (such as preventive care or primary education) that prevent private firms from being paid enough to induce them to supply public goods at socially desirable levels.

The growth experience of China as a case study

The experience of three decades' rapid economic growth in China provides an important case study, illustrating how a narrow focus on the pace of growth without inadequate attention paid to the quality of growth can adversely affect development outcomes. China's fast economic growth is widely herald as a growth miracle, with an annual GDP growth rate of 9.9% over the period. Within a span of three decades, from one of the poorest and most isolated countries in the world in 1979, with a per capita income of US$164, China became a well-established, middle-income country, with a per capita GDP US$4428 (at current US$). At the same time, more than 600 million people escaped poverty, based on the $1.25 per day poverty line. China overtook Japan as the world's second largest economy and replaced Germany as the world's largest exporter of merchandise, with the trade to GDP ratio rising from 11.2% in 1978 to 65%–the highest among the world's large economies. The spectacular growth over the past three decades far exceeded the expectations of anyone at the outset of the transition, including Deng Xiaoping, the architect of China's reform and opening-up strategy (Lin, 2010).[1]

However, three decades' rapid growth has also transformed China from an egalitarian society into one of high inequality. The Gini coefficient reached 0.47 in 2008, from 0.31 in the early period of the reform, approaching the level of Latin American countries and surpassing all the countries in Europe. While the empirical relations

[1] See full paper by Lin (2010) 'The China Miracle Demystified', paper prepared for the panel on 'Perspectives on Chinese Economic Growth' at the Econometric Society World Congress in Shanghai on August 19, 2010.

between growth and inequality remain inconclusive since the pioneering work of Kuznets (1955), inequality can be distinguished between 'good' inequality (incentive promoting) and 'bad' (opportunity denying) inequality (World Bank, 2009). In the case of China, not only is the level of inequality alarmingly high, much of China's recent increase in income inequality has been a result of unequal opportunities–excluding the majority population from the new employment opportunities that are more skill-based as growth is driven by capital intensive investment (Riskin, 2010). The potential threat to political and social instability posed by growing inequality has now become a major policy concern in China.

Along with rising income inequality, disparities in social indicators, including health and education outcomes, are also on the rise. Gender equality, one of China's major pre-reform era achievements, has even reversed. The 2008 Millennium Development Goals Progress (UNDP) report highlights gender equity and equality as a key deficit for China during the country's economic boom and reform period.

Environmental sustainability, a critical aspect of the quality growth, has largely been sidelined, in growth-focused discourse on China. This is particularly reflected in the large and growing body of China-focused literature that is overwhelmingly devoted to China's growth miracle and its rising power in the global economy, while largely omitting the issue of environment degradation and depletion of natural capital that is associated with its recent energy intensive-pattern of growth. China is now facing an environmental challenge on an unprecedented scale, with widespread environment pollution posing a serious threat to human health and likely limiting future growth prospects. Some Chinese scholars argue that the country growth model is not sustainable because the pace of growth is largely based on the destruction of the ecological environment, and the excessive use of resources, in addition to a rising income inequality (Zi, 2011).[1]

While China represents one significant observation, evidence also highlights that a global economy based on current patterns of consumption and production is simply not sustainable. It is placing a heavy pressure on environment, resources and the ecosystems on which our very livelihoods depend, and increasing the risk of global warming from excessive greenhouse gas emissions. The serious consequences of environmental and resources degradation, as well as the threat of global warming, both a result of economic expansion at all costs in the past, are a wake-up call to all of us.

In 2009, leaders from 34 countries signed a Green Growth Declaration, affirming that they would strengthen their efforts to pursue green growth strategies as part of their responses to the environmental and climate change crisis, acknowledging that green and growth can go hand-in-hand (OECD, 2009).[2] Green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies (OECD, 2011).[3] All of this highlights the urgency to focus on the quality of growth in formulating development policies for all countries, including both developed and developing ones.

Economic growth as a means to development

In Development as Freedom, Sen (1990) emphasizes that development should be viewed as a process of expanding the real freedoms that people enjoy. Development must be focused on expanding individual

---

① See Zi (2011), 'Gan Shi You Shi' (感时忧世).

② See OECD (2009), 'Declaration on Green Growth'.

③ See OECD (2011), 'Towards Green Growth'.

entitlements, capabilities, freedom and rights and economic growth is a means to development. Policymakers must reaffirm the development paradigm reshaped by Sen's research and critical thinking, not loosing sight of broader development goals in the pursuit of growth. People should be both the beneficiaries of development and the agents of the progress and changes that development brings about. This requires economic development to be an inclusive process that benefits all individuals equitably and build on the participation of each of them.

However, since 2008, development thinking has become less preoccupied with concerns about equity, environment sustainability, conserving natural capital and climate change, and more inclined to stress the importance of growth. In a recent report on middle-income countries, Independent Evaluation Group (IEG) found that although many countries and the World Bank have been largely effective in the overarching priority of promoting growth and reducing poverty, they are much less effective in addressing rising inequality, governance and corruption, and environmental degradation. Country success is almost exclusively defined by the rate of economic growth and growth policies, with inequality, environment degradation and depletion of natural resources largely omitted in the country performance assessment.

This preoccupation with the rate of growth is deep-rooted in policy-making in many countries. It has recently been reinforced, no doubt, by the collapse of growth in developed economies and the spread of a global financial crisis and recessions (Mckinley, 2010). But history teaches us that even in times of economic difficulties, one must not lose sight of the ultimate purpose of economic growth–improving well-being and prompting equity.