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## **Poverty and Exclusion in Urban China**

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## Abstract

This paper discusses how widespread poverty and exclusion are in urban China during the period of transition from central planning to a market economy. Two poverty lines have been employed to measure poverty rates in urban areas: a diagnostic poverty line calculated by the Asian Development Bank (ADB) experts and a benefit poverty line used in the Minimum Living Allowance Program of the Chinese government. Both sets of estimates show marked variations by province. According to the former standard, the poverty headcount of China in 1998 was estimated as 14.8 million, with a poverty rate of 4.7 percent. According to the later standard, the poverty headcount for 2007 is estimated as 22.7 million, amounting to a poverty rate of 3.9 percent. Poor people are generally not living in absolute poverty, as their basic needs in food, clothing and shelter can largely be met. However, they have low incomes and restricted consumption potential. Economic constraints also entail adverse consequences like poor health, poor education and limited social contacts. Two groups of people are here considered as the new poor: unemployed or laid-off workers and labor migrants. This means that China now has two new forms of urban poverty which are caused by different factors and are combined with different forms of deprivation. Therefore, policy programs designed to eradicate poverty in urban areas have to be tailored carefully to the poor people's special needs. Job creation and a comprehensive social protection system are here proposed as two effective instruments in the fight against urban poverty.



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# 1 Background

## 1.1 A newly emerged phenomenon

Urban poverty is a new social issue in China which emerged during the transition from central planning to market economy since the late 1970s. Compared with rural areas, the number of people living under the poverty line in China's urban areas remained relatively small in the pre-reform period, due to a series of urban-biased economic and social policies which had been implemented after the founding of the People's Republic in 1949. A work-unit based employment system was established as early as in 1950s to guarantee almost every city dweller at working age a job for life. Along with life-time employment, urban residents also enjoyed a wide range of welfare benefits tied to their work units, such as education, health care, housing and pensions. Government statistics show that only 3 million people, or 1.0 percent of the urban population, were identified as living in poverty in the mid-1980s (Guo, 1996). The urban poor usually formed part of the "Three-No" category: people who have no working ability, or no stable income, or no dependable providers. This means that they consisted largely of the childless elderly, of the disabled and of orphans. As the government organ responsible for looking after the poor in urban areas, the Ministry of Civil Affairs provides regular social welfare benefits to particular categories of people, and *ad hoc* or temporary relief for households in difficulty.

Thanks to the reform policies since the late 1970s, urban residents in China have experienced a marked improvement in their standard of living. For example, the per capita annual net income of urban residents rose from RMB 343 in 1978 to RMB 13,786 in 2007 (in current RMB). In recent years, however, new problems like poverty and inequality are emerging as economic restructuring and the market-oriented reform weighed heavily on urban areas. The income distribution among urban residents is quickly becoming more unequal. For example, as shown in Table 1, the income quintile share ratio of urban residents rose from roughly 2.3 in 1985 to 5.7 in 2005. Accordingly, the Gini coefficient also went up from about 0.22 in 1985 to 0.33 in 2004. According to an ISEI study completed by Prof. Li Qiang of Tsinghua University, China's current social structure is neither olive-shaped nor pyramid-shaped, but has the shape of an inverted T (Li Q. 2005 - see Appendix 1), In a score ranging from 1-100, almost two thirds (65%) of China's working-age population (15-64) fall into the single low-score category of 23, while the remaining categories upwards each get only a very small proportion. Unemployed workers and labor migrants have now replaced the Three-Nos to form the major part of China's new urban poor.

Table 1. Selected indicators of income inequality in urban China in selected years

Year	Kuznets Index	Ahluwalia Index	Income quintile share ratio	Gini coefficient
1985	0.296	0.291	2.325	0.2166
1990	0.304	0.282	2.507	0.2319
1995	0.326	0.263	2.944	0.2792
2000	0.350	0.239	3.618	0.3089
2005	0.414	0.193	5.733	0.3263*

Note: \* 2004

Source: Wang et al. (2007), Cheng (2007).

## 1.2 Multiple dimensions of urban poverty

Poor people in urban areas suffer from various deprivations. It is now widely accepted internationally that an understanding of urban poverty must look beyond traditional definitions based on income, expenditure or consumption. A World Bank paper (2004) proposed to distinguish five dimensions of urban poverty: income/consumption, health, education, security, and empowerment. For each of these dimensions specific causes or contributing factors were identified.

- Income: dependence on cash for purchases of essential goods and services; employment insecurity/casual work; lack of qualifications and skills to get well-paid jobs;
- Health: overcrowding and unhygienic living conditions; industrial and traffic pollution; environmental hazards, exposure to diseases due to poor quality air, water, and lack of sanitation; unsafe working conditions;
- Education: constrained access to education; inability to afford school expenses;
- Security:
  - Housing tenure insecurity: poor construction; unauthorized housing;
  - Personal insecurity: family breakdown, drug/alcohol abuse and domestic violence; crime;
  - Financial insecurity: dependence on cash income and lack of access to credits and safety nets;
- Empowerment: illegitimacy of residence and work; insufficient channels of information; little rights and responsibilities of citizens.

The causes for each of these dimensions are in most cases interrelated, since urban poverty is often characterized by cumulative deprivations, and one specific dimension of poverty frequently impacts on other dimensions. For example, income poverty usually

entails the inability to afford housing and land, and thus results in underdeveloped physical capital assets. It can also result in inability to afford adequate quality and quantity of essential public services like water and power supply, thus, unhygienic living conditions and depreciated health. Poor human capital is another outcome due to stress, food insecurity and inability to afford education and health services. Shrinking social capital is often connected with domestic violence and crime.

### 1.3 The unique *hukou* system

In many countries the urban and rural population is classified according to their place of residence. In China, however, a unique other criterion has long been used in practice which is based not on residence but on the household registration status (*hukou*). Officially introduced in 1955, the *hukou* system required all households to be registered in the locality of origin and to be categorized as either agricultural or non-agricultural. This status was then to be held for life<sup>1</sup>. The installation of the household registration system reflected an effort on the part of the government to cope with demographic pressures over the last few decades. On the one hand, it restricted internal migration, particularly rural-to-urban migration. On the other hand, it served as a basis for the rationing of food and other daily necessities during the difficult times of the 1960s and 1970s. In urban areas, for example, residents used to depend entirely on the workplace organization (*danwei*), not only for employment but also for other social services. Because of the tight control of employment quotas in cities, a rural resident had little chance of getting a job in a city, even if he was willing to risk losing food rations by leaving his home village. Although not originally intended by the government, the *hukou* regulations led to an institutional division of the country into two systems, with an “invisible wall” between the urban and rural sectors, or between non-agricultural *hukou* holders and agricultural *hukou* holders.

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1 In 2000 when the 5<sup>th</sup> National Census was conducted, it was decided by the State Statistical Bureau (SSB) that residence should be taken as the only criterion of urban/rural division for statistical practice. People who resided in the urban areas classified by SSB would be counted as urban, including permanent residents as well as temporary residents of 6 months and over, regardless of their *hukou* status.

Table 2. China's population by urban/rural status, selected years

Year	Population (million)		
	Total	Urban	Rural
1978	962.6	172.5	790.1
1989	1,127.1	295.4	831.6
2001	1,276.3	480.6	795.6
2007	1,321.3	593.8	727.5

Source: SSB, 2003, 2008.

## 2 Measurement and level

### 2.1 Measurement of urban poverty

In China, two types of poverty lines are used for different purposes: the diagnostic poverty lines used mostly by researchers in academic studies, such as the ADB poverty line, and the benefit poverty lines used by the government for poverty relief purposes, such as the Minimum Living Allowance Program.

In 2002, the Asian Development Bank expert group, the Institute of Population and Labor Science of the Chinese Academy of Social Sciences (CASS) and the State Statistics Bureau (SSB) made a special effort to calculate a poverty line for urban poverty in China, based on the internationally acknowledged methodology and data of a SSB survey of urban households in 1998 (Cai, 2003). The ADB poverty line consists of a food poverty line and a general poverty line. The food poverty line is of special importance to developing countries where adequate nutrition is the first priority of poverty alleviation. A general poverty line combines the food poverty line and expenditure on other basic non-food items of goods and services. According to SSB, if 60 percent of the household's total expenditure goes to purchasing food, the rest (40 percent) will be that spent on non-food items. Since China is such a large country with considerable regional differences in income levels, consumption patterns, price levels, and customs and life styles, poverty lines are set by province, rather than having a single poverty line for the country as a whole (see Table 2).

Table 3. ADB poverty line, by province, 1998

Province/City	Food poverty line in RMB	General poverty line in RMB	General poverty line as % of median income
Beijing	1,983	3,118	39.3
Tianjin	1,728	2,993	48.1
Hebei	1,336	2,509	49.9
Shanxi	960	1,616	41.1
Inner Mongolia	1,008	1,824	45.7
Liaoning	1,259	2,203	47.9
Jilin	1,051	1,831	46.9
Heilongjiang	1,017	1,878	46.6
Shanghai	2,361	3,636	44.9
Jiangsu	1,448	2,228	37.0
Zhejiang	1,824	2,989	37.5
Anhui	1,319	2,138	45.7
Fujian	1,554	2,416	37.9
Jiangxi	1,164	1,809	46.9
Shandong	1,308	2,566	52.3
Henan	1,076	1,904	48.4
Hubei	1,354	2,283	47.0
Hunan	1,277	2,146	41.8
Guangdong	2,083	3,061	30.3
Guangxi	1,572	2,507	45.2
Hainan	1,693	2,465	46.5
Sichuan	1,259	2,004	40.8
Guizhou	1,341	2,137	50.2
Yunnan	1,484	2,359	42.3
Tibet	1,456	2,237	32.4
Chongqing	1,355	2,214	44.5
Shaanxi	1,080	2,014	49.9
Gansu	1,127	1,819	48.6
Qinghai	941	1,484	44.2
Ningxia	1,085	2,093	51.7
Xinjiang	1,117	1,772	39.4
China	1,392	2,310	42.7

Source: Cai, 2003.

In the pre-reform period, a relatively small number of poor people in urban areas were taken care of by the Ministry of Civil Affairs, mainly through social relief and *ad hoc* living allowances. As the number increased since the reform, a pilot project of the Minimum Living Allowance Program was introduced first in Shanghai in 1993, designed to provide people living below the minimum living standard a certain allowance

to survive. In October 1999, the State Council Regulation on the Minimum Living Allowance System in Urban Areas officially went into effect. Now, the System has been established in all of China's 668 cities and 1,638 towns with county seats. The departments of civil affairs of local government are responsible for setting the local minimum living standard, i.e. the benefit poverty line. Factors that are taken into account include the living standard of local people, the price level and the local government fiscal capacity. Therefore, the standard can differ from one place to another (Table 4). At this stage, only non-agricultural *hukou* holders with permanent registration in cities belong to the target population of the program and are qualified to apply for the allowance. Non-agricultural *hukou* holders on temporary registration or migrants with agricultural *hukou* status are excluded from the program.

Table 4. The monthly minimum living standard by selected cities, 2007, in RMB

City	Standard	City	Standard	City	Standard
Beijing	330	Fuzhou	228-248	Guiyang	215
Tianjin	330	Nanchang	210	Lhasa	230
Shijiazhuang	220	Jinan	280	Xi'an	200
Taiyuan	220	Zhengzhou	260	Lanzhou	230
Huhhot	230	Wuhan	248	Xining	155
Shenyang	260	Changsha	220	Yinchuan	200
Changchun	245	Guangzhou	330	Urumqi	156
Harbin	245	Nanning	220	Dalian	280
Shanghai	350	Haikou	293	Qingdao	300
Nanjing	300	Chengdu	245	Ningbo	300
Hangzhou	300-340	Chongqing	210	Shenzhen	361
Hefei	260	Kunming	210	Xiamen	260-315

Source: Ministry of Civil Affairs, 2008.

## 2.2 Level of urban poverty

Urban poverty will result in different levels and patterns dependent upon the method of measurement. Table 4 presents the poverty headcount and poverty rates by province, measured by the ADB poverty line on the one side and the minimum living standard on the other. By the ADB standard, 14.8 million people, or 4.73 percent of China's total urban population, were estimated as living under the poverty line in 1998. The denominator here refers to the total of non-agricultural *hukou* holders which is different from the number of urban residents. If the new SSB definition of urban population were used, the poverty rate would drop to 3.8 percent, because the denominator would then include

all people living in urban areas, regardless of their *hukou* status. By the minimum living allowance standard, people living in poverty (eligible recipients) are estimated as 22.5 million, or 3.9 percent of the total urban population, including non-agriculture and agriculture *hukou* holders.<sup>2</sup> At first glance, the two national averages look quite alike. In actual fact, they are incomparable, however, because of the differences in time and measurement. Nevertheless, both data sets indicate that marked differences exist from one province to another. In the case of the minimum living allowance standard in 2007, the lowest rate of 0.32 percent is recorded in the wealthy coastal province of Zhejiang while the highest rate of 10.12 percent is recorded in the underdeveloped province of Qinghai.<sup>3</sup>

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2 SBS changed its definition of urban population in 2000, which includes urban *Hukou* holders as well as non-*Hukou* holders who have lived in cities for at least 6 months.

3 The rank order is based on administrative division in China. All Chinese statistical books use the same order.

Table 5. Selected indicators of urban poverty by two standards, by province

Province	By ADB standard, 1998		By minimum living allowance standard, 2007	
	Headcount (1000)	Percentage (%)	Headcount (1000)	Percentage (%)
Beijing	54	0.73	147	1.11
Tianjin	360	6.77	143	1.76
Hebei	651	5.20	874	3.29
Shanxi	596	7.17	893	6.15
Inner Mongolia	510	6.40	799	6.86
Liaoning	1,150	6.13	1402	5.56
Jilin	853	7.54	1277	8.86
Heilongjiang	1,154	6.92	1451	7.09
Shanghai	314	3.24	337	2.10
Jiangsu	244	1.20	443	1.13
Zhejiang	153	1.62	89	0.32
Anhui	348	2.89	1001	4.42
Fujian	145	2.18	202	1.18
Jiangxi	310	3.42	1000	5.96
Sangdong	1,172	5.05	608	1.42
Henan	1,410	8.39	1394	4.57
Hubei	934	5.67	1423	5.71
Hunan	462	3.61	1369	5.58
Guangdong	154	0.68	378	0.65
Guangxi	246	3.01	548	3.35
Hainan	150	7.94	169	4.38
Sichuan	711	4.72	1712	6.11
Guizhou	260	5.00	529	6.11
Yunnan	225	3.69	762	5.12
Tibet	39	11.31	40	5.57
Chongqing	260	4.09	835	6.37
Shaanxi	932	11.95	810	5.54
Gansu	304	6.44	739	9.13
Qinghai	76	5.63	218	10.12
Ningxia	210	13.51	209	8.07
Xinjiang	383	6.16	737	9.48
<b>China</b>	<b>14,770</b>	<b>4.73</b>	<b>22,543</b>	<b>3.91</b>

Note: Data for non-agriculture *hukou* holders only.

Source: Calculated from Cai, 2003, Ministry of Civil Affairs, 2008.

## 3 Comparison with regional and international data

### 3.1 Rural poverty vs. urban poverty

Although this paper deals with urban poverty in China, we must bear in mind that, to this day, poverty in China is still essentially a rural phenomenon. After the Communists came to power in 1949, one of the major social experiments the government introduced in rural areas was the Land Reform, which lifted the majority of rural people from absolute poverty by distributing farmland to the poor and the landless. Estimated on the basis of the poverty line of RMB 200 per year, 250 million people, or 30.7 percent of the rural population, were classified as poor as late as in 1978. During the 30 years of reform, a series of policies and programs has since been introduced to promote rural development and income growth, such as the contracting-out of the collectively owned farmland, the abolition of the agriculture tax, and the lift of *hukou* control on migration. Farmers have seen their income from agricultural production and other off-farm activities rise continuously in recent years. For example, the per capita annual net income of rural residents increased from RMB 134 in 1978 to RMB 4,140 in 2007 (in current RMB), or up by 5.3 times if the inflation factor is taken into account. The number of people living in poverty dropped markedly to 43 million, or 4.6 percent of the rural population, as judged by the newly readjusted poverty line of RMB 1,067 per year at the end of 2007.

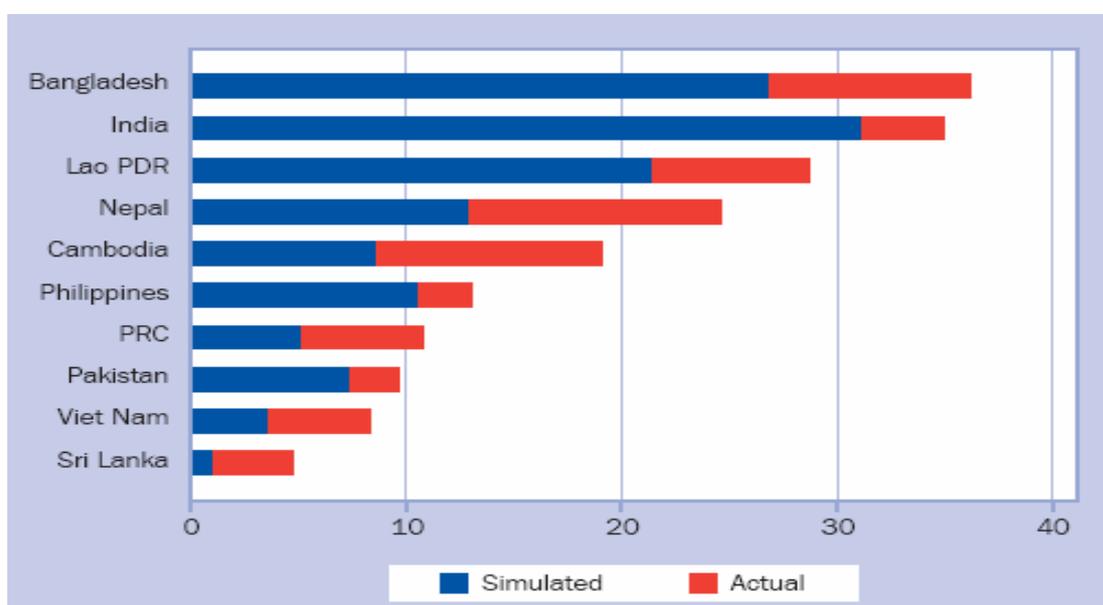
In comparison to the countryside, poverty in China's urban areas is very different even though the poverty rates in the two areas seem to be almost identical with levels around 4 percent. The following features must be borne in mind:

- The official poverty line for rural areas is much lower than that for urban areas. For example, the current rural poverty line of RMB 1,067 per year, or RMB 88.9 per month, accounts for only 57.4 percent of the minimum living standard of RMB 155 per month in Xining, which has the lowest urban poverty line (see Table 3). Of course, the cost of living is also different between cities and the countryside.
- In China, urban poverty is largely a new phenomenon which emerged in the transition from central planning to market economy, similar to what happened in other transition economies. Atal (1999) described this as “a transition from no poverty to poverty”. Urban poverty was a rare experience in the pre-reform period, but becomes a major issue of concern today.
- Under the current system, the urban poor who are non-agricultural *hukou* holders have access to a wide range of income support programs and public services, such as the minimum living allowance scheme, from which agricultural *hukou* holders are excluded, even if they now live in cities.

### 3.2 China's poverty problem from an international perspective

Poverty, particularly in developing countries, has long been a global concern of governments and international organizations. Many organizations regularly publish data on poverty that can be used for cross-region or cross-country studies, such as the “Key Indicators for Asia and the Pacific”, an annual report compiled by the Asian Development Bank (ADB 2007, 2008).

Figure 1. \$1-a-day poverty rates, actual versus simulated, of selected countries in the Asia and Pacific region



Reference year: Bangladesh (2005); Cambodia (2004); People's Republic of China (2004); India (2004); Lao PDR(2002); Nepal (2003); Pakistan (2004); Philippines (2003); Sri Lanka (2002); and Viet Nam (2004).

Source: ADB, 2007.

The World Bank's \$1-a-day poverty line is a frequently used standard for comparative studies in poverty. Figure 1 gives a comparison of \$1-a-day poverty rates of 10 countries in the Asia and Pacific region in recent years. The actual bar refers to the \$1-a-day poverty rates which were actually observed, the simulated bar refers to the rates that would have been in place if inequality had remained at its previously lower level. China's actual poverty rate was estimated by ADB as around 10% in 2004, ranking 7<sup>th</sup> of the 10 countries listed. At about 5%, the rate would have been much lower, if the relatively equal income distribution of the pre-reform period had remained in place. As a national average, this ADB rate is obviously higher than the rates we discussed in this

paper so far. The reason is that the Chinese poverty standards, both rural and urban, are much lower than the World Bank standard. By the 2004 exchange rate of \$1 to RMB 8.2, for example, the \$1-a-day standard equals RMB 2,993 per year, or RMB 249.4 per month. This is not only 3.8 times higher than the then poverty line of RMB 786 in rural areas, but also higher than the minimum living standard in many cities.

It is worth noticing that the exchange rate approach of the \$1-a-day standard is often challenged in international comparative studies as not adequately reflecting purchasing power differences. In its 2008 report ADB suggested to use the purchasing power parities (PPP) approach as an alternative. The \$1-a-day standard, introduced in 1993, has been readjusted accordingly to \$1.35-a-day as an “Asian Poverty Line”. Since China is excluded from the 16 Asian countries studied by ADB, no recent information about China is available, however (ADB, 2008).

## 4 Two groups of special concern: unemployed workers and labor migrants

### 4.1 Urban poverty and unemployment

In the pre-reform period, wages from dependent employment were the principal source of income for almost all urban residents. Over 80 percent of urban work force was employed by the state sector, and the remainder by the collective sector.<sup>4</sup> Workers were guaranteed lifetime employment in jobs allocated by the state. Apart from wages in cash, the “work units” also provided employees with certain welfare benefits, including housing, medical care, pre-school child care, schooling, and pension for retired workers. Unemployment was almost non-existent. This system has helped achieve the target of equal income, but had detrimental effects on labour mobility and economic efficiency. In the early 1990s, it was estimated that redundant workers accounted for over one third of the total work force of the state sector.

The creation of a labor market was a key facet of the reform process since the late 1970s. It was intended to introduce labor mobility, improve enterprise profitability and reduce production costs. The 1986 Regulation on Labor Contracts<sup>5</sup> abolished guaranteed lifetime employment. In 2000, over 50 percent of state sector employees were on terminable contracts. The Regulation on Discharging Employees and the Law on Enter-

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4 Roughly speaking, the state sector in China refers to the sector owned by the state, or the public, whereas the collective sector to that owned by communities (a village or a neighborhood).

5 A newly amended Law of Labor Contract went into effect in January 2008.

prise Bankruptcy in later years made it possible for loss-making or bankrupt enterprises to lay off or dismiss employees *en masse*. As the reform of state owned enterprise intensified since the early 1990s, a large number of loss-making state-owned firms went bankrupt, suspended operation, got merged with better performing companies, or underwent reorganization including cuts in personnel. As a result, the number of the unemployed started to soar. In 2000, the official figure for unemployment, which referred to the economically active urban population registered at local labor offices as seeking jobs amounted to 5.9 million, or an unemployment rate of 3 percent.<sup>6</sup> This surprisingly low figure presents only a partial picture of unemployment in urban areas, however, because two categories of people were excluded: those who are not eligible for registration as unemployed and those are eligible but lack an incentive to register. Those ineligible consist mainly of laid-off workers. These are former regular employees of state owned enterprises who are “definitely” laid off from paid work but are still formally attached to their employment units. Most of them receive a living allowance (less than the local minimum wage) and may also enjoy some welfare benefits in kind, such as housing and subsidized health care. At the end of 2000, there were 8.6 million laid-off workers, who were thus 44.5 percent more numerous than the officially registered unemployed. According to government policies, the laid-off category is supposed to be phased out by 2002, because the contracts binding laid-off workers to their former employers have a term of three years which are not renewable after expiration. Laid-off workers who fail to find a job will therefore be registered as unemployed. If the registered unemployed and the laid-off workers were put together, the unemployment rate in urban areas may would rise to 10 percent, or even higher (Cai, 2003).

Before the reforms, the immediate cause of poverty in urban areas used to be either physical incapacity to work or unemployment. Table 6, which excludes the disabled, shows that in many cities the unemployed and laid-off workers recently accounted for a large proportion of the urban poor. Unlike the traditional urban poor of the “Three-No” category (no work ability, no stable income, no providers), the new poor are primarily people who are physically able and willing to work but do not have a job. Most of the unemployed (79.9 percent) lost their job because of economic restructuring and labor market reforms in recent years. Only a small proportion (20.1 percent) resigned their jobs for personal reasons.

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6 This yields a somewhat surprisingly small total urban labour force of only 197.7 mio people, which is restricted to the registered labor force, mainly in the formal sector.

Table 6. Reasons of urban unemployment, 1998

Involuntary unemployment (79.9%)		Voluntary unemployment (20.1%)	
Reason	%	Reason	%
Suspension of operation	28.6	Unsatisfied with low wages	35.2
Bankruptcy or closure	11.4	Unsatisfied with poor working conditions	27.9
Personnel cut	32.0	Looking for better career	17.1
Expire of contract	4.7	Difficult personal relations	8.1
Dismissed by employer	8.8	Others	11.7
Others	14.5	Sub-total	100.0
Sub-total	100.0		

Source: Li Q., 2002.

In recent years, the Chinese government has attached great importance to job creation as a means to tackle the growing problem of unemployment. According to the Labor Ministry statistics, as many as 8.5 million new jobs were created in urban areas in 2003 alone. Of the 10.4 million unemployed workers<sup>7</sup> who received the Reemployment Preferential Entitlement Card, 4.4 million had found a new job, including 1.2 million people of the 40/50 category<sup>8</sup> (Li S., 2004). For those who still have difficulties in finding a job, a three-tier social security system is being established which includes reemployment centers, unemployment insurance, and the minimum living allowance program.

For a country like China with 1.3 billion population, employment remains a crucial pre-condition for economic growth and social advancement in the years to come. Challenges to the urban labor market come from three areas: the new entrants to the labor market, the unemployed workers, and migrants from rural areas. According to the projection of the CASS Institute of Population and Labor Science, China's total population will reach 1,379 million by 2010. Consequently, the total population in working ages will reach 874 million (Li S. 2004). In each year of the 11<sup>th</sup> Five-Year Plan period (2006-2010), there will be about 10 million new entrants, 10 million new rural-to-urban migrants and 6 million new unemployed workers competing for jobs on the urban labor market, on top of the existing 8 million urban jobless people. Needless to say, losers on the urban labor market are very likely to fall into poverty. Therefore, job creation should be given top priority in any poverty alleviation programs in urban areas.

<sup>7</sup> This is an aggregate figure for a number of years, which also includes the laid-offs.

<sup>8</sup> This is a special category for older unemployed workers, i.e. females older than 40 and males older than 50.

## 4.2 Urban poverty and migration

During the pre-reform period, internal migration, the rural-to-urban migration in particular, was restricted under the *hukou* system. In recent years, however, the *hukou* system has been modified to relax the control over internal migration and permit more flexibility. A number of pull and push factors are believed to help increase the propensity to migrate from the countryside to cities. First, the introduction of the “family responsibility system” has greatly improved the efficiency of agricultural production, thus creating a large labor force surplus in rural areas.<sup>9</sup> Second, fast economic growth and the erosion of the rigid *danwei*-based rationing system in urban areas created many job opportunities for rural migrants, particularly in low-paid, less skilled manual and informal sector jobs. When restrictions on internal migration were gradually lifted, the number of migrants in urban areas started to rise quickly. Without a permanent *hukou* registration in the place they work, migrants are usually called “floating population”, estimated as 130 million in 2006 (CASS, 2006). Six months is the cut-off period used by the State Statistics Bureau (SSB) to distinguish between short-term and long-term migrants. However, a long-term migrant by the SSB definition does not necessarily mean an automatic *hukou* registration. Migrants have to apply to local public security bureaus for a temporary urban *hukou* registration in case they are not qualified for a permanent one.

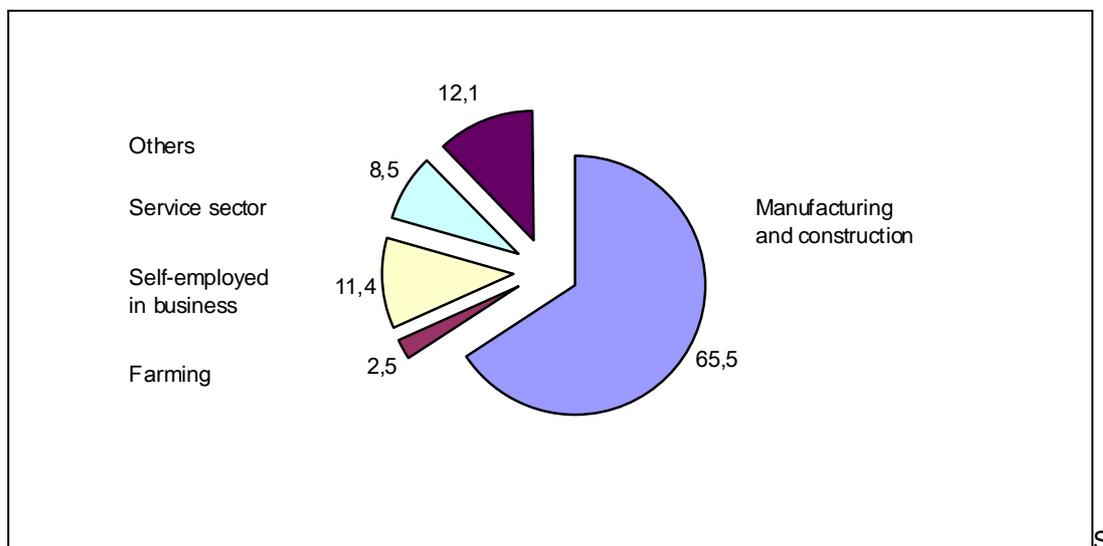
Migrants usually form a heterogeneous group, as shown in Figure 2. Of the total temporary *hukou* holders of 69.9 million in 2002, according to the Ministry of Public Security, the majority (65.5 percent) are employed in manufacturing and construction sectors, followed by a sizeable proportion (8.5 percent) employed in the service sector. A quite large proportion (11.4 percent) of migrants is self-employed, mostly doing small business in cities and towns. A very small proportion is engaged in farming, mainly growing vegetables in suburbs that are still classified as urban. The “others” category includes people who are temporarily registered for a variety of activities, such as study or training, medical treatment or rehabilitation, visiting relatives or friends, and tourism. The *hukou* registration data used here have some limitations. First, there is no division between long-term migrants and short-term ones. Second, there is no division between non-agricultural *hukou* holders who moved from one city to another and agricultural *hukou* holders who moved from rural to urban areas. The latter factor is relevant because in most cities migrants with only agricultural *hukou* have only limited civil rights, restricted access to many social services, and are often confined to jobs that per-

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9 The “family responsibility system” is a kind of land reform program that contracts out collectively owned land to farmer households for a certain period up to 50 years. It is worth noting that farmland in China is owned collectively by the members of a village, not by private households.

manent residents do not want. They are treated more or less like second-class citizens in urban areas, although not by explicit government policies.

Figure 2. Percentage of temporary urban *hukou* holders, by activity, 2002



Source: Calculated from The Ministry of Public Security, 2003.

Comparing non-agricultural *hukou* holders with permanent urban registration and agricultural *hukou* holders with only temporary urban registration, table 6 gives some examples of how people of the two separate *hukou* categories enjoy different rights and entitlements.

Table 7. Difference in entitlement, by *hukou* status

Item	<i>Hukou</i> status	
	Non-agricultural <i>hukou</i> holders with permanent urban registration	Agricultural <i>hukou</i> holders with temporary urban registration
Employment and income	<ul style="list-style-type: none"> <li>● Access to most formal sector jobs;</li> <li>● Relatively stable job security;</li> <li>● Access to unemployment insurance benefits;</li> <li>● Access to social relief benefits, such as the minimum living allowance;</li> </ul>	<ul style="list-style-type: none"> <li>● Limited access to most formal sector jobs;</li> <li>● High risk of wage cut, wage arrears, layoff and unemployment;</li> <li>● No access to public unemployment insurance benefits;</li> <li>● No access to social relief benefits;</li> </ul>
Health	<ul style="list-style-type: none"> <li>● Access to subsidized health care;</li> <li>● Access to health insurance benefits;</li> <li>● Access to <i>ad hoc</i> health allowance;</li> <li>● Normal residential environment with functioning water, power supply and sanitation systems;</li> </ul>	<ul style="list-style-type: none"> <li>● No access to subsidized health care;</li> <li>● Limited access to public health insurance benefits;</li> <li>● No access to <i>ad hoc</i> health allowance;</li> <li>● Overcrowding and unhygienic living conditions, usually in city outskirts without functioning water, power and sanitation systems;</li> <li>● Unsafe working conditions and industrial occupational risks;</li> </ul>
Education	<ul style="list-style-type: none"> <li>● Access to subsidized education at primary and junior high stages;</li> <li>● Access to <i>ad hoc</i> education allowance;</li> </ul>	<ul style="list-style-type: none"> <li>● Limited access to subsidized education;</li> <li>● No access to <i>ad hoc</i> education allowance;</li> </ul>
Security Tenure	<ul style="list-style-type: none"> <li>● Access to subsidized housing;</li> <li>● Access to <i>ad hoc</i> housing allowance;</li> </ul>	<ul style="list-style-type: none"> <li>● No access to subsidized housing;</li> <li>● No access to <i>ad hoc</i> housing allowance;</li> </ul>
Personal	<ul style="list-style-type: none"> <li>● Broad social network;</li> <li>● Familiarity with the environment;</li> </ul>	<ul style="list-style-type: none"> <li>● High risk of homelessness;</li> <li>● Limited social network;</li> <li>● Unfamiliarity with the environment;</li> <li>● Family separation;</li> <li>● Crime and harassment;</li> </ul>
Financial	<ul style="list-style-type: none"> <li>● Access to consumer loans;</li> <li>● Access to limited business loans;</li> </ul>	<ul style="list-style-type: none"> <li>● Limited access to consumer loans;</li> <li>● Limited access to business loans;</li> </ul>
Empowerment	<ul style="list-style-type: none"> <li>● Full civil rights;</li> <li>● Close contact to local governments and communities.</li> </ul>	<ul style="list-style-type: none"> <li>● Limited civil rights;</li> <li>● Limited contact to local governments and communities;</li> <li>● Social exclusion and discrimination.</li> </ul>

*Employment and income:* Agricultural *hukou* holders have little access to formal sector jobs in cities, except for the so-called 3-D jobs, i.e. the dirty, dangerous, and difficult jobs which few local residents want to take. Such jobs are generally low-paid and temporary. For example, migrants who work in the manufacturing and construction sectors are predominately agricultural *hukou* holders, including a large proportion of those who work in the service sector. A 2000 survey in six cities showed that the hourly pay of a labor migrant was RMB 2.79, while that of a local laborer was RMB 3.37 (Cai, 2003). Due to lack of a proper *hukou*, migrants face a greater risk of wage cuts, wage arrears, layoff or unemployment. It is estimated that at the end of 2002, the wage arrears of labor migrants totaled RMB 100 billion nationwide (GDP of 2002 is RMB 10355.3 billion). The problem is so serious that Premier Wen Jiabao had to intervene personally in early 2003 to secure that a laborer in Hubei be paid immediately after years of delay. Moreover, migrants have no access either to unemployment benefits or income assistance, such the minimum living allowance. After the loss of a job or the termination of a labor contract, they usually have to return to their home villages.

*Health:* Agricultural *hukou* holders have no access to subsidized health care and *ad hoc* health allowance enjoyed by non-agricultural *hukou* holders with permanent urban registration. In case of illness or injury they have to pay the full fee for medical treatment. Unable to afford housing at market price, migrants usually live in cheaper rented houses, though not necessarily slums, without functioning water, power and sanitation systems. Overcrowding and unhygienic living conditions are main factors that cause diseases. Also the unsafe working conditions of the 3-D jobs are prone to industrial occupational risks. Due to the high morbidity rate and the high industrial accident rate, the government required the public health insurance scheme to be extended to labor migrants, however with limited progress so far.

*Education:* Children of agricultural *hukou* holders have limited access to subsidized education at primary and junior high stages. The parents have to pay a special “borrowed schooling fee”, RMB 500-2,000 per year, if they want to send their children to public schools. Unable to pay the high fees, many migrant children have to go to the poorly equipped private migrant schools or simply drop out of schools. It is estimated that, in the age groups 8-14, the drop out rate is as high as 15.4 percent. About 60 percent of the children aged 12-14 are engaged in child labor (Xue, 2004). Measures have been introduced only recently in some cities like Beijing to give migrant children free access to public schools.

*Security:* Agricultural *hukou* holders have no access to subsidized housing. Most of them, 88 percent in Beijing for example, live in privately-owned, poorly-constructed houses in city outskirts. The risk of homelessness is high if their cash income is not enough to pay the rent. Separated from the family, unfamiliar with the environment and in lack of a broad social network to provide support, migrants are prone to fall victim to crime and police harassment. For example, a special police rule to deport, by force if necessary, all migrants, who failed to present a temporary urban registration card, was

abolished only in 2003. Usually due to lack of a permanent job, a permanent address or a reliable guarantee, migrants have little chance to acquire bank loans for personal or business purposes.

*Empowerment:* Separated from the place of their original registration, migrants cannot exercise civil rights such as voting rights fully in the place of temporary registration. Similarly, they are excluded from the local governments' decision-making and consultation process, since there are no political representatives or social organizations working for their interests and rights in cities. Communication between local governments and the migrants is limited. For example, a survey of the year 2003 found that 34.5 percent of labor migrants had no idea at all about the Labor Law (The Information Center, the Ministry of Agriculture, 2003). For many of the migrants, inequality and discrimination are an everyday experience.

By their characteristics, agricultural *hukou* holders with temporary urban registration, or labor migrants in general residing in China's urban areas look more similar to the urban poor observed in other Asian countries than to their urban compatriots who possess a permanent urban registration. Empirical studies of labor migrants are still inadequate and unsystematic. The foremost reason is that labor migrants are still not considered officially to be urban residents. Unlike the migrant poor in other Asian countries, labor migrants in China are not landless people who were forced to leave rural areas. In their home villages they still have their families, property and the land plot leased from the community on contracts up to 50 years under the Household Contract System. Most labor migrants come to cities in the hope to earn extra cash as a supplement to their household income, because farming becomes increasingly unprofitable in the era of industrialization and globalization. In Anhui, for example, remittance from family members in cities accounted for 54 percent of farmers' total net income in 2001 (The Information Center, the Ministry of Agriculture, 2003).

The common understanding is that most migrants only stay for a short time in cities and will eventually return to their home villages if job opportunities disappear. However, some recent surveys find that many of them take a wait-and-see attitude, although they understand the chance for them to settle down permanently in cities is relatively slim at present. According to a survey in Beijing, Wuxi and Zhuhai in 1999, 50 percent of migrants wanted to live permanently in the place of their current residence, and the proportion was even higher among those long-term migrants who lived with families. Only ten percent intended to return home later (Cai, 2003).

Urbanization not only refers to the growth of the urban population, but also to the expansion of urban areas. It is estimated that urban development during the period 1987-2001 has eaten up a total of 33.9 million *mu*<sup>10</sup> of farmland. If illegal occupation is included, the total figure may rise to 40 million *mu*. In China, the per head farmland is less than 2 *mu* on average. This means that as many as 20 million farmers have lost their land to urban development. If urban expansion continues by 5 million *mu* annually, 2.5

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10 1 hectare equals 15 *mu*.

million more farmers will become landless each year in near future (Ge, 2003). The farmers who lost their land as well as their houses did receive compensation. However, the level of compensation is usually low and paid in long-term installments. The farmers certainly cannot depend on the limited cash compensation for life. Once the compensation money is spent, they are in danger of becoming a new type of the Three-No poor: people who have no land, no job and no access to social security programs. On the 2003 National Congress, a special motion was proposed for legislation to protect the landless farmers' rights and interests. According to the motion, the compensation level should be raised by up to two times and the landless farmers should be granted non-agricultural *hukou* status to get access to the social safety net in urban areas.

## 5 Discussion

Urban poverty surfaced as a new problem in China during the transition from central planning to a market economy. It is different from the traditional poverty in rural areas. The reform aimed to overcome many defects of the planned economy, such as inefficiency and dislocation of productive resources. A belief in economic determinism played an important role in the decision making at the high levels of government, which gave top priority to economic efficiency and economic growth. Although criticized as "growth worship" or "GDP worship" by some commentators, the growth-oriented strategy has led to remarkable achievements in promoting China's economic development over the last two decades. Experience shows that growth does have an effect on poverty reduction in general terms. In recent years, however, as observed by the World Bank experts, the effect of growth on poverty has weakened and inequalities have widened between rural and urban areas, among provinces, and also within rural and urban areas (World Bank, 2003).

Urban poverty which is due to layoffs and unemployment or to rural-to-urban migration, has a number of negative implications for China's future social and economic development. Economically, the unemployment-induced poverty means a waste of human resources. Unlike material resources, human resources cannot be preserved endlessly and must be utilized properly while available. At the same time, society has to spend much of its financial and material resources on support for unemployed people, thus burdening the budget and diluting resources from more productive activities. As a result, the growth potential of the economy as a whole is not utilized to its full extent. Socially, poverty and inequality is prone to cause social tensions and crises that can destabilize the economy and the society to an extent that might threaten the well-being of the entire population. Politically, poverty and inequality can put the government's le-

gitimacy and authority in jeopardy. No political party can afford such consequences, which are particularly challenging to a Communist party advocating equality and common prosperity. The government's international credibility is also at stake if the special requirements on poverty reduction of the Millennium Development Goals (MDG) are not met on schedule.

The current phenomenon of urban poverty is believed to be an unexpected by-product of the government-initiated reform. The government should now take chief responsibility in combating poverty and inequality in urban areas. Of course, poverty as a social problem can not be eliminated overnight. It is encouraging, however, that there has been a shift in the government's development strategy, which now promotes a balanced and equitable growth, since a new generation of Chinese leaders came to power in 2003. For example, the 16<sup>th</sup> Congress of the Communist Party of China reiterated the objective of establishing an all-encompassing *Xiaokang* (well-off) society by 2020. All-encompassing means here not only economic growth and material gains, but also improvements in equity, the rule of law, civil life, and physical and natural environment. A series of new policies and measures have been taken recently to provide assistance for people in various disadvantaged and vulnerable groups, such as farmers and the urban poor. Thus the coverage of social welfare programs in urban areas has been expanded and the total budget has been increased substantially.

To tackle urban poverty, two policies are of special importance: job creation and the creation of a social safety net. Employment may be considered the best form of social security. Many people fall into poverty not because they are unable or unwilling to work, but because they cannot find a proper job. As discussed in Part Four, China faces great challenges for the urban labor market in coming years, due to the huge supply of labor force of in three groups: new entrants, the unemployed and labor migrants from rural areas. To ease the pressure on labor market, a number of measures can be considered.

- The supply of new entrants to labor market varies largely with the pattern of population growth. By 2010 as many as 10 million young people will annually swell the number of people at working age. Apart from policies that directly create jobs for young people, measures can be taken to reduce the labor participation rate, or to help young people delay their entrance into the labor market. A drop in the labor force participation rate in age groups 15-19 by 30 percent will translate into 5 million young people postponing their entrance into labor market every year. They can prolong their stay in schools, either to pursue higher education or to receive vocational training. An employment certification system can be introduced to raise the threshold of employment. Everybody who wants to take a job has to take proper training courses and get a certificate of his qualification. Beside its effect of easing market pressure, such investment in human capital will bring higher and longer return to individuals, to employers as well as for the society as a whole.

- The state owned enterprise reform has resulted in massive layoffs and unemployment in recent years. Although the reform is not yet complete, financial as well as administrative incentives can be introduced to encourage employers to exercise their social responsibility and to retain as many staff as possible, or to recruit more unemployed workers. Apart from the existing active labor market policies, additional attention should be paid to those in the most disadvantaged groups, i.e. women, people of older age, and people of poor education with limited skills. Experience shows that practical and affordable training is an effective way for people to get reemployed. For some people in older age, early retirement might be considered as an alternative.
- Rural-to-urban migration is a major contributing factor to urbanization, and an unavoidable process in China's drive for industrialization and modernization. Measures should be taken to encourage migrants to settle down first in small and medium-sized cities, rather than rushing to mega cities en masse. Currently, as discussed in Part Four, migrants are subject to various forms of discrimination in urban areas, which impede the integration of rural and urban labor markets. These discriminative policies should be dismantled gradually to grant migrants equal rights and entitlements as local residents.

Many people fall into poverty in urban areas also because of exclusion from the existing social security programs. The Minimum Living Standard Program, introduced first in Shanghai in 1993, has proven to be a promising example of poverty alleviation projects in urban areas. Because of the complicated application and approval procedures, however, a sizeable number of poor people are still excluded from the program at this stage, including long-term migrants with agricultural *hukou* status. Moreover, the level of allowance is considered very low, just enough to meet a person's minimum need in daily energy intake. Therefore, a comprehensive social protection system is recommended to provide the most unfortunate ones with a last resort.

- Income assistance programs should continue to form the core of the comprehensive social protection system. The current Minimum Living Allowance Program supplements and complements social insurance and the living allowance for laid-off workers. However, its coverage should be expanded and the level of allowance should be raised and indexed to the price level. Red tape for application and approval should be simplified, and benefits should be adjusted to household size and composition as well as to total assets. Nevertheless, measures should be taken to maintain incentives to work. Any attempts to abuse the system should be punished.
- The current housing reform is aimed at privatizing the housing market and raising the home ownership rate in urban areas. However, the reform is far from complete

and the market price of housing is out of reach for a great proportion of urban residents. The government should adopt a public housing policy and provide subsidized or cheap housing for poor people who can never afford a private flat.

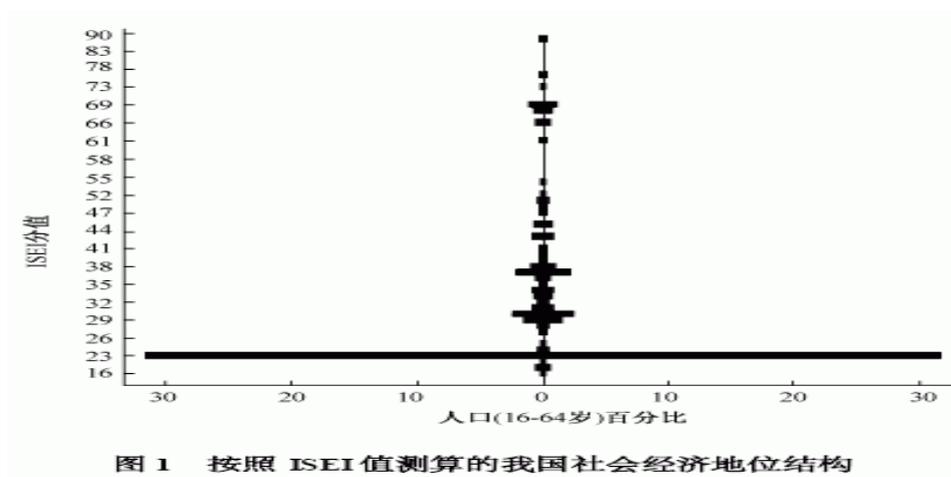
- China is yet to establish a public health insurance system that covers all member of the society. Many families fall into poverty or cannot be lifted from poverty because of the high expense on medical care. The comprehensive social protection system should include a health module that would provide the most disadvantaged people with subsidized health care.
- An education module is also necessary to help children of the urban poor receive adequate schooling through measures like education subsidies or tuition fee exemption, at a time when the compulsory education at the primary and junior high stage is not completely free.

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Appendix 1: Percentage distribution of total working age population, by ISEI index score, China, 2000



Note: Vertical scale = ISEI score (1-100), Horizontal scale = Percentage  
 Source: Li Qiang (2005).



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