

CHINA'S POVERTY REDUCTION

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Executive Summary

1. China will likely eliminate extreme poverty by 2020. Achieving this goal is an important milestone for China's leadership and overall goal to make the country a "moderately prosperous society in an all-round manner". This is the first of the "two centennial" goals.
2. President Xi Jinping has made poverty eradication one of three decisive battles, the other two being controlling pollution and controlling corruption. Hence, Xi is staking his personal prestige on achieving the poverty eradication goal. Eliminating poverty is also seen by the Communist Party of China as a source of its legitimacy.
3. Poverty reduction in China has been dramatic. World Bank estimates show a decline in the national poverty rate from 88% of the population in 1981 to less than 1% in 2015. These numbers imply a reduction of some 860 million in the number of poor. This constituted some 74% of global poverty reduction between 1981 and 2015.
4. While income inequality has risen rapidly since the onset of reforms in 1978, it has started to decline in recent years. For most of the time, all income categories gained in income. In recent years, the bottom 40% and 10% of income earners saw their income rise faster than average income.
5. The main driver of poverty reduction was high income growth driven by the reforms China has implemented since 1978. Though the reforms were not exceptional in nature, the *way* in which China implemented them was unique. China often chose a gradual, experimental and decentralised manner for implementing its reforms.
6. Policies to promote broad income gains were complemented by numerous policy interventions specifically targeted at poverty alleviation. These ranged from broad regional initiatives such as the Western Development Strategy to interventions targeted at individuals, such as the *Dibao* welfare scheme.

7. Targeting of poverty interventions became increasingly refined, moving from initial targeting regions to counties, to villages, and finally households. In the past five years “precision poverty targeting” was based on a comprehensive national database.
8. Factors that contributed to China’s poverty alleviation include (i) focus on income growth; (ii) political support for poverty alleviation; (iii) establishment of a dedicated organisation in charge of poverty reduction; (iv) commitment to targets in poverty alleviation through plans; and (v) targeting of scarce resources to the most needy.