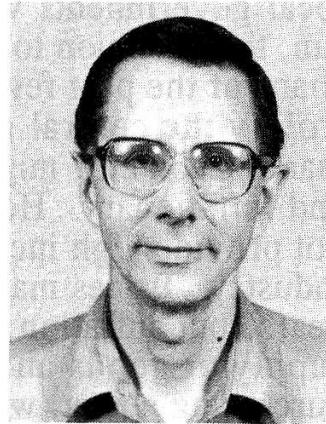


The Chinese Economy: Patterns of Poverty

Michel Masson, SJ

In August 1989, 195 counties and 57.88 million Chinese had not yet risen above the poverty line, that is, their average individual income remained below 200 *yuan* per year.

In recent years the government held out hopes that its war on poverty would have been won by the year 1990, which marks the end of its seventh five-year plan. But now the leadership admits that the battle will continue through the next five-year plan, and probably beyond. Despite sustained financial support



by the State for its relief and development programs, and an admittedly respectable record of success in some areas, the 195 "poor counties" are now said to present "new difficulties" which are severely testing the strategies of those engaged in the conflict.

While poverty pockets are still to be found in some 699 counties, most of the 195 poor counties lie in the eleven western provinces. After ten years of economic progress and reforms, the persistence of this long-standing state of affairs has become increasingly problematic. To make matters worse, experts point to the ever-widening economic gap separating the West from the eastern seaboard provinces since 1979.

The question now is not only one of how to allow the "other" China to have its share of the pie, but also of how long the outward-oriented enterprises in the East can thrive without a radical rethinking of the role of the hinterland in the overall national economy. For the past few years, experts have been exploring these mind-boggling issues and have concluded, more often than not, that only a nation-wide open market economy can cure the present schizophrenia. As one might expect, this new vision, which would require an accelerated pace of political reform, has found little favour with the present leadership.

East and West China--will the twain ever meet? Recently, Beijing has been too concerned about separatist movements in the USSR to give much time to this question. At present, the main preoccupation is reinforcing control over the national minorities which, as it happens, have been left to man the bastions of poverty

on the borders of Chinese socialism.

Rising Above the Poverty Line

At the end of 1988 when Yang Yongzhe (楊雍哲) the Assistant Director of the State Council's Task Force for the Economic Development of the Poor Areas reviewed the situation, he found that about 60 percent of households on welfare and over a quarter of the 300 counties officially recognised as underdeveloped had "solved the problem of their daily subsistence during the course of the preceding three years."¹

Yang Yongzhe attributed this success to a new, development-minded approach to relief operations. In 1989, however, optimism was waning. Even with sustained State funding, the new approach could not work miracles.

The New Approach

According to Yang, the experience of past decades has shown that relief operations can only wage a "war of attrition" against poverty; moreover, these programs encourage a mentality of dependence among cadres and the welfare population. They also invite corruption and the misappropriation of public funds by unscrupulous cadres, as well as sow seeds of anti-government hostility among the welfare recipients. In contrast, the new approach is "development-minded". Funds are no longer "given away gratuitously" nor "scattered equally". They are allocated in the form of grants or loans only to cost-effective development projects.

Yang gives several examples from the six counties around the Yi (沂) and the Meng (蒙) mountains in Shandong where welfare funds have been consolidated to finance "commodity bases" that organize the production, processing, marketing, and even export of locally grown products, such as fruits, medicinal herbs and livestock. At the end of 1987, the average individual income of 80 per cent of the poor households there rose above the annual 200 *yuan* poverty line.² In Yulin, (榆林) Shaanxi, building funds for the old "liberated areas" and welfare discount loans were also invested in "commodity bases" where special strains of sheep and goats are now being raised for a growing woolen and cashmere textile industry. This project already involves over 170 villages and market towns.³

According to the developmental approach, the recipients of financial or material aid are no longer impoverished households or villages, but rather those individuals who have proved themselves

capable in doing business and creating new jobs. The report notes a case in point of nine talented women from Wan (完) county near Baoding in Hebei. With only 100,000 *yuan* of relief funds and loans at their disposal, these women established a company producing plaited straw which created over 15,000 new jobs in 23 villages and did 3.69 million *yuan* worth of "output value" during its first two years of operation. The Party and administrative officials in Baoding are reportedly following suit. During the three year period from 1985 to 1988, 1,384 such "economic relief projects", including 133 key enterprises engaged in the production of carpets, knitwear and embroideries, were set up by "talented individuals" that provided over 230,000 jobs in the area.

Waning Optimism

At the seventh meeting of the Task Force in early February 1989, the report of Chen Junsheng (陳俊生), Director and State Councillor, made it clear that the war against poverty would continue far beyond the last two years of the seventh five-year plan period. Much of the remaining poor population, he explained, lives in the worst geographical surroundings: areas with adverse natural environmental conditions, high mountain regions and regions vulnerable to natural calamities. About 141 of the 300 welfare counties are distant national minority areas. Throughout the country there are an additional 10 million people without adequate water supplies and some seven million displaced persons living in reservoir areas with no permanent homes.⁴

On August 10, a *People's Daily* leading article offered a more optimistic assessment: at the end of 1988 there were 22.56 million individuals with net incomes of less than 200 *yuan* per year, a 65 percent decline from 64.54 million in 1985; the number of counties where individual net incomes averaged less than 200 *yuan* had dropped from 224 in 1985 to 70.⁵ A few weeks later, however, the same *People's Daily* reprinted a report from the *Economic Reference* of August 21, which took into account the cost of living increase since 1985 and concluded that there were still 57.88 million persons in 195 counties with average incomes below the 200 *yuan* line. The later report also noted that in national minority areas, the average industrial-agricultural output value per capita was 338 *yuan* which is 27 per cent of the national average. In November, the results of a partial survey of poor counties indicated that between 1980 and 1988, whereas net individual incomes there had risen from 34 per cent to 47 per cent of the national average, in absolute terms the gap had increased from 127 to 289 *yuan*.⁶

State Funding, But No Miracle.

Since 1986, the Agricultural Bank has issued one billion *yuan* in loans. From 1988, another 700 million *yuan* in development-oriented loans was added on an annual basis.⁷ In 1989, the State Council announced that, despite a tightening of finances and credits, welfare projects would not be affected and the People's Construction Bank would provide an extra 100 million *yuan*. Moreover, in 1989-1990, the expired loans were to be reimbursed to the county which must apply them to more local welfare projects.⁸ In April 1989, the State decided to give away 600 million *yuan* worth of low and medium grade industrial products to supplement salaries (instead of the traditional cereals and cotton cloth, now in short supply) to open up more "welfare jobs" in road building. Other loans are issued to old revolutionary bases, national minority areas, or local industries in poor counties.⁹ Lastly, and worth mentioning here, a Foundation for the Development of Poor Areas, later renamed "China Relief Foundation", was set up to invite assistance, including funds from individuals or organisations both in China and abroad.¹⁰

Not all of these development loans go a long way. Natural calamities and rising production costs may dissipate hard-won improvements in no time at all. In Nujiang (怒江) Autonomous Prefecture of Lisu (傣僳) Nationality, in Yunnan, families whose individual incomes had reached a high point of 500-700 *yuan* now find themselves with less than 200 *yuan*. In Shanxi, out of the 4.5 million households which had risen above the poverty line, 260,000 have again fallen below it. In Hunan, the 1988 drought raised the number of poor households from 2.60 million to 4 million. Reports also mention other factors, such as the lack of education and flagrant consumerism. In the Wulanchabu (烏蘭察布盟) league of Inner Mongolia, some 170,000 households which had just risen above the poverty line spent all their money on building houses at an average cost of 203 *yuan* per household member, leaving only a few *yuan* to invest in production.¹¹

Relapses into poverty are often linked to low cereal productivity. In poor areas, following the reformists' emphasis on afforestation and livestock, the production of grain *per capita* has decreased by 2.6 per cent from 1985 while the volume of state-resold grain has jumped to 29.3 per cent. In Jinzhai (金寨) county in Anhui, there is now only 0.57 *mu* (0.038 *ha*) of cultivated land per inhabitant, down from 1.35 in 1949.¹²

As relief for grain farmers, the State provided money, plastic sheeting, fertilizers, etc. to promote the cover cultivation of high-yield crossbred maize. This "subsistence project" was extended in

1989 to include 375 poor counties in cold or dry climates. However, only 62 percent of the project could be implemented in 1989 due to the shortage and high cost of plastic sheeting. Despite this, by the end of the year, the project had helped to solve the food problem of 5.53 million people who got an additional 161.8 kg. of maize per *mu* (2,425 kg. per *ha*). In 1990, an additional 84 per cent of the peasants are benefiting from the project.¹³

One must add that the "subsistence project" is not as straightforward an undertaking as it might appear. Not until September 1989 did the province of Guizhou approve the scheme, which could benefit 3.2 million poor people there. One report mentions that the Guizhou government has decided that every detail of the entire operation will be made public.¹⁴ Can it be that cadres there cannot be trusted with relief funds?

In view of all these difficulties, the State Council approved in March 1990 a recommendation that all yearly welfare loans be rescheduled till the year 2000. The State Council added that "we must realize that, at present, poverty remains a serious problem". It will take another ten years to "stabilize subsistence" and alleviate the conditions of the "majority of the households" in the poor regions.¹⁵

East China, West China: A Widening Gap

The eleven provinces in the West represent 70 per cent of the national territory and 28.6 percent of the population, but their industrial-agricultural overall output value is only 17.2 per cent of China's total. In contrast, the ten eastern coastal provinces, which comprise only 34.3 per cent of the population, account for 53 per cent of the output value.

At a nationwide seminar two years ago, young scholars emphasized that since 1979 the gap between East and West China had "dramatically widened."¹⁶ This trend was well documented in an issue of *Outlook* last year:

**Table: The Widening Gap Between East and West China:
1981-1987 (in billions of yuan)**

	1981	1987
Industrial-agricultural Society commodities retail sales	256.16	678.59
	59.16	155.82
Industrial overall output value	218.89	595.50
Agricultural overall output value	37.27	75.77
Rural individual aver- age net income (<i>yuan</i>)	72.07	331.62

East China: Liaoning, Beijing, Tianjin, Hebei, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong.

West China: Inner Mongolia, Shaanxi, Gansu, Ningxia, Giansu, Xinjiang, Qinghai, Guizhou, Sichuan, Yunnan, Guangxi.

Source: *Outlook*, 1989, No. 9, p.9

As one might expect, this general trend is particularly striking when one compares individual provinces on both sides of the poverty border, as the authors of the classic, *The Poverty of Plenty*, have done. In 1983, for instance, the industrial-output value of Tibet represented no more than 8.51 per thousand of that of Jiangsu. The authors estimated that this ratio would decline further to 5.50 per thousand during 1990, and the gap would widen from 81.8 billion *yuan* in 1983 to 180.8 billion *yuan* in 1990.¹⁷

Rural Economy

In 1987, the average rural net-income *per capita* reached 567 *yuan* in the East. This income was 134 *yuan* above that of Central China and 210 *yuan* above that of Western China. Among the ten provinces with the highest average rural net-income nationwide, nine were on the east coast (the other was Jilin); Shanghai municipality topped the list with 1,059 *yuan*, comfortably above the national average of 463 *yuan*. The growth rate of rural net-income in the East was 5.4 per cent higher than in the West. At the end of

1987, cash-in-hand and bank savings in rural areas averaged 254 *yuan* in the East, twice as high as that in the West.¹⁸

Rural enterprises (RE) may well illustrate the slower pace of reform and development in the West. There, in 1987, the average *per capita* income derived from REs was 6.7 *yuan*, compared with 64.4 *yuan* in the East, including front runners like Shanghai (433.3 *yuan*) or Beijing (245.1 *yuan*). In the Northwest, Shaanxi has the best record for REs, yet in 1988 the output value of REs there was 6.1 billion *yuan*, compared with 8.2 billion *yuan* in the county of Wuxi (無錫) in Jiangsu. Moreover, 80.23 per cent of REs' activities in Shaanxi are concentrated around five cities in the central plain, well away from the pockets of poverty and unemployment in northern and southern Shaanxi.¹⁹

Industry

Industry in West China is dominated by State enterprises (85.07 per cent of total output value in Gansu against 37.7 in Jiangsu), heavy industries (55.22 per cent in West China, against 46.25 per cent in the East), large and medium-size enterprises (68.97 per cent in Gansu, 31.95 percent in Jiangsu). For several decades these enterprises have been sending their products to the East at parity prices. Came the reform and authorities in Gansu, for instance, realized that on non-ferrous metal products alone the province was losing 3.3 billion *yuan* each year. Yet, even if recently West China has been reducing the value of its parity price sales to the East, the gap has kept widening across the land.

Several factors contribute to the widening gap. First, the State is no longer forcing investments on any place irrespective of economic efficiency, but allows its funds to go to the best offers, that is, to the East. During the sixth five-year plan, capital construction investments in State units in the East had thus amounted to 162.7 billion *yuan*, compared to only 58.8 billion in the West; the gap was still wider in the collective sector. This trend has continued during the seventh five-year plan period. A second factor is that in the West, "reform" itself has been lagging behind. One main reason lies in the high percentage of State and large-scale enterprises, that is, units which as a rule are the most resistant to reform. Another factor has been the small number of medium or small-sized cities and towns to serve as connecting points for the rural commodity economy. A third reason for the widening gap is that the State has adopted several policies in favour of the East, setting up special or open zones, open cities and foreign exchange related privileges, the West meanwhile suffers from a price system that offers an unfavourable return for its raw materials.²⁰

Education

In 1987, the average "educational index" was 4.65 nationwide. The lower indexes were found in Tibet (1.47), Qinghai (3.13), Yunnan (3.27) and Guizhou (3.51), which compared poorly with those of Beijing (7.10), Liaoning (5.82) and Zhejiang (4.71). Education is crucial to development, but the educational gap between West and East is also widening. For instance, in many poor regions school attendance at post-primary level requires boarding facilities, since the schools are far away from the villages. This entails heavy expenditure. In the minority areas in Guizhou, it is not uncommon for a family to spend in excess of 120 *yuan* per year on a child attending junior secondary school (or even upper primary school) and this is in an area where the average annual per capita income is below 150 *yuan*. In Sichuan, 326,900 children were not able to attend school in 1989.

Furthermore, the new policy of local financing of schools has given rise to regional disparities which were not apparent in the recent past. The education tax imposed on local enterprises raises little revenue for schools in the inner provinces where industry and commerce are still at a very primitive level. Likewise, "work-study" (勤工儉學) programmes and community donations represent only insignificant income in those provinces. While in well-off regions, the school has become the most prominent structure in many villages in Guizhou, many schools are given no money at all, but only a ration of chalk in lieu of monthly expenses. (In 1983, 23.4 per cent of the students in the province had no desks). In some of the coastal regions, the provincial government can afford to support *minban* (民辦) or "community sponsored" teachers at the same salary as those on the government payroll, but in the poor communities *minban* teachers are offered but a pittance.²¹

The Need For A New Economic Vision

The debate over a new economic order has been going on for some years--ever since the adoption of the policy giving high priority to the development of the eastern seaboard. Experts from West China oppose the view that development will gradually spread from the East to the Central region and eventually to West China. Instead, some advocate that the poor regions should and can make the "leap forward" without waiting.

The debate is basically about a "balanced or unbalanced development." Should construction focus on the West and speed up development there to enable those regions to catch up with the East,

or should the existing limited resources continue to be concentrated on the "most decisive" and "most economically efficient" regions, namely the eastern seaboard?²²

Two Options

Two options reflect the complexities of the situation. According to the first option only a genuine "commodity economy" can provide the conditions for a rational pattern of East-West economic relations: lower taxation in the East and fewer subsidies to the West, and a free development of horizontal cooperation. Whereas according to the "traditional pattern", the central Treasury pumps the blood directly from the Eastern regions transfusing it gratuitously to the West, the Eastern seaboard should rather "invest directly in the West" through market networks. This option is clearly in line with the spirit of reform. It aims at raising the profitability of the limited funds available by relying on the initiative of enterprises rather than on central planning. Yet this option requires conditions which are still utopian: a unified open market and a price structure which will guarantee investors equal benefits in the West and in the East.

In view of these uncertainties the second option envisions a "slow progressive process." For the time being let the State subsidies to the West continue at the same level, but they must become "operational" instead of "administrative welfare" subsidies. The West should be allowed to invest these government subsidies directly in the East. This policy would alleviate the East's urgent need for funds while allowing the West to channel its funds into profitable operations. On the other hand, the East should also invest in the West to boost its needed supplies of raw materials, while at the same time introducing to the West the mechanisms of a wider market.²³

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Trade and Regional Approach

Reflecting on the trade deficit, Guo Fansheng (郭凡生), Vice-Director of the Research Centre for the Development of West China, comments that the emphasis should rather be put on favourable trade with socialist countries and developing nations in South-East and West Asia. The Research Centre has worked out, for instance, a blueprint for "experimental free market areas" in south Xinjiang and in the Dehong (德洪) Autonomous Prefecture of Yunnan. Is it not time to think of the West as the main exporter of the goods produced by enterprises in the East?

Nothing but "regional development" can bring about a remapping of the national economy. It will be a slow process. In the past ten years, excessive preoccupation with "reform" has blurred the issues of regional strategies; it will take "five to ten years" before even a few regional markets can emerge. In this matter the Research Centre has so far reached two major conclusions: one is that the eastward flow of raw materials must be kept in check; the other is that the present "small cities" policy is a mistake. Development in the West does require large cities.²⁴

Recalling that the Chinese West has always been a land of merchants in the best Moslem tradition, veteran anthropologist Fei Xiaotong (費孝通) stresses also the potentialities of the "domestic rural market." In most parts of China, rural incomes are above 400 *yuan*, but "how is that money spent?"

There is also an urgent need, Fei Xiaotong adds, to put the many State and army enterprises in the West at the service of the local communities. For years the State has supported factories which have always remained foreign entities contributing nothing to the regions. Since 1978 their cost-effectiveness has remained low, whereas in Lanzhou, Xian and elsewhere, they have used some of the best equipment in China and employed relatively more senior technicians than Shanghai. According to a recent report, in the Northwest some 200,000 technicians stand idle. Can these resources be liberated from the constraints of central planning and be deployed to generate regional development?²⁵

For The Time Being...

Since the summer of 1989, these visions of a new economic

order and of political reform that would allow a free market economy through the West, have become dormant. For the time being, social control over national minorities seems to be the overriding concern. Yet, one should not hastily conclude that the issue of West China has been taken off the official agenda.

In his address to a national meeting of the presidents of the Nationalities Affairs Commissions (February 15, 1990), Premier Li Peng conjured up visions of international and local "separatists" lighting the fires of secession among national minorities. At the same time he reminded his audience that those various populations occupy areas which represent 64 per cent of the national territory in which 14 per cent of the population of China live. In early March, the government made it clear again that federation was out of the question, while Xinjiang officials warned that there were many troubling hot spots there.²⁶

Apart from requiring strict political and ideological control, these fears demand that all take seriously the economic backwardness of the West and work at reducing a gap "inherited from history." Li Peng did mention that the future of the national economy would depend "to a great extent" on the exploitation of resources and development of the West, but he added that in 1990 and during the eighth five-year plan period the main priority will be agriculture and stock-raising with a view to alleviating local food problems. Minority regions should constitute the "key points of welfare work." Birth control and eugenics were also mentioned, as Li Peng in a rather convoluted style both expressed his approval of the relaxed implementation of birth control in minority areas and advocated eugenics to "raise the quality" of the local populations there. These declarations confirmed several recent reports about eugenics and birth control in poor areas, like Jinzhai and Anhui, where the natural growth rate is now being kept at 6.5 per thousand.²⁷

On the other hand, since the summer of 1989, the leadership has been eagerly promoting border trade in West China in an effort to reduce the effects of international economic sanctions. In June 1990, the general office of the State Council also indicated that the question of West China will be given due consideration in the drawing up of the eighth five-year plan.²⁸

Conclusion

The predicament of West China well exemplifies the general problems besetting the Chinese economy. Like the rest of the country, the West suffers from the legacy of three decades of centralized administrative planning; moreover, the reformers' dual

economy (urban/rural), two-price system and short-term behaviour have disregarded the specific conditions of the hinterland.

Is it possible to reform the faulty system still further? In the past few years at least, it has become clear that better welfare strategies are not enough and that it would be irresponsible simply to wait for the more developed economy in the East to spread westward in due time. These considerations are all the more valid in 1990 when provinces are resorting to more and more protectionist measures.

The next question is how to connect "policies" with "culture", the human factor. According to Fei Xiaotong, the commodity economy is the only answer to the problem of the West, but "our knowledge of the laws of that economy are quite insufficient." As Fei sees it, the West has many natural resources; the question is mainly one of how to "engineer" the process through which the economy of a whole given area becomes market-powered. Policies are needed, but no development will take place without the human factor and a good dose of the entrepreneurial spirit.²⁹

Notes

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5. *PD*, August 10, 1989, p. 1.
6. *PD*, September 3, 1989, p.8.
7. *PD*, January 9, 1989, p. 1.
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27. *PD*, February 21, 1990, pp. 1 and 3; December 9, 1989, p. 5; December 1989, p. 2; January 21, 1990, p. 1.
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29. *OL*, 1988, No. 40, pp. 15-17.



Let the man with two coats
give to him who has none