Beyond the goal of eradicating absolute poverty in China: relative poverty indicators and social security policies

Key points

- With rural extreme poverty set to be eradicated in 2020, China is to move to measuring relative poverty in urban and rural areas.
- Relative poverty describes circumstances in which people cannot afford actively to participate in society and benefit from the activities and experiences that most people take for granted.
- It is conventionally defined as 40, 50 or 60 percent of national median disposable income.
- While a single poverty threshold symbolises national unity, separate poverty thresholds could be created for urban and rural areas or provinces.
- A unified national poverty standard for China based on 40 percent of national median disposable income threshold implies income levels almost 4 times higher than the existing rural poverty line and 61 per cent higher than average social assistance (dibao) payments in urban areas (often used as a surrogate urban poverty line).
- Relative poverty is more persistent than absolute poverty and less affected by economic growth. Research is required to determine the needs of peri-poor persons (i.e., those brought into poverty due to the new definition).
- Strategies needed to tackle relative poverty include: a comprehensive social protection system inclusive of floors; active policies to assist people out of poverty; poverty mainstreaming; and supportive, redistributive fiscal policies.

Introduction

Despite the impact of COVID19, China still aims to eradicate extreme rural poverty in 2020 or shortly thereafter. Moreover, China has made clear its commitment to continue an ambitious poverty alleviation and social protection agenda that will in future embrace urban as well as rural poverty. The Communique of the Fourth Plenary Session of the 19th Central Committee of the Communist Party of China issued in October 2019 proposes addressing relative poverty and commits to improving social assistance, and to providing higher quality employment, education offering life-long learning, health guarantees and comprehensive social security.
With a view to contributing to the development of this ambitious agenda, this Research Brief focuses on relative poverty, first reflecting on the concept and its measurement, then considering how the new definition is likely to change the understanding of poverty and its dynamics in China, and finally, exploring the policy implications of incorporating relative poverty into policymaking.

**Antecedents to relative poverty**

Rural poverty in China is currently defined by per capita income of less than 2,300 yuan/year in 2011 prices (about US$350/year). When introduced in 2011, the intention was to bring the threshold ‘closer to the international standard of $1.25 a day’ set by the World Bank in 2005 and which was subsequently increased to $1.90/day in 2015.4

The level of *dibao*, basic social assistance, varies between provinces, rural and urban areas, and major cities but is generally fixed above the poverty line. Moreover, the government’s poverty alleviation strategy has, since 2011, embraced the concept of ‘two no worries’ (*Liangbuchou*) over food and clothing and three guarantees (*Sanbaozhang*) relating to housing, health care and education. Many cities have introduced low income lines, thresholds for financial and other support that are higher than *dibao*: 1.5 times higher in Guandong Province, two times higher in Wuhan. In Beijing, the low-income line equals the minimum wage.6 7

So, while national policy has focussed on the eradication of poverty defined in absolute terms, policy on the ground has begun to embrace a more relative understanding of poverty, one related to local living standards.

**The concept of relative poverty**

As societies become more prosperous, poverty comes to describe situations in which people cannot afford to buy and do the things that most people take for granted as being essential. When the current poverty standard was established, China was transitioning from being a low middle-income to a high middle-income country. It is now close to being designated as a high-income country by the World Bank (Figure 1).8

Relative poverty is a manifestation of social inequality that directs attention to acceptable living standards, the benefits of citizenship and the need to avoid social instability caused by severe deprivation. Unlike absolute or extreme poverty, it cannot be eradicated by economic growth. Policies needed to address relative poverty are therefore distributional and include comprehensive social protection achieved through social assistance, social security, and progressive taxation. Such policies necessarily embrace social and community concerns including solidarity, cohesion, and harmony.

In the European context, Member States have agreed to use the same benchmarks of within-country social cohesion and exclusion to gauge success in fighting poverty, social exclusion, and inequality.9
Fixing the threshold of relative poverty

Relative income poverty is usually defined and measured as a proportion of mean or median income. Median income, the mid-point of the income distribution with 50 per cent of people receiving more and 50 per cent receiving less, is generally preferred. Income is normally measured at household level and adjusted (equivalised) to take account of differences in the consumption of adults and children.\(^{10}\)

The choice of the precise threshold is generally based on convention rather than scientific analysis. But, unlike current low-income lines in China’s cities, thresholds are set relative to middle incomes rather than to extremely low ones. For example, the European Union sets its ‘at risk of poverty threshold’ at 60 per cent of median equivalised household income after social transfers, but also publishes estimates based on incomes less than 70, 50 and 40 per cent of median income.\(^{11}\) Other measures referring to incomes before social transfers index ‘market poverty’, while ‘persistent at risk of poverty’ considers duration, counting persons with incomes below the threshold in the current year and in two of the previous three years. Since 2010, Europe’s headline measure of ‘people at risk of poverty or social exclusion’ also includes individuals with higher incomes but who experience material deprivation or live in households with few people working (Figure 2).

Most countries set a single relative poverty threshold for the entire country despite geographic variations in living costs. China, of course, currently makes distinctions between urban and rural areas reflecting the almost three-fold variation in average disposable incomes (36,396 yuan in urban areas, 13,432 yuan in rural ones in 2017).\(^ {12}\) Incomes also vary markedly between provinces. However, income differentials are much reduced when account is taken of living costs.\(^ {13}\)
Source: Eurostat

The implications of relative poverty

It is recognised that ‘relative poverty [in China] will persist for a long time, and work to reduce relative poverty will continue to be done after 2020’ (Liu Yongfu, 2018 cited by Lim [2018] and Huang [2019]). One reason is that that poverty alleviation policies must chase a moving target because poverty thresholds increase as national income rises. Nevertheless, people in poverty share in a society’s growing prosperity.

The challenge is illustrated by Europe’s failure to reduce poverty between 1995 and 2018 during which time real per capita GDP increased by 44 per cent. This was despite an intergovernmental target to cut poverty by 20 million (Figure 3). In China, over a similar period, absolute poverty fell substantially but relative poverty in urban areas rose above European levels due largely to urbanisation: low-waged rural migrants moved to cities which also experienced disproportionate income growth.

Taking a longer view - from 1981 to 2008 – and considering rural as well as urban areas, China can be seen to have reduced both absolute and relative poverty (Figure 4). Relative poverty (defined as half of mean income) fell substantially from 85.2 to 41.0 per cent during this period while the global rate for the developing world scarcely changed. China’s success in reducing overall relative poverty was due to the same migration that increased urban poverty because rural migrants earned more in cities than was possible in the countryside. With China now 60 per cent urban, it will be difficult to lower relative poverty further through rural-urban migration.

Measured poverty will increase substantially if China adopts international conventions. A threshold set at 40 per cent of national median disposable incomes is 3.8 times higher than the current rural poverty line; the 60 per cent threshold is 5.7 times higher. In 2015, 377 million people (27.2 per cent) lived on less than the World Bank standard of $5.50/day which is close to a threshold set at 50 per cent of median disposable income. In rural areas, people report themselves to be poor if their income is less than about 40 per cent of national median disposable income.

If the poverty threshold is raised on the
introduction of a relative measure, it is likely to reverse the trend towards shorter spells observed for the current indicator. \(^{18}\) Extreme poverty is exceptional whereas less serious forms are prevalent and persistent. Less severe spells of poverty last longer than more severe ones in every European country.\(^ {19}\)

**Figure 3. Relative poverty in Europe and urban China**

![Graph showing relative poverty in Europe and urban China](image)

Source: Eurostat and Gustafsson, B & Ding S. (2020).

**Figure 4. Relative and absolute poverty and inequality, China and other non-OECD countries**

![Graph showing relative and absolute poverty and inequality](image)

Adapted from Chen and Ravallion (2012)
What relative poverty means for policy

China’s moving to the measurement of relative poverty in both rural and urban areas reflects its economic success and place in the world. It suggests a policy objective to ensure that everyone can participate in the economic, political, social, and cultural life of the nation. To achieve this policy goal, the poverty threshold will first need to be decided, the degree of linkage with welfare benefits determined and some reform to social protection provision put in place.

Level of the poverty threshold

Setting the level of the poverty threshold is a matter of political judgement. International conventions require that it should be such as to ensure that people can live with dignity and research may be needed to determine a socially acceptable minimum. The size and diversity of China present challenges for implementing a single universal poverty line that would offer administrative clarity while simultaneously promoting national identity, cohesion, and social harmony. The European Union, as noted above, has adopted a common standard (60 per cent of national equivalised disposable income) which is separately implemented by Member States. Poverty rates range from 9.7 per cent in Czechia to 25.1 per cent in Romania (Figure 5). Applying a single pan-European poverty threshold highlights the extreme differences in economic development within the Europe Union and the challenges that it confronts in building social cohesion within an open market economy; poverty according to this measure is below five per cent in five countries but above 70 per cent in Bulgaria and 90 per cent in Romania.

Figure 5. Relative poverty rates in Europe, 60 per cent of median disposable national and pan-European income, 2014

Source: Eurostat and Goedemé et al. (2019)
Economic disparities are less in China than in Europe, albeit with marked differences between provinces and urban and rural areas. In 2017, the rural poverty standard and average urban dibao respectively equalled 26 per cent and 61 per cent of the 40% of national disposable income poverty standard. Therefore, a unified national poverty line at this level would involve increases in poverty thresholds of between 61 per cent and almost 400 per cent.

An alternative approach would be to retain separate urban and rural poverty thresholds, setting both at 40 per cent of the corresponding median disposable income. This would imply an approximate doubling of existing poverty thresholds (average increases of 190 per cent and 220 per cent in rural and urban areas respectively).

Poverty and social assistance thresholds

There is a powerful administrative logic for equating social assistance and poverty thresholds; receipt of assistance would guarantee an escape from poverty.

If it was decided to set dibao equal to a national poverty line set at 40 per cent of median personal disposable income, then urban and rural dibao would need to increase by factors of around 2.3 and 1.6 respectively. Urban dibao would require to be doubled and rural dibao almost tripled to reach the World Bank preferred standard of 50 per cent of median personal disposable income. These large multiples reflect the gap between China’s rural poverty threshold and conventional international measures of relative poverty.

If separate urban and rural thresholds were retained, rural dibao would be required to rise by 15 per cent to equal 40 per cent of median rural disposable income, while urban dibao would have to approximately double (increasing by a factor of 2.19) to reach the corresponding urban threshold. Choosing to adopt provincial thresholds that combine rural and urban populations would similarly require dibao thresholds to be doubled, albeit with some provincial variation. It will be recalled that low-income lines adopted by certain cities and provinces were of similar magnitude, being approximately double the dibao rates.

**Figure 6. Adequacy of minimum income benefits latest year 2015-19**

Source: OECD, 2020
This suggests that policymakers generally feel that incomes below this level are no longer acceptable in today’s China. The level of *dibao* adopted in Tibet Autonomous Region is already 23 per cent higher than 40 per cent of the region’s median disposable income (low in comparison to most provinces). This might hint at local policymakers referencing nation living standards and could predict future pressures towards adopting a single poverty standard as is happening in Europe. 

Source: 123rf.com

There are, though, arguments against linking social assistance and relative poverty thresholds. A recession (which can reduce income inequality), or a new strongly progressive income tax system, might reduce median disposable incomes leading to a fall in the poverty threshold, hence requiring a reduction in benefit levels which might prove administratively and politically difficult to implement. Linkage of benefit levels to policy thresholds might also increase the chances of administrative gaming to exaggerate performance against the poverty target, thereby reducing the reliability of statistics.

**Vertical coverage of social protection**

Despite the adoption of relative poverty standards by many governments, it is still often the case that minimum income benefits fall short of offering full protection against relative poverty (Figure 6). In response, Sustainable Development Goal, Target 1.3 is designed to ensure that all national governments implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and vulnerable.

Policies to address relative poverty require the establishment of a comprehensive social protection system inclusive of floors to maintain incomes and to prevent people slipping into poverty. In addition, social assistance should be at a level and coverage sufficient to guarantee that beneficiaries can live with dignity. There is also often a need for active provision to assist people to return to self-sufficiency, for example, measures to enhance human capital and to facilitate employment.

It is important to keep the level of contingency-related income maintenance provisions closely aligned with social assistance minima to sustain a social protection ecosystem that ensures levels of relative poverty are kept to a minimum, that insurance benefits deliver additional incomes commensurate with the level of contributions, and that work disincentives are avoided.

Social insurance provisions, knowing that relative poverty must be addressed through distributional policies rather than economic growth, serve to redistribute income over people’s lifetimes. They can also redistribute resources between individuals in different age cohorts—intergenerational redistribution — and within the same age cohort — intragenerational redistribution.

**Horizontal coverage of social protection**

Moving to a relative poverty threshold consistent with China’s growing economic prosperity will inevitably change both the predominant sociodemographic characteristics of people experiencing poverty and the character of the poverty experienced.

Ongoing monitoring of relative poverty by age, group, sex, geographic area, origin, etc. can serve to identify those groups that are falling behind others in society. Initially, priority should be given to determining the life experiences of peri-poor persons, those brought into poverty due to the new definition.
They are likely to be younger and better educated than people currently counted as poor, to live in cities or urban areas, to have children and to suffer recurrent spells of poverty.

People may experience poverty for a range of reasons, individual, institutional and structural. These may indicate a need for improved regulation and provision with respect to illness, maternity, employment injury, death of a spouse or caregiver, funeral expenses, invalidity, unemployment and minimum wage enforcement within both the formal and informal sectors. 25

Such a mix of policies accords with the ILO concept of Universal Social Protection that encompasses income redistribution through social solidarity and a mix of instruments to provide income security to allow a life in dignity. 26 While enhancing individual welfare and social cohesion, this investment also brings macroeconomic benefits. It enables the economy to bridge recessions and confront unpredictable contingencies such as the COVID-19 pandemic. It similarly supports the strategic goal of transitioning to a more consumption-led economy facilitated by transfers to those on low incomes who tend to spend more of their income than other groups. China has a greater capacity than most countries to benefit from such measures since spending on social investment is less than in many comparable countries while the saving rate by the lowest income groups is exceptionally high.

Relative poverty also needs to be mainstreamed. 27 28 This means that all public policies should be designed either to reduce relative policy or not to increase it. Fiscal policies should also support movements out of poverty and redistribute market incomes necessary to fund adequate social protection.

## Beyond relative poverty

China’s shift to measuring relative income poverty is enormously significant, a step towards meeting the UN’s Sustainable Development Goal of ‘halving poverty in all its dimensions according to national definition’ by 2030. China’s poverty alleviation strategy already extends beyond low income to cover dimensions of food, clothing, housing, health, and education although these are not explicitly conceptualised in relative terms.

However, it is widely recognised that there are relational and response dimensions to poverty that also need to be addressed. Proof of concept research conducted with people experiencing poverty in Guizhou 29 suggests, in accord with other international research, that poverty may have as many as nine dimensions. 30 These include, in addition to insufficient income, undignified work, and material deprivation, relational dimensions - social abuse and exclusion, institutional maltreatment, and powerlessness - and response dimensions: physical and emotional suffering, struggle, and resistance. While further research across China is required to validate these dimensions, they already provide a template for use in the framing, design, and implementation of policy. 31

### Conclusion

‘Win-win’ outcomes are rare in public policy but China’s decision to make poverty relative holds out the possibility of being one of them.

It reflects China’s economic success and growing status in the world, reinforcing its leading role in addressing global poverty within the Sustainable Development Goals’ framework. But it has major domestic implications too, in all probability revealing that many tens of millions of people and families in China are denied their full potential by persistent and repeated periods of relative poverty.

The decision signals a new approach to poverty alleviation based on different forms of measurement and demanding the development of a comprehensive system of social protection to prevent poverty, supporting the most disadvantaged at or above the new poverty line. It offers the possibility of promoting national unity by
instigating a unified poverty standard embracing the whole country, while supporting a sustainable economy through fostering consumption-led growth and protecting China against the destructive impact of global economic events.

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**Key references**


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Original studies:


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Box A
Implied increase in poverty and *dibao* thresholds to equate with relative poverty standards

<table>
<thead>
<tr>
<th></th>
<th>Current thresholds</th>
<th>New poverty threshold as % of per capital disposable income</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>40%</td>
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<tr>
<td>A national poverty line</td>
<td>Urban <em>dibao</em></td>
<td>1.61</td>
</tr>
<tr>
<td></td>
<td>Rural <em>dibao</em></td>
<td>2.31</td>
</tr>
<tr>
<td></td>
<td>Rural poverty line</td>
<td>3.82</td>
</tr>
<tr>
<td>Separate urban &amp; rural poverty lines</td>
<td>Urban <em>dibao</em></td>
<td>2.19</td>
</tr>
<tr>
<td></td>
<td>Rural <em>dibao</em></td>
<td>1.15</td>
</tr>
<tr>
<td></td>
<td>Rural poverty line</td>
<td>1.91</td>
</tr>
</tbody>
</table>

Box B
Whether to make poverty and social assistance thresholds the same

<table>
<thead>
<tr>
<th>Poverty and social assistance thresholds</th>
<th>Make the same</th>
<th>Keep separate</th>
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</thead>
<tbody>
<tr>
<td><strong>Pros (advantages)</strong></td>
<td></td>
<td></td>
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<tr>
<td>• Logical to equate policy goals and measures</td>
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<tr>
<td>• Poverty rate is a direct measure of policy effectiveness</td>
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<tr>
<td>• Aids poverty mainstreaming</td>
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<tr>
<td>• Aids policy coordination</td>
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<tr>
<td>• Sends clear message to the public and to potential applicants</td>
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<tr>
<td>• May increase take-up of social assistance because of clear messaging</td>
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<tr>
<td>• May encourage comprehensive coverage of social assistance</td>
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<tr>
<td><strong>Pros (advantages)</strong></td>
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<td></td>
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<tr>
<td>• Emphasises multiple dimensions and types of poverty</td>
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<td>• Facilitates observation and investigation of divergent trends in different measures and types of poverty</td>
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<td>• May encourage cross departmental cooperation</td>
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<tr>
<td>• Separates of statistical from political presentation</td>
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<tr>
<td><strong>Cons (disadvantages)</strong></td>
<td></td>
<td></td>
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<tr>
<td>• Poverty – and therefore linked social assistance thresholds – can fall in a recession (if income inequality is reduced) making some recipients ineligible (unless benefits protected)</td>
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<tr>
<td>• Progressive tax changes can have the same effect</td>
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<tr>
<td>• Can lead to policy gaming and distort statistical returns</td>
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<tr>
<td>• Social assistance may not be designed to reach all beneath poverty line</td>
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<td></td>
</tr>
<tr>
<td><strong>Cons (disadvantages)</strong></td>
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<td></td>
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<tr>
<td>• Separate studies and monitoring required to measure the effectiveness of social assistance and other related policies</td>
<td></td>
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</tbody>
</table>
1 Premier Li Keqiang reported in Marchisio, M. (2020) Poverty will be eradicated despite outbreak. China Daily, 15th June.
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10 Eurostat use the ‘OECD-modified scale’ which assigns a value of 1 to the household head, of 0.5 to each additional adult member and of 0.3 to each child. There is evidence that this generally understates the needs of children and overstates those of elders. See: Bradshaw, J. (2020) From normative budget standards to consensual minimum income standards in the UK Chapter 2 in Deeming, C. (ed.) Minimum Income Standards and Reference Budgets. Bristol: Policy Press.
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