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Chinese Definition of Poverty

The Central Government of China only defines the national rural poverty line, whereas the urban poverty lines are determined by individual cities without a national standard. Poverty line is in essence the standard of poverty alleviation in China.

On 29 November 2011, the Development-oriented Poverty Reduction Working Meeting convened by the Central Committee of the Communist Party of China announced that the 2011 national poverty line was set at 2,300 Yuan of the annual per capita net income of a rural household. According to this new standard, there were 128 million poor rural residents, who constituted 13.4% of the rural registered residents, by the end of 2011 in China.

The 2011 poverty line significantly increased by 92% than the standard set in 2009 (1,196 Yuan). In 1985, when it was first introduced, the poverty line was set at 206 Yuan. From 1985 to 2009, the threshold of the poverty line increased by 4.8 times. However, during the same period, both economic and income growth increased tremendously in magnitude. While the GDP increased by 36.2 times, the per-capita net income of rural households increased by 12 times (Li, Ou & Li, 2012). In other words, though the Chinese Government increased the level of poverty line, the increasing rate of which lagged significantly behind the economic and income growth in China.

The Chinese definition of poverty is proposed by the National Bureau of Statistics of China (NBS). Since 1986, NBS has been estimating the poverty line on the basis of Rural Household Survey (RHS) for the benchmark years of 1985, 1990, 1994 and 1997 while updating the poverty lines for subsequent years via multiplying the consumer price index by poverty line of previous years.

Derivation of the poverty line was initially based on the “food share method”. Firstly, using RHS data, NBS fixed the minimum food energy intake cut-off in calories, found the “basic food bundle”, and calculated the relative consumption by which a person typically attained that food energy intake. The second step was to set up a “reasonable” Engel Coefficient, which was set at 60% of household consumption. According to this

income-based method, the poverty lines were set at 206 Yuan of household income in 1985, 300 Yuan in 1990, and 440 Yuan in 1994 respectively.

However, income-based poverty line may have two risks. Firstly, it may include those households with income just lower than the threshold, who are still using their saving to maintain a normal living condition. Secondly, it may exclude those households with income slightly over the poverty line whose expenditure is well below the income-based poverty line.

On the other hand, NBS considers that merely using consumption-based poverty line is also not appropriate. Firstly, level of consumption is a time-lagged indicator behind the level income, so it is not a timely indicator to measure the accomplishment of anti-poverty activities. Secondly, the expenditure-based poverty line may include households whose expenditure is below the threshold but income is largely above the income-based poverty line in one year or in long term.

Having considered the pros and cons of either method, in 1995, NBS decided that poverty should be measured by both income and consumption. The poor are people whose per capita net income is below the poverty line and per capita consumption below 1.2 times of the poverty line, or whose per capita consumption is below the poverty line and per capita net income below 1.2 times of the poverty line.

Moreover, the above-mentioned “food share method” also exhibits a major problem that it is difficult to determine which level of the Engel Coefficient is “reasonable”. It seems that there was inadequate scientific support for setting the 60% threshold. NBS, thus, modified the definition of poverty line by following the improved food share method recommended by the World Bank.

These two main changes, namely, measuring both income and consumption as well as introducing the improved food share method, have been manifested in the poverty lines since 1997:

1. Set 2100 k-calories per person per day as the minimum nutrition need;
2. Determine the essential food expenditure per capita per day based on the actual food consumption bundle and food price of the low income group (the food poverty line);
3. Estimate the essential non-food expenditure through the regression model (the non-food poverty line, which is the modified step suggested by Martin Ravallion of the World Bank);

4. Adding the food and non-food components to form the complete poverty line. (RSO, NBS, 2004).

According to this estimation method, the threshold of absolute poverty was 637 Yuan (roughly about USD 75 cents a day under PPP exchange rate) in 2003. The level was similar to that of the low poverty line as suggested by the World Bank. To reflect the steadily improving living standards of rural households, NBS set another poverty line in 2000 which was based on the same food poverty line and 60% food share. This line is now officially known as the “lower income line”. In 2003, threshold of this lower income line was 882 Yuan, which was roughly about USD 1 dollar a day under PPP exchange rate (RSO, NBS, 2004).

In 2008, the Chinese Government modified the criterion of poverty alleviation standard to extend assistance from the households in “absolute poverty” to the “low income” households, therefore the poverty line rose significantly from 785 Yuan in 2007 to 1196 Yuan in 2008.

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See also: China, Engel Coefficient, Food-Ratio Poverty Line, World Bank *Poverty Lines*

Further Readings

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