

ESSAYS: Lessons Learned from the Dragon (China) and the Elephant (India)



The world made significant progress on reducing poverty between 1981 and 2001—the number of people in developing countries living on less than US\$1 a day fell from 1.5 billion to 1.1 billion, or from 40 to 21 percent of the world’s population. In fact, however, nearly all this progress reflects gains made in reducing poverty in China and India, two of the world’s fastest-growing economies. The rapid economic growth and enormous poverty reduction achieved by China, and to a lesser extent India, are remarkable accomplishments that bear closer investigation. What do the experiences of these two countries reveal about how to sequence reforms and about what kinds of reforms are most effective in stimulating growth and combating poverty? The three essays that follow compare the experiences of China and India to learn what steps each country took and what lessons they each have to offer.

AGRICULTURAL AND ECONOMIC DEVELOPMENT STRATEGIES AND THE TRANSFORMATION OF CHINA AND INDIA

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By any measure, China and—more recently—India are striking economic success stories. A few decades ago, both countries were clearly among the world's poorest countries; now they are among the world's fastest-growing economies and are responsible for nearly all the recent global progress in poverty reduction.

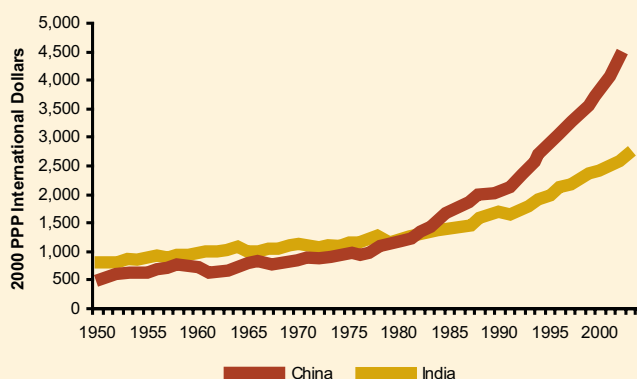
In 1978 per capita gross domestic product (GDP) in India was \$1,255—lower than the average for Sub-Saharan Africa, which stood at \$1,757.¹ Since then it has climbed steadily upward, reaching \$2,732 in 2003. Even more spectacularly, China's GDP per capita, which stood at \$1,071 in 1978, jumped to \$4,726 in 2003. China's GDP per capita growth rate is almost double that of India

(Figure 1). Moreover, the share of rural poor people fell from 33 percent in 1978 to 3 percent in 2001, according to official sources, or to around 11 percent, based on a poverty line of less than a dollar a day, according to World Bank estimates of 1998 (Figure 2). Despite ongoing controversies regarding measures of poverty in China, both benchmarks depict an extraordinary decline in the incidence of poverty. India also achieved a downward trend in poverty, although the outcomes were not as dazzling as in China. According to official estimates, rural poverty in India dropped from 50 percent in 1979/80 to 27 percent in 1999–2000, the latest year for which data are available. Together these two countries accounted for a substantial drop in global poverty levels, from 29.6 percent of the world's population in 1990 to 23.2 percent in 1999.²

¹ Figures for per capita GDP are in purchasing power parity terms with constant 2000 prices.

² Excluding China, world poverty actually increased in absolute terms, from 917 million to 945 million people.

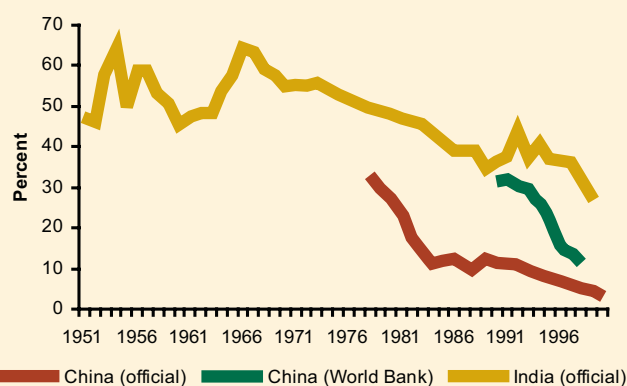
Figure 1 GDP per capita in China and India, 1950–2003



Sources: World Bank, *World Development Indicators 2005* (Washington, DC: World Bank, 2005), CD-ROM; and A. Maddison, *The World Economy: A Millennial Perspective* (Paris: Organization for Economic Cooperation and Development, 2002).

Note: The data for 2000–2003 are taken from the World Bank, while the data for 1950–99 are extrapolated using the trend of per capita GDP growth from Maddison. There have been conflicting reports on China and India's per capita GDP. Maddison reported that China and India's GDP per capita measured in 1990 PPP were \$439 and \$619 respectively in 1950, and \$3,259 and \$1,818 in 1999. But the World Bank reported a very different trend: as late as in 1978, China's GDP per capita was only \$674 measured in 2000 international prices, 56 percent of India's \$1,224. But in 2003 GDP per capita in China increased to \$4,726 and India's to \$2,732. Although we believe the World Bank has done a reasonably good job in estimating GDP in international prices in more recent years, it is not clear to us how the World Bank estimated it for earlier years. On the other hand, Maddison documented his estimates for all years from 1950 to 1999. But, his series ran only to 1999. Therefore, we have used World Bank estimates for 2000 to 2003, and then we used Maddison's trend to backcast the numbers before 2000.

Figure 2 Rural poverty rates in China and India



Sources: China, National Bureau of Statistics, *The Monitoring Report of Rural Poverty in China* (Beijing: China Statistics Press, 2002); www.indiastat.com, 2004.

Note: Poverty data for India are from large- and small-sample surveys by the National Sample Survey Organisation (NSSO). Large-sample surveys are generally conducted at five-year intervals. Since 1970, for example, they were conducted for the years 1973–74, 1977–78, 1983, 1987–88, 1993–94, and 1999–2000. The results from large-sample surveys are considered more robust and reliable than those from small-sample surveys.

Less well known than their recent blistering economic performance, however, is the role that agriculture has played in the transformation of these still heavily rural and agricultural countries. In China agricultural reforms were the starting point for economic liberalization—in other words, reforms began in the sector where the majority of poor lived, and they were largely the beneficiaries of reform—whereas in India reforms started with macroeconomic adjustment and trade and industrial policy, areas that did not benefit most of the poor. Although agricultural growth in India rose to more than 4 percent a year in the years immediately following the reforms (1992–96), it could not be sustained, and it slumped to about 2 percent a year during the period 1997–2003, severely affecting its contribution to economic growth and poverty reduction. The full potential of agriculture in India has yet to be unleashed. Now, in 2005, agriculture is once again high on the agenda of the Indian government, which wants to give a rural orientation to the entire reform and growth process. The reform experiences of China and India—similar in some ways and different in others—shed light on the enormous potential for investments and policies in support of pro-poor agricultural and rural growth to fight poverty and malnutrition in developing countries.

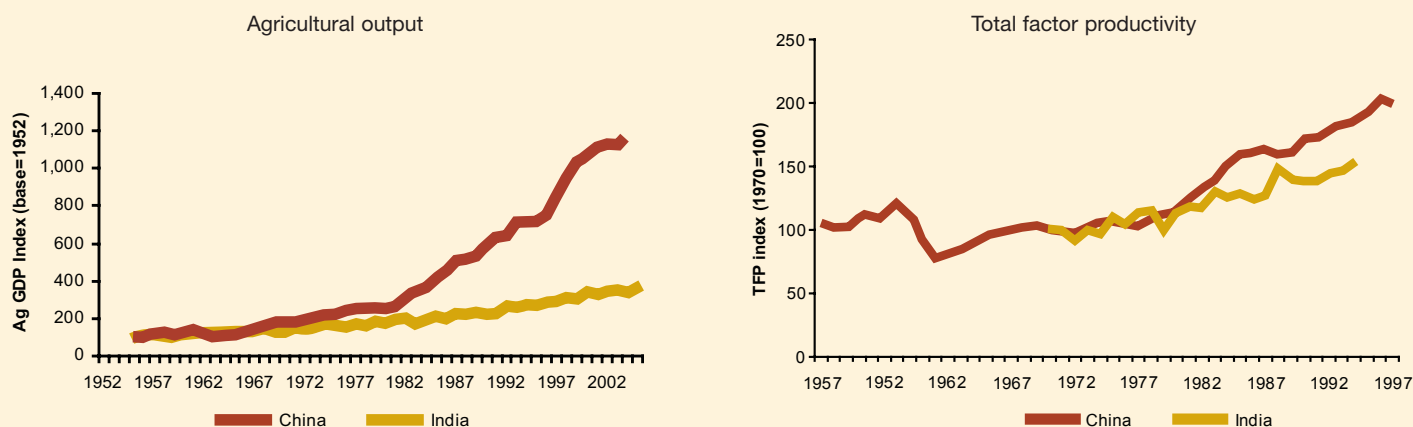
REFORMS IN CHINA AND INDIA

Reforms that directly strengthened agriculture were a major factor in China's economic growth and poverty

reduction. Between 1978 and 1989, China underwent two distinct phases of agricultural reform, which first decentralized agricultural production through the household responsibility system, giving farmers much more leeway to decide what and how much to grow, and then liberalized the systems for pricing and marketing agricultural goods. Reported agricultural production growth immediately shot up, from 2.6 percent a year during 1966–76 to 7.1 percent a year during 1978–84 (Figure 3). Furthermore, growth in agricultural productivity went from almost zero to 6.1 percent a year. Although production growth fell back to 2.7 percent a year during 1985–89 because of rising input prices, further reforms in the 1990s again raised production growth to 3.8 percent a year during 1990–97. As a result of the dramatic growth in agriculture, rural people found their incomes rising by 15 percent a year between 1978 and 1984.

But perhaps one of the most striking results of China's agricultural reforms was that they led to the creation of a whole new economic sector that became the most dynamic in China's economy: the rural nonfarm sector—the small-scale food-processing plants, machinery repair shops, and increasingly more modern and technology-intensive industries that cropped up to meet growing demand among increasingly well-off farmers and to employ the millions of people whose labor was no longer needed on farms. Indeed, the whole structure of China's economy shifted. Whereas agriculture provided more than

Figure 3 Agricultural output and productivity in China and India



Sources: Agricultural output: Authors' calculations based on China, National Bureau of Statistics, *The Monitoring Report of Rural Poverty in China* (Beijing: China Statistics Press, 2002); and www.indiastat.com, 2003; Total factor productivity: Shenggen Fan and Xiaobo Zhang, "Production and Productivity Growth in Chinese Agriculture: New National and Regional Measures," *Economic Development and Cultural Change* 50, no. 4 (July 2002), 819–838; and Shenggen Fan, Peter Hazell, and Sukhadeo Thorat, *Linkages between Government Spending, Growth, and Poverty in Rural India*, IFPRI Research Report 110 (Washington, DC: IFPRI, 1999).



half of the country's GDP in 1952, it fell to 14 percent in 2004. Over the same period, the rural nonfarm sector went from providing almost none of GDP to more than one-third. The growth of this sector not only played a large role in reducing rural poverty in China, but also put pressure to reform on the urban sector, which has been the main engine of growth since the 1990s.

The story of agriculture in India is somewhat different. During the 1960s and 1970s, the Green Revolution, in which Indian farmers adopted new high-yielding varieties of wheat and rice, led to dramatic leaps in agricultural production and raised farmers' incomes. As a result, rural poverty fell from 64 percent in 1967 to 56 percent in 1973 and to 50 percent in 1979/80. Production gains from Green Revolution technologies continued through the mid-1980s and then slowed sharply. In the 1970s India had adopted subsidies for agricultural inputs, such as fertilizers and electricity for pumping irrigation water, and these subsidies grew to help maintain agricultural production but started placing a strain on government budgets.

Beginning in 1991 India instituted a series of sweeping macroeconomic reforms. Although these initial reforms were not directed toward agriculture, they helped stimulate a rise in agricultural growth by generating greater demand for a wide range of agricultural

products and by leading to increased private investment in agriculture. From 1991/92 to 1996/97, agriculture grew at an annual rate of 4.1 percent and rural poverty fell only from 39.1 percent in 1987/88 to 37.3 percent in 1993, and further to 27.1 percent in 1999/2000. After the government opened the agricultural sector to international trade in the face of falling world prices of most agricultural products during the late 1990s, agricultural growth slowed again, averaging 2 percent between 1997/98 and 2003/04. Various studies have shown that whenever there is higher agricultural growth, there is greater poverty reduction in rural areas.

Now further steps are needed in India to again stimulate strong agricultural growth, including investments in roads, irrigation, and other infrastructure, improvements in education, and greater emphasis on growing high-value agricultural goods like fruits and vegetables instead of only cereals.

LESSONS FROM CHINA AND INDIA

What can we learn from the process of economic reform in these two countries? Does the sequencing of reforms matter? What lessons do the experiences of China and India offer for other developing countries and countries in economic transition? What could China and India learn from their own as well as each other's experiences?

To Reduce Poverty Faster, Begin with Agricultural Reforms

China's reforms led to acceleration in agricultural growth from 1978 to 2002 (4.6 percent per year, as opposed to 2.5 percent per year from 1966 to 1977). The most substantial decline occurred in the first phase of reform, from 1978 to 1984, when agricultural GDP jumped to 7.1 percent per year and the percentage of rural poor dropped from 33 to 11 percent of the population.

By launching market-oriented reforms in agriculture, China was able to ensure that economic gains were widespread and thus build consensus for the continuation of reforms. Besides, prosperity in agriculture favored the development of rural nonfarm activities, which, by providing additional sources of income beyond farming, were one of the main factors behind China's rapid poverty reduction after 1985. As the rural nonfarm enterprises became more competitive than the state-owned enterprises, the government expanded the scope of policy changes and put pressure on the urban economy to reform. Reforms of the state-owned enterprises in turn triggered macroeconomic reforms, opening up the economy further.

In India, on the other hand, even though overall economic growth was high, it is clear that slower growth in agriculture was the major reason behind the slower poverty reduction. Prompted by macroeconomic imbalances, India's reforms began with macroeconomic and nonagricultural policy changes. The reforms led to impressive rates of economic growth in the 1990s, but since reforms were largely focused on the nonagricultural sectors, they had limited impact on poverty reduction. Agricultural policy changes occurred only at later stages, and even then were only partial. Therefore, the evidence suggests that successful agriculture-led reforms reduce poverty faster.

Make Reforms Gradually and Carefully

At the outset of reforms in China, policymakers withdrew central planning and reduced the scope of government procurement while expanding the role of private trade and markets. Thus they first created the incentives and institutions required by the market economy; then, in the mid-1980s, they began to open up markets. Studies show that the incentive reforms—in the form of greater land use rights, decentralized agricultural production

management through the household responsibility system, and rises in procurement prices—from 1978 to 1984 had a greater impact on growth than did market liberalization reforms per se after 1984. Incentive reforms in China allowed markets to emerge gradually, so unlike other countries in transition, China did not experience a sudden collapse of central planning in the absence of market-based allocative mechanisms. Parallel with reforms in output markets, reforms in the pricing and marketing of inputs, including fertilizer, machinery, fuel, feed, seeds, and energy, have transformed a system of state-controlled quotas and prices into a largely market-driven system. Today the role of government is limited to quality control of input supplies. Subsidies for fertilizer and machinery imports and domestic manufacturing have also been eliminated. In the irrigation sector, the state is still responsible for large-scale investment, but farmers or local governments are responsible for local investments and maintenance of the lower end of the system.

This favorable sequence of reforms came about not so much through the planning of Chinese policymakers, but rather through their trial-and-error approach to reform. Instead of following a predetermined blueprint, they adopted new measures through experimentation—in the words of Deng Xiaoping, "crossing the river while feeling the rocks." Each new policy was field-tested and determined to be successful in selected pilot districts before the policy was applied nationwide and the next measure introduced. This gradual approach to reforms, beginning with the strengthening of market institutions and incentives and moving toward the opening up of markets, appears to lead to more substantial rates of growth and poverty reduction.

India's quite different experience also supports this assertion. India's reforms in the agriculture sector began with agricultural trade reforms, despite the fact that the incentive structure of Indian agriculture was highly distorted; the sector was, and still is, burdened with excessive regulations on private trading and most market activities. The liberalization of agricultural trade policies in the mid-1990s, coming before incentive and market reforms in the domestic arena, created a series of imbalances. Lowered protection against a backdrop of low international prices increased agricultural imports in the late 1990s and led to an unprecedented accumulation of foodgrain stocks at home.

Reform Incentives before Opening Markets

China's experience with marketing reforms can be valuable for other economies transitioning from a centrally planned to a market system. Policymakers embarking on the reform path should first increase incentives for production and build the institutions needed to operate efficiently in a market economy before rushing to open up markets.

In a situation of food oversupply and liberalization of agricultural trade, farm support policies geared toward self-sufficiency lose their original rationale. In India minimum support prices and input subsidies, initially intended to encourage the adoption of new technologies and fuel agricultural growth, increasingly turned from incentives into inefficient and costly income-support interventions. It is clear that once support measures have completed their function, they need to be abolished. Otherwise they lead over time to inefficiencies and the crystallization of vested interests, resulting in the slowing of growth and poverty reduction.

China could learn from the experience of India and seek to encourage agricultural growth in the future while at the same time avoiding the large inefficient subsidies provided to its agricultural sector. This issue is of increasing relevance given the recent introduction of the direct transfer program to farmers and the emphasis placed by many scholars and government officials on increasing government support to agriculture and rural areas.

Although agricultural marketing reforms in India were limited, state governments were

reluctant to implement them and thus their impact was reduced. In addition, a host of outdated domestic regulations under the Essential Commodities Act of 1955 continue to weaken the environment for agribusiness and private sector involvement in agricultural marketing, which could boost employment and efficiency. Against the backdrop of rising and diversifying food demand and liberalized agricultural trade, reform of these regulations is increasingly critical, as it has a direct impact on the capacity of the sector to adjust to the changing context.

Given that smallholder agriculture is predominant in both countries, farmers could be excessively penalized because they do not possess sufficient capital and information to manage the risks inherent in agricultural activities. While China and India are reconsidering current forms of agricultural and input subsidies, they should put in place well-targeted and innovative, cost-effective crop insurance policies to protect vulnerable farmers from drastic supply and price shocks.

One other important area is the strengthening of the network of support services for small farmers related to information, credit, and extension. India seems to be better off than China in these areas, particularly with regard to the institutional infrastructure of rural credit and marketing, although the reach of its services may not be perfect. The Indian experience shows that smallholder agriculture needs strong institutional support in these areas to grow and prosper.

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In terms of trade liberalization, both countries made progress in reducing protection levels, but the weighted average tariff in India, at 29 percent, is almost double China's 16 percent. India has been able to sustain its current growth rate with lower inflows of foreign direct investment and a weaker export orientation than China. If India is to attain the target of 8 percent growth in GDP, it may do well to follow through with reforms to foreign direct investment in view of their potential to transfer know-how, managerial skills, and new technologies. China can offer valuable lessons in this regard.

The inevitable restructuring and adjustments involved in opening up agricultural trade flows will produce both winners and losers. Domestic producers of crops for which the country lacks a comparative advantage (such as edible oils in India and wheat and maize in China) are likely to suffer increasingly from falling prices induced by an increase in imports. In addition, broad-based structural adjustments in the economy may depress rural incomes and increase opportunities in the manufacturing and service sectors, located primarily in urban areas. These intersectoral adjustments are likely to result in a reduction in the size of the primary sector, which will release additional unskilled labor into the labor markets. The rural population will gain if it is able to shift to more profitable off-farm occupations. Investment in rural education will be crucial in increasing farmers' ability to move out of farming. It will also be important to increase investments in rural R&D and infrastructure in order to enhance productivity.

Membership in the World Trade Organization (WTO) can provide useful external pressure to improve efficiency and implement reforms, particularly for tradable inputs

such as seeds, fertilizers, farm machinery, and pesticides, where markets are regarded as inefficient because of either government intervention or lack of infrastructure. The implementation of the various agreements under the WTO can facilitate the role of the government in providing services related to information, marketing facilities, technical assistance, and laws and regulations related to standards and quality control. Lastly, the WTO offers an opportunity for China and India to join hands and create a third bloc of countries besides the European Union and the United States in trade negotiations.

Improve Health, Education, Infrastructure, and Land Use at an Early Stage

The initial conditions of health, education, and land use also made a difference in the performance of reforms in China and India. In 1970 life expectancy was 49 years in India and 62 years in China; illiteracy affected nearly 70 percent of the Indian rural population compared with 49 percent in rural China. These differences may be accounted for by the fact that under the collective system in China, the government provided free basic health care and education to the rural population. After the start of reforms, both countries recorded a slowdown in the advancement of health and education. In India this was primarily due to the fiscal discipline imposed by the macroeconomic crisis, whereas in China market-oriented reforms introduced the logic of profit into the management of social services. This implied progressive privatization of supply agencies, a decline in government subsidies, and an increase in education and health costs, leading to an increase in school dropouts and in the health vulnerability of the population. In devising mechanisms to address the risks involved in the increased privatization of social services, China could perhaps learn from India's long experience with a vast array of government safety nets and welfare programs targeting the rural population.

China had also made more progress on rural infrastructure than India. Chinese government investment in power grew at 27 percent a year from 1953 to 1978, and rural electricity consumption grew at a rate of 27 percent a year from 1953 to 1980, then slowed to 10 percent a year from 1980 to 1990. In India rural infrastructure did not receive as much attention, particularly in the rural power sector, and thus rural electrification and the establishment of telecommunications connections proceeded more slowly in Indian



villages. This slow pace severely affected the growth of agroprocessing and cold storage in the rural nonfarm sector. It is no wonder, therefore, that the levels of processing in Indian agriculture remain abysmally low.

In China the egalitarian access to land ensured by the land distribution and tenure system performed a crucial welfare function, providing the bulk of the rural population with access to a basic means of subsistence and limiting the number of landless. In India, on the other hand, land reforms to make the agrarian structure more equitable after independence were not as successful and left a relatively large number of landless agricultural laborers exposed to the negative consequences of unemployment and underemployment. Replicating the Chinese agrarian system does not seem politically feasible in India at this stage of development, so marginal and landless farmers will require a strong social protection system involving well-targeted social security and employment policies. Effective social protection measures will also be required in China, where land distribution is likely to become more skewed following the adoption of the new agricultural lease law that enables farmers to transfer lease rights and thus allows for the possibility of a higher concentration of land.

FURTHER REFORMS ARE NEEDED IN BOTH COUNTRIES

While both countries have made remarkable progress in terms of growth and poverty reduction, much remains to be done given the sizeable share of the population still living in poverty. The two countries are confronted with

the formidable challenges of accelerating growth, improving efficiency, and ensuring that growth is equitable and sustainable.

Focus on Public Investments That Can Boost Agricultural Productivity Efficiently

Given the key role of agriculture in poverty reduction and growth in China, public investments that boost agricultural productivity appear warranted. Significant increases in public investments seem unlikely because of budget pressures, so China and India will need to invest existing resources more efficiently. Studies have found that investments in agricultural research, education, and rural roads hold the greatest potential to promote agricultural growth and poverty reduction in both countries.

Farmers will have little potential to increase the amount of land they cultivate, so agricultural research and technology development is needed to help them increase agricultural growth by boosting their yields. Agricultural R&D takes place in both the public and the private sectors, but managing public versus private agricultural R&D can be tricky. In a bid to increase research funding, China promoted the development of the public business sector through commercialization of technologies by public research institutes. This approach often led, however, to the duplication of research with state-owned traditional research institutes. Improved intellectual property rights (IPR) regimes have stimulated private research and patenting activity in both countries. However, weak implementation of IPR in both countries and the high costs of maintaining patents in China are obstacles to the entry of new private players.

Significant opportunities for public-private partnerships can arise in the areas of funding, improving efficiency, and extension. The private sector, however, tends to favor



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higher-value crops and concentrate in areas where agriculture is already advanced. Given the potential of agricultural research for poverty reduction in marginal regions, public research spending should focus on addressing the needs of poorer farmers in less-favored environments, such as India's semiarid tropics and rainfed areas and China's poor western regions.

Past government spending on irrigation, dominated by creation of large surface irrigation schemes, played an important role in promoting agricultural growth and poverty reduction, but today similar spending has smaller marginal returns, in terms of both growth and poverty reduction. It might be the case that investment in rainfed areas or traditionally lower-potential areas has higher returns today. Indeed, studies have shown that investments in rainfed areas of both countries have had high marginal returns for agricultural growth and poverty reduction. So major investments in harvesting rainwater through watersheds, through public-private partnerships, may help usher in a "multicolored revolution" (not just a "green" one) in agriculture. In both countries there is also vast scope for improving water use efficiency through institutional and management reforms of the existing water systems. India has had useful experiences with water user associations in some selected states, participatory watershed schemes, and community-based rain harvesting. But these successful experiments need to be scaled up to make a significant difference for agriculture growth and poverty reduction. In China providing irrigation system managers with incentives to improve user efficiency had a positive effect on crop yields, the groundwater table, and cereal production.

Providing the right incentives to farmers is crucial to promote water saving. Low water prices and profligate subsidies on power for operating tubewells encouraged wasteful use of water and depletion of groundwater resources. Ambiguous water use rights following decollectivization in China, and laws linking water rights to land ownership in India, also led to inefficiencies. For example, unfair water markets emerged over time, in which rich landholders who can afford modern water extraction technology profit by selling water to poorer cultivators. Increases in water use charges may not be feasible in the short to medium term, however, without changes in the institutional environment.

Another distinctive pattern among the two countries in the past two decades is the much higher savings rates in China (about 45 to 50 percent) than in India (about 25 to 30 percent). The high Chinese savings rates, which facilitated boosting investments, are a puzzle in international comparisons. They might have been stimulated by high expected returns, including from investments in education, a matter which warrants further research.

Promote Rural Diversification and Vertical Coordination

A major shift in farm production toward non-foodgrain products such as livestock, fish, and horticulture has been well under way in India and China since the 1980s. The experience of China shows that achievement of food self-sufficiency and the extraordinary growth in basic grain production experienced by the late 1970s was a necessary

precondition for diversification. The availability of food surpluses provided the government with enough leeway to feed the increasing population and relax controls over the foodgrain sector. Once food self-sufficiency was achieved, China gradually abandoned the policies biased in favor of rice and wheat, encouraging farmers to diversify production. In India, on the other hand, rising minimum support prices artificially boosted production of major cereals, discouraging diversification of production toward nongrain commodities. Moreover, policymakers must step up investment in research on and infrastructure for high-value products such as livestock and horticulture to boost yields and expand their cultivation and processing, given their export potential, positive impact on smallholders, and growing domestic demand.

Rising consumer demand for non-foodgrain products is a major force driving diversification. Without vertical coordination of production, processing, and marketing—that is, between “plow and plate”—the potential for growth inherent in the diversification process is likely to remain underexploited. Both countries must strengthen the innovative institutional arrangements that have emerged to promote the development of new products. India’s successful experience with contract farming in reducing risks, promoting the production and export of high-value foods, and increasing the income and employment of smallholders could be valuable for China. China’s experience with growth in retail food chains and supermarkets in recent years could benefit India, where restrictions on foreign investment and infrastructure bottlenecks are limiting development in these areas.

Another dimension of rural diversification is provided by the evolution of a vibrant rural nonfarm sector. China’s experience is instructive. The rapid growth of rural enterprises in China was a critical factor in the success of its reforms, especially in relation to poverty reduction. China’s township and village enterprises (TVEs) provided increasing job opportunities outside agriculture, thereby diversifying and expanding the sources of household income. TVEs benefited from the close connection with urban markets that had been established since the early stages of their development.

India’s nonfarm economy primarily produces for the rural population and markets and is dominated by tiny, family-operated units. These firms have low productivity because

of a poor technological base and policies aimed to protect rural employment by reserving certain activities for small-scale units. Limited growth of rural nonfarm job opportunities in India is also related to the lack of knowledge and skills on the part of the poorly educated rural labor force.

The role of nonfarm employment is expected to become increasingly significant in the context of smallholder agriculture as the average farm size gets smaller. Greater off-farm opportunities and migration to urban areas are required to increase average farm size as well as labor productivity and farmers’ income.

Use Well-Targeted Antipoverty Programs and Safety Nets to Help the Poorest

The role of safety nets in poverty alleviation came into focus during the 1990s as China and India recognized the need to address the negative effects of liberalization policies on income distribution. Poverty funds and programs have documented shortfalls and inefficiencies in terms of targeting and cost-effectiveness, but they have contributed significantly to limiting the severity and the extent of poverty. There are still more than 300 million rural poor in India and China, based on the international standard of one dollar a day (more than 100 million in China and more than 200 million in India).

Antipoverty programs can be more practical and agile instruments for tackling poverty in the short run than public investments or radical redistributive measures such as land reforms. Given the fiscal discipline imposed by macroeconomic stabilization reforms, however, it is crucial to address the shortcomings of antipoverty programs. The experience of India shows that using a variety of targeted programs directed to specific sections of the poor can help improve targeting compared with the broader income- or area-based approaches traditionally implemented in China.

Decentralized and participatory approaches are more effective at strengthening the impact of antipoverty programs than top-down strategies and involve a greater variety of agents (NGOs, civil society, and international aid) in the fight against poverty besides the government. In India the extensive participation of panchayats (forms of local government with heavy public participation) and civil society at various stages of formulating and

implementing antipoverty programs ensures that programs are tailored to local needs and can be carried out without extensive leakage.

Work to Make Governance Both Effective and Transparent

In both countries there was political will to carry out reforms, but in practice, outcomes have been shaped by the different patterns of governance. India is a "debating society" in which political differences are expressed freely, policymaking is exposed to pressure by various interest groups, and there are thus long debates before decisions are made. Subsequently, implementation is slowed by the lengthy bureaucratic procedures, set up to ensure checks and balances. This exercise, while compatible with the needs of a free and dynamic polity, considerably slows the pace of economic reforms. China, in contrast, is a "mobilizing society" in which decisions are made faster and state power is backed by mass mobilization. As a result, implementation of decisions is more effective, although the lack of extensive debate in China on major changes and reforms can also lead to disastrous courses of action, such as the "Great Leap Forward" in 1958, which resulted in massive famine, and the Cultural Revolution from 1966 to 1976. As the economic system opens up further and prosperity increases, it will become harder and harder to reconcile the centralized political setup with the more liberal economic system, and this is one of China's most important challenges today.

Although investments in rural infrastructure and other key public services are crucial, it is equally critical to develop suitable institutional arrangements for their delivery. In both countries the government is the major supplier of infrastructure services, but there are major failures and inefficiencies in provision owing to the lack of transparency and accountability. Strengthening the public institutions that provide public goods and services can lead to both fiscal sustainability (through significant cost reductions) and long-term growth (through improved quality of services provided). These goals can be achieved in different ways, including privatization, unbundling, decentralization, and contracting. Effective public institutions also require an adequate supply of trained and motivated personnel, as well as investments in training to help increase the supply.



Reforms have also been slowed at the implementation level by the regulatory environment and enforcement bureaucracy. In India, many inefficiencies remain in place, although reforms, including de-licensing, have been introduced to streamline the regulatory apparatus. During the reform years China relaxed regulations on mobility between rural and urban areas, which gave impetus to the development of the nonfarm sector and increased migration for economic purposes. In recent years the Chinese government has also started to relax the complex system of regulations affecting broad-based personal mobility.

Finally, with regard to the political systems, effective implementation of reforms in China was facilitated by a high level of centralization of decisionmaking, which minimized dissent. In the context of a democratic system and highly pluralist society such as India, consent is more difficult to achieve, and it is much more difficult to set clear objectives or timeframes for transition (such as for phasing out subsidies, reducing tariffs, or increasing prices). This situation slows the pace of change in the short and medium run. Although democracy and participation have intrinsic value and are not just instruments of development, the role of democracy in enhancing or hampering economic change and poverty reduction remains a complex subject for development research. Comparisons of China and India on these broad political matters may produce a fascinating set of insights in the coming years.



CONCLUSION

A number of factors help to explain the difference in growth during the pre-reform era: initial conditions, the sequencing and pace of reforms, and the political system, institutions, and regulatory environment. Yet special mention must be made of the fact that China and India achieved remarkable development and growth even as aid as a percentage of GDP in the two countries remained low. This is in direct contrast to most other developing countries and regions, where aid is much higher but commensurate development and poverty reduction outcomes have not been realized. This fact bears an important lesson for developing and developed countries, multilateral agencies, and local NGOs and groups. It questions the very basis of current policy prescriptions that accompany aid packages, not only raising issues related to the efficiency and effectiveness of external aid but also, conversely, revealing the extraordinary and often underestimated capacity of national initiatives and policy actions to halt—and in fact turn—the tide of poverty.

Both countries now face tremendous challenges on the path to further prosperity. Continued growth is a must, owing to pressure from population growth and the need for employment. It is also a condition for a more stable society. Given the high expectations of their citizens, the lack of growth or even slower growth could lead to



unrest in both countries. The limited natural resource base can be a critical constraint to growth. The future economic growth of both countries increasingly depends on imports of energy, for which future prospects are uncertain. Both countries are also among those most severely affected by water shortages. Consequently, future growth must be based on higher efficiency and will require China and India to invest in science and new technologies to harness energy and water, optimize their economic structures for allocative efficiency, and reform their fiscal, financial, banking, and insurance systems. Both countries must also pursue more pro-poor growth, which is not only a development objective in itself, but also a precondition for future growth in the long term.

China and India can both gain tremendously by learning from each other, as both nations still face a long road ahead. The dragon has attained height and the elephant is starting to gather momentum, but both need to address their weaknesses and build on their strengths in order to achieve their national goals and fulfill the aspirations of their people. The lessons learned from the experiences of China and India are also of relevance to other developing countries and the fight against global hunger and poverty.

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REDUCING POVERTY AND HUNGER IN INDIA

THE ROLE OF AGRICULTURE

Montek S. Ahluwalia

India's strategy for reducing poverty and hunger has always placed a great deal of importance on the agricultural sector, reflecting the fact that 70 percent of the population lives in rural areas and the overwhelming majority of them depend upon agriculture as their primary source of income. The focus of attention has of course changed over time.

EARLY FOCUS ON FOOD SELF-SUFFICIENCY

In the 1960s India was deficient in foodgrain production and dependent on imports of wheat, financed by PL 480 assistance from the United States. Understandably, the focus of Indian policy in this period was to increase foodgrain production with a view to ensuring food security. This objective was successfully achieved by the spread of the Green Revolution in the 1970s, beginning with wheat and then expanding to rice. This achievement must count as one of the major success stories in development, considering that influential groups such as the Club of Rome, in the early 1970s, had despaired of India's being able to feed its growing population.

AGRICULTURAL GROWTH FOR POVERTY ALLEVIATION

In the 1980s Indian policymakers shifted their focus from food self-sufficiency to generating additional income in rural areas as a means of tackling the problem of poverty, which was concentrated in rural areas. Acceleration of agricultural growth, with a special focus on improving the position of small farmers and extending the productivity revolution to non-irrigated areas, was seen as a critical part of the strategy for poverty alleviation. This effort was supplemented with targeted antipoverty programs to address the needs of vulnerable groups who

may not benefit sufficiently from general agricultural growth. India achieved considerable success with this approach in the 1980s. Growth of agricultural gross domestic product (GDP) accelerated to about 4.7 percent in the 1980s, compared with only 1.4 percent in the 1970s. This agricultural growth, together with the beginning of economic reforms in the nonagricultural sector, pushed up the growth rate of overall GDP to around 5.8 percent in the period 1980–81 to 1989–90 compared with about 3 percent in the 1970s.

India's growth was disrupted at the start of the 1990s by a major balance of payments crisis that led to the adoption of an extensive process of structural reforms. It took time to regain momentum, and it was only in 1993–94 that the economy got back on track, clocking an average growth rate of 6.8 percent in the three years 1993–94 to 1995–96. This acceleration in growth in the postreform period led policymakers to set a more ambitious GDP growth target of 8 percent a year for the Ninth Plan period (1997–98 to 2001–2002), to be supported by a growth rate of 4 percent a year in agriculture. The projected growth of 4 percent per year in agriculture was clearly in line with the average growth of 3.8 percent achieved in the period 1990–91 to 1996–97.

Actual performance since the mid-1990s, however, has been disappointing. Agricultural growth slowed to 2 percent a year in the Ninth Plan period, and overall economic growth was only 5.5 percent, well below the 8 percent target. Since agriculture accounted for about 25 percent of GDP, the shortfall of more than 2 percentage points in agricultural GDP growth, compared with the target, accounts directly for a shortfall of about half a percentage point in GDP growth. If the indirect effects of more rapid agricultural growth on other sectors are taken into account, the total impact on GDP growth may have been as much as one percentage point.



These shortfalls were known when the Tenth Plan (covering the period 2002–03 to 2006–07) was formulated, but it was assumed that the poor performance of agriculture was due to temporary factors such as poor monsoons and depressed agricultural commodity prices in world markets following the East Asian meltdown. The Tenth Plan therefore adopted the same targets of 8 percent growth in GDP and 4 percent growth in agriculture. Experience in the first three years of the Tenth Plan period has sounded some alarm bells. GDP growth has averaged about 6.5 percent, but agricultural GDP in these years (2002–03 to 2004–05) has grown by only 1.1 percent per year. The loss of dynamism in agriculture explains most of the shortfall in aggregate GDP growth.

Slower growth in agriculture also has direct implications for poverty reduction in rural areas. Official figures suggest that the incidence of poverty fell from 36 percent in 1993–94 to 26 percent in 1999–2000. The comparability of these numbers has been questioned because of recent changes (ostensibly improvements) in the methods for measuring consumption in household surveys, but there is a broad consensus that if corrections are made to ensure comparability, the percentage of the population in poverty has declined significantly, though less than in the official figures. Even the official figures, however, show a smaller decline than what had been

targeted, and this result is undoubtedly a reflection of the slowdown in agricultural growth.

Slow growth in agriculture is also at the root of growing evidence of distress in the farming community. Surveys show that a large percentage of farmers want to leave farming because they find it is no longer sufficiently profitable. The uncertainty associated with farming has also increased, and farmers lack effective means of insuring against such risks. There are larger market uncertainties associated with new crops and poultry because of greater vulnerability owing to falling groundwater levels. There is also evidence of increased indebtedness arising from the inability to cope with risks.

Recognizing these problems, the government has undertaken a comprehensive review of the strategy for agriculture in order to come up with a new deal for agriculture and the rural economy in general. Remedial action will be needed on several fronts, including increased public investment in irrigation and rural roads, better management of existing irrigation systems and of water resources in dryland areas, a strengthened agricultural research system and more effective extension, improvements in the production and distribution of certified seeds, improvements in the credit delivery system, and innovative steps in marketing and contract farming to support the diversification of Indian agriculture.



IRRIGATION

Water is a critical constraint to raising agricultural productivity, and much of the success of the Green Revolution came from improved productivity in areas of assured irrigation provided through canals or, much more significant, through groundwater utilization. The scope for expanding irrigation through large and medium-scale projects has yet to be fully exploited. Out of the total of 59 million hectares that could be irrigated through such projects, only 40 million hectares have been irrigated. The slow pace of exploitation of irrigation potential is due to lack of resources in state governments and the tendency to spread available resources thinly over too many projects. Additional public investments in this area are therefore essential for early utilization of the potential.

Effective maintenance of the existing system of canal irrigation also suffers because the irrigation departments of the states lack resources. This in turn is because water charges are kept too low, covering only 20–25 percent of the operations and maintenance cost of the system in most states. Poor maintenance leads to loss of water through seepage, with the result that water use efficiency is very low—around 25 to 40 percent instead of the 65 percent that should be attainable. Low water

charges also encourage highly water-intensive crops at the upper end of the canal network, leaving tail-end portions starved of water.

The solution lies in rationalization of water rates to ensure adequate financial resources to cover maintenance and use of participatory irrigation management to give farmers a stake in the operation and maintenance of the system. Some interesting experiments in these areas have promise. Maharashtra recently established a Water Regulatory Authority to set water charges in a nonpolitical manner. Several states are also experimenting with involving water user associations (WUAs) in the operation of the canal systems. Ideally the WUAs should be empowered to collect water charges and to retain part of the collection to maintain the portion of the distribution network operating in their area.

Groundwater utilization played a major role in expanding irrigation in the 1980s, but uncontrolled exploitation of groundwater has led to serious depletion of the water table in many parts of the country. Overexploitation is encouraged by the policy of massive underpricing of electricity for agricultural use, with a few states having made electricity for farmers completely free. Even where it is not free, the charge for electricity is a fraction of the

average cost and is not based on metered use. Instead there is a fixed charge for presumed usage based on the capacity of the pump, an arrangement that implies that the marginal cost of electricity for pumping groundwater is zero. Underpriced canal water and electricity are clearly highly distortionary, given the need to conserve water use. They are also distributionally unfair because the benefits of underpriced water accrue disproportionately to upper-end farmers, whereas underpriced power enables those able to afford larger pumps to lower the water table, denying water to farmers who can only afford shallow wells.

The investment requirements of irrigation are massive. Completion of all unfinished projects alone is estimated to cost approximately US\$20 billion. In addition, provision must be made for new irrigation projects (large, medium, and small), which together will require about US\$45 billion. The total requirement is therefore about US\$65 billion.

WATER MANAGEMENT IN RAINFED AREAS

About 60 percent of India's cultivable area will remain dependent on dryland farming even after all irrigation potential is fully exploited. Productivity growth in these areas is obviously essential for rural income growth and poverty alleviation, and it depends critically upon better moisture conservation and the development of varieties suited to dealing with moisture stress. Schemes for water retention, moisture conservation, and groundwater recharge have been implemented for many years in India but with mixed results.

Experience suggests some pointers for the future. Greater use of technology inputs can help a great deal. Satellite mapping by the Indian Space Research Organisation has been particularly helpful in planning watershed management schemes to achieve optimal results. It is also important to adopt a holistic approach. For example, if deforestation problems upstream are not tackled, water retention structures downstream will quickly silt up. Community participation is critical to impart ownership and ensure an acceptable distributional outcome. In the past these multiple factors were not effectively integrated into watershed development schemes. Now a National Rainfed Area Authority has been proposed to help coordinate the work of different implementing agencies.

The cost of treating rainfed areas to ensure optimum use of available water is approximately Rs. 10,000 per hectare, and the untreated area is about 80 million hectares, yielding a total cost of approximately US\$20 billion. If this amount is added to the cost of irrigation development and the target is to be achieved over a 10-year period, it would require a doubling of public investment in irrigation.

OTHER INPUTS

Increasing agricultural productivity also depends on the efficient delivery of several other inputs. The quality of seeds and planting material needs to be greatly improved, and this calls for strengthening the research effort to make it more effective. Two expert committees have recently reported on how to restructure the agricultural research system to make it more results oriented, and their recommendations are under consideration. The system for producing and marketing certified seeds of existing varieties at reasonable prices also needs to be improved. Seed replacement rates in most parts of the country are only one-third to one-half of what they should be, a situation that reflects partly a lack of knowledge of the importance of seed replacement and partly a lack of availability of reliable seeds.

There is evidence that the use of fertilizers is at present highly imbalanced, suggesting that scientific application of fertilizers holds potential for raising productivity. Nitrogen fertilizers are oversubsidized compared with phosphorus and potassium fertilizer. The structure of fertilizer subsidies should be rationalized to avoid excessive and wasteful use of nitrogen fertilizers. Lack of knowledge of micronutrient deficiency in the soil is also a serious problem. There is need for much more extensive soil testing to encourage balanced application of nutrients. Underlying these problems is the deterioration of the extension services, which makes it difficult to disseminate best farming practices. Strengthening the extension system therefore needs special attention.

The government has also identified credit to farmers as a critical area for corrective action. The public sector commercial banks are being pushed to provide credit to agriculture and have responded commendably. The cooperative credit system, however, which was meant to be the backbone of agricultural credit, has become financially weak. Part of the problem has been the politicization of cooperative institutions as a consequence

of interference by state governments. The central government is considering ways of reviving the cooperative credit system by recapitalizing the cooperative banks, provided state governments agree to changes in the system of governance that would ensure professional management of cooperative banks without state government interference.

AGRICULTURAL DIVERSIFICATION

India's future agricultural strategy must also be oriented to the need for agricultural diversification. India's foodgrain production capacity has increased significantly over the years, and there is evidence that household consumption patterns are changing away from foodgrain toward higher-value crops such as vegetables, fruits, milk, and eggs. Future growth in agriculture must come from diversification into these non-foodgrain areas, and this will pose a special challenge because marketing these perishable products is much more complicated than marketing foodgrains.

Horticulture development is currently constrained by poor marketing arrangements. The gap between prices received by the farmers and those paid by urban consumers is large, reflecting inefficient marketing arrangements. Horticultural produce is typically collected from farmers by market agents, who sell it in organized markets established under the Agricultural Produce Marketing Acts. Unfortunately, these markets are controlled by a few traders and operate on a highly nontransparent basis. Facilities for grading and handling are poor, and methods of price discovery in the markets are not transparent. Wastage is high owing to poor



logistics and the absence of cold chains. The net result is much lower realization of income by the farmer.

It is necessary to amend outdated laws restricting the establishment of markets to allow cooperatives and private entrepreneurs to set up modern markets with grading facilities, cold storage, and transparent auction procedures. Half a dozen states have already amended their existing laws on agricultural marketing to allow such markets to be established, and a dozen others are in the process of doing so. These changes are being resisted by those who control the existing structure, but this opposition will weaken over time.

Contract farming is another innovation that has been introduced in many states and could accelerate diversification. India's laws on agricultural land do not allow corporate bodies to purchase land and operate large-scale farms—a national policy to prevent displacement of a large number of small farmers—but corporate buyers, who know what is needed in export markets, in high-end domestic markets, or in agroprocessing, can engage in contract farming to procure high-quality produce. Buyers select areas suitable for the crops they are interested in and organize farmers to produce these crops under contract, while providing planting material of the right quality as well as technical supervision. The process enables the farmer to eliminate marketing risk while allowing the corporate buyer to ensure quality supplies by selecting planting material and providing access to scientific advice on disease and other types of stress.

The development of agroprocessing will spur agricultural diversification, and the government is paying special attention to this area. At present, the proportion of India's agricultural output that is processed is very small compared with that in most developing countries, and the demand for processed food is bound to increase as incomes rise. There are several obstacles to the more rapid development of food processing. Taxation structures often discriminate against food processing because processed food is the first stage at which indirect taxes are applied, and the absence of a tax rebate on taxes paid on inputs means the effective tax on value added is very high. Another impediment is the reservation of certain categories of products for small-scale production. The absence of a modern food-processing law has meant that this sector is



governed by multiple laws, making it difficult to operate effectively. An Integrated Food Processing Law has been introduced in Parliament, and its passage, expected in the current year, will make a qualitative difference to the operating environment.

TARGETED ANTIPOVERTY PROGRAMS

Although efforts to increase agricultural productivity and thereby increase farm incomes and employment are a major instrument for poverty alleviation, they will need to be supplemented by special targeted programs aimed at improving the welfare of vulnerable groups in rural areas. Employment programs in rural areas have been the most important of these antipoverty programs, and India has a long history of such programs. Building on this tradition, a Rural Employment Guarantee Act has been enacted that provides assurance of up to 100 days of employment at the minimum wage to each household in rural areas wishing to make use of it. The employment would be provided on projects chosen by the elected village councils, and the guidelines specify that top priority should be given to irrigation and water management schemes. Unlike earlier employment programs, this scheme includes a guarantee in the sense that if employment cannot be provided, unemployment compensation of at least 25 percent of the wage will be provided. Although the program is open to each household, actual demand for employment is expected to be limited to households below the poverty line. The act

will initially be implemented to cover 200 of the most backward districts (about one-third of the total districts in the country). Together with other special programs relating to provision of housing for the poor, old-age insurance, and schemes for supporting self-employment, this program will provide an element of social security that should help to reduce poverty.

THE ROLE OF PUBLIC INVESTMENT

An important implication of the new agricultural strategy is that it involves a substantial increase in public investment. This is an area where past trends need to be reversed. Public investment in agriculture began to decline in the 1980s, but initially the decline was offset by the fact that private investment in agriculture was increasing. Since the mid-1990s, private investment in agriculture has stagnated while public investment has continued to decline. It is essential to reverse these trends, especially for public investment in irrigation and water resource management. It is also essential to increase public investment in rural roads and rural electrification. Success in these areas will stimulate private investment and contribute to a revival of growth momentum in agriculture.

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THE ACHIEVEMENTS AND EXPERIENCES OF POVERTY ALLEVIATION IN RURAL CHINA

Jian Liu

 China is the most populous developing country, with most of its impoverished population concentrated in the rural areas for historical reasons. Since 1978 the Chinese government has moved away from a planned economy and pushed socialist market reforms, as well as liberalizing the rural economy, raising rural productivity, and alleviating widespread poverty through the household responsibility system. Furthermore, in the mid-1980s the Chinese government started a systematic, large-scale poverty reduction and development effort. As a result of this 26-year effort, the number of impoverished people without enough food and clothing declined from 250 million in 1978 to 26.1 million in 2004, with the share of the population living in poverty falling from 30 percent to 2.8 percent. China has achieved the first Millennium Development Goal (MDG) of halving poverty ahead of schedule. At the same time, conditions for economic activity as well as living conditions in poverty-stricken areas have greatly improved. By 2004 the shares of villages with access to roads, electricity, and television reached 77.6 percent, 95.1 percent, and 87.8 percent, respectively, in 592 key counties of the state's helping-the-poor development program.

In its pursuit of poverty alleviation and development, China has charted its own path, suitable for its own conditions. This path involves government leadership, social participation, self-reliance, an orientation toward economic development, and an integrated development approach.

GOVERNMENT LEADERSHIP

For the Chinese government, the policy of supporting impoverished groups and achieving wealth for all is an unswerving tenet. In order to keep economic development healthy, stable, and sustainable and prevent impoverished people from being marginalized, the Chinese government

has adhered to a concept of rapid economic development that is human oriented. Its guidelines call for an integration of urban and rural development, integration of regional development, integration of economic and social development, integration of development between human beings and nature, and integration of domestic development and openness to the outside world. Meanwhile, governments at different levels have not only incorporated poverty alleviation and development into their overall economic and social strategies, but also increased budgetary allocations for poverty alleviation. They have established supporting policies and enhanced the corresponding organization and leadership to fulfill the helping-the-poor program.

Specifically, the Chinese government took the following actions: First, it set up the Leading Group Office of Poverty Alleviation and Development with a hierarchical structure at the national, provincial, prefecture, and county government levels. These offices are responsible for organizing and coordinating national and local poverty alleviation and development. At the same time, China established an administrative system that holds the authority, responsibility, and funds for poverty alleviation at the provincial level.

Second, we brought poverty alleviation and development into the overall economic and social strategies of government at different levels. We issued successively the National 8-7 Poverty Alleviation Program and the Outline of Poverty Alleviation of Rural China. We also identified 592 poverty alleviation counties as key areas for state help.

Third, we increased investment in poverty alleviation and strengthened the management of budgetary poverty funds. Between 1986 and 2004, the total budget support allocated reached 112.6 billion yuan, and subsidized loans reached 162 billion yuan. In 2005 the



budgetary support for poverty alleviation totals 13 billion yuan. To ensure that budgetary poverty funds reach the designated impoverished farmers, the use of funds is to be proclaimed, published, or reimbursed, adding transparency and public supervision.

Fourth, we implemented supporting policies. This year the 592 key state-helped counties exempted from agricultural tax are being compensated with a special transfer of 14 billion yuan. In addition, central finance has appropriated a total transfer of 15 billion yuan to grain-producing counties or counties with financial difficulties.

SOCIAL PARTICIPATION

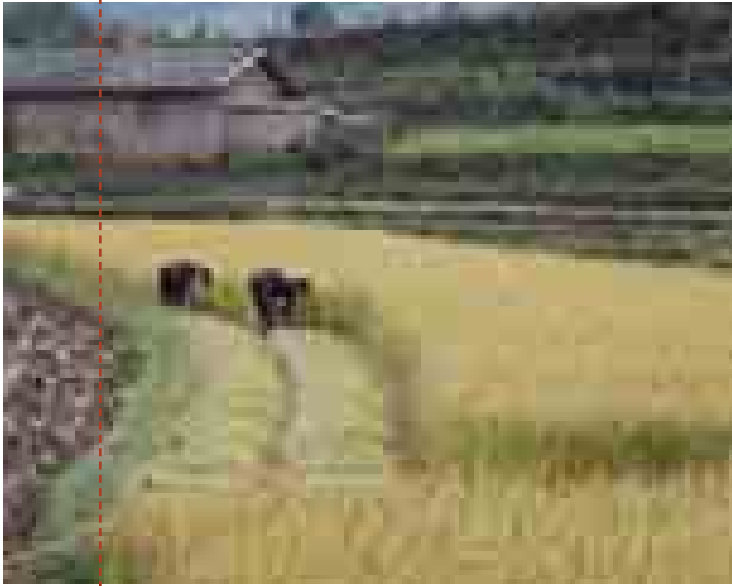
China has taken a number of steps to mobilize and organize people in all walks of life, including in the eastern coastal provinces and in multilevel party and government organs, to join the development and construction effort in poverty-stricken regions, in an approach that reflects the socialist system.

It has organized 15 eastern provinces and cities directly under the state to support development in 11 corresponding poverty-stricken provinces, districts, and cities in western regions. It has organized 116 central

party and government organs and 156 large state firms to help and support 481 key targeted counties. And it has organized all social sectors to participate in the process of poverty alleviation. For example, the Glorious Enterprise program encourages private firms to invest in impoverished areas. The Hope Project organized by the Communist Youth League Central Committee sponsors children in poor households to help them finish compulsory education. The Knowledge-oriented Poverty Alleviation Program organized by democratic parties utilizes their own advantages to help poor regions extend practical technologies. The Happiness Project organized by the Chinese Population Foundation sponsors poor mothers, and the Women-oriented Poverty Alleviation program organized by the Women's Federation aims to increase women's income.

SELF-RELIANCE

China's approach is to support poor people and encourage them, with assistance from government and all walks of life, to overcome the common attitude of "wait, depend on, and ask" and establish a spirit of self-reliance and hard work. They can help improve their basic production and living conditions and overcome their poverty through their own efforts. The emphasis is on respecting impoverished people and stimulating their



initiative to participate in designing and implementing the poverty alleviation plan.

AN ORIENTATION TOWARD ECONOMIC DEVELOPMENT

We have mobilized and organized poor people to develop the economy, increase their income, improve their ability to save, and develop their capabilities. We have emphasized the following three key tasks in recent years: First, we push the whole village toward poverty alleviation and development. We picked 148,000 poor villages across the country, covering 80 percent of impoverished people. Each year, we focus on improving production and living conditions in a batch of key villages. In five years, by 2010, we will fundamentally change the impoverished appearance of those villages.

Second, we are enhancing worker training in poor areas to encourage nonagricultural employment. We have begun a special worker training plan for impoverished peasant households, in which at least one worker in each impoverished household will receive training during the next five years. The State Council Leading Group Office of Poverty

Alleviation and Development certified 30 state-level training bases to facilitate labor transfer from agricultural to nonagricultural sectors. Each province (district and city) is doing the same, which generates a top-down training network. More than 90 percent of peasants trained so far have found nonagricultural employment.

Third, we are supporting the efforts of leading industrialized enterprises to engage in poverty reduction by promoting agricultural structural adjustment, moving from staple foods to high-value crops in poor areas and thereby increasing peasants' income. The State Council Leading Group Office of Poverty Alleviation and Development certified 260 leading industrialized enterprises to participate in poverty reduction, covering 3 million impoverished households and 12 million poor people.

AN INTEGRATED DEVELOPMENT APPROACH

Our goal is to reduce and control poverty from various angles and to integrate poverty alleviation with development in science, education, health, and culture to improve the overall capabilities of impoverished people.



Our goal is to reduce and control poverty from various angles and to integrate poverty alleviation with development in science, education, health, and culture to improve the overall capabilities of impoverished people.

To promote education in the western regions, we are implementing the National Poor Regions Compulsory Education Project and Two Basic Plans (to universalize nine-year compulsory education and to eradicate illiteracy among middle-aged and young people). Central finance has also appropriated a special fund to support compulsory education, rebuild and expand rural junior high schools, and subsidize the pay of teachers and administrative staff in poverty-stricken regions. We offer free textbooks and waive general expenses completely, as well as subsidizing living allowances for boarding students, for about 16 million rural primary and junior secondary school students from poor households in 592 key counties.

In the area of health care, we administer a medical relief system for impoverished peasant households coping with severe illness and for peasants in rural villages as part of the "five guarantees"; that is, old, weak, orphaned, widowed, ill, or handicapped people in rural villages are beneficiaries of guaranteed food, clothing, housing, medical care, and burial expenses. At the same time we are launching a pilot project for a new rural cooperative medical system.

In population and family planning, we encourage poor peasant households to decrease their births and increase their income quickly.

In developing the poverty reduction program, we especially target impoverished groups and keep full-scale files on poor households. Some provinces have started to manage files with computers. Although targeting is a difficult job, we will continue our efforts and treat it as one of our basic projects. To administer such dispersed grant funds for poverty reduction, we have adopted the principles of comprehensive planning, individual responsibility, ordered channels, and separate achievement. Our focus is on mobilizing and concentrating the forces of different sectors to participate in poverty alleviation and development and on developing projects to address the different causes of poverty, and this approach has achieved excellent results.

Although China has made enormous progress in poverty alleviation and development, it still faces many problems. To address these problems, the Chinese government will increase support for poverty-stricken regions and impoverished people and continually improve the mechanisms of poverty alleviation according to its pace of economic and social development. It will also pay attention to needy groups that emerge from economic structural adjustment and will promote the capacity for sustainable development among poor people and regions through investments in infrastructure and human capital.

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