

China's Urban Poverty

Thesis/Dissertation Proposal

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Introduction

The households in the urban China have been pushed to higher living standards by the increase in the level of income, while the economic situations concerning the households prevailing in poverty had not improved in the 1990s. In fact, later after this period, the increases were in this period with numerous reasons for the changes. One of these reasons is the reforms during 1990s, which resulted to a substantial increase in prices of food, thus playing a significant role in the determination of living standards of the poor¹. The other reason is the reforms aimed at accelerating the social welfare, whereby the government focused on the provision of medical care, old age pensions, subsidizing education and housing and putting a significant economic strain on the low-income earners. The third reason is restructuring of the enterprise that had a substantial effect on the poor households due to the increase in the rate of urban unemployment².

Prices of food were highly subsidized through a coupon ration system before the reforms were made, and the coupons distributed to the family members and ages. However, market oriented reforms were made in the agricultural sector leading to a significant increase in production and establishment of the urban household receiving subsidized food coupon, but without freedom of purchasing more varieties of food in the market places. Later in 1993, food coupons were finally abolished by the government, and there was compensation to workers through explicit wage subsidy at a rate that was universal³. This was affecting households with members who had not secured a job since the distribution of the coupons was in accordance to

¹ Jian Chen and Fleisher, Belton “Regional income inequality and economic growth in China.” *Journal of Comparative Economics*, 22/2 (2002)

² John, Knight and Xue, Jinjun, “How high is urban unemployment in China?” *Journal of Chinese Economic and Business Studies*, 4/2, 91-107 (2005).

³ Xin, Meng, Gregory Robert and Wan, Yujuan, ‘Urban Poverty in China and Its Contributing Factors, 1986–2000,’ *Review of Income and Wealth*, 53/1, 167-189 (2007).

the number of households and ages, and the explicit wage subsidies were distributed by members who were working.

Background

During the end of 1990s, Chinese cities underwent a rapid economic transition due to the phenomenon of rapidly growing low income and poor groups. The transitions also affected the social security that had existed for a long period in relation to employment, housing, education, income and pension. The reforms made the transitional gap continue expanding resulting to growth in the urban low income and a population with high levels of poverty. There was a significant variance with in the scale of urban poor, in the middle of 1990, and according to a study conducted by National Bureau of Statistic, there were poverty incidences rate for urban population and household ranging from 4.4% to 3.84% in the year 1995. Moreover, the urban poverty line was setting per capita annual income of 1500, which was based on the calculations of urban absolute poverty in families and population ranging from 12.42 and 3.33 million⁴.

According to Development Bank, in 2002 there was a report that indicated the incidence rate of urban poverty in China in 1998 amounted to 4.7% and with the inclusion of the immigrants; the rate would reach 7.4% by 1999⁵. Therefore, urban poverty in China was a structural feature that entails the general poverty of the residents in the urban areas, unemployment causing extreme poverty, and migrant poverty being considered a new problem. The incidence of urban poverty rate in 2000 in thirteen cities was identified to be higher ten percent than higher, compared to 1995, as it was indicated by a sample survey conducted on the same cites. The increase in the population lay off, unemployed, migrated from rural areas,

⁴ China Urban Poverty Research Group, (CUPRG) *Urban Poverty: New Challenge for China's Development* (Beijing: Chinese Economics Press, 2003) 23

⁵ Khan, Azizur and Riskin, Carl, *Inequality and Poverty in China in the Age of Globalization*, (Oxford and New York: Oxford University Press, 2001), 40

dropped out, or retired is contributing to the diversification of the urban poverty by the end of the 1990s⁶. The high poverty incidences were distributed to industrial wars and changes in the market economy, and the industries that are labor incentive like textile and excavating industries like related to energy and large quality of commercial services industries⁷.

Problem statement

In China, there are rapid economic changes leading to the need to focus on identifying those regarded to be among the urban poor, significant demographics on family and characteristics of labor markers. The research will also seek to identify the impact of the characteristics on the changes on poverty and the changes that influence the connection to changes in broad macro structures. Therefore, the research will use both theoretical and empirical foundation to depict the ideas related to the topic in an elaborative way thus bridging the research gaps through a justification of these ideas.

Research objectives

The research seeks to explore the issues related to the urban poverty in china, and in order to facilitate the credibility of ideas in this research, a lot of information is borrowed from other relevant sources. There are objectives need to be met such as determining the poverty levels characterizing the urban poverty in China, and the causes of poverty is also identified. The other objective is confirming the poverty incidence through identification of the poverty rates on the provinces, which have been randomly selected as samples and respectively based on the per

⁶ Junsen, Zhang, Zhao, Yaohui, Park, Albert, and Song, Xiaoqing, "Economic returns to schooling in urban China, 1988-2001", *Journal of Comparative Economics*, 68/1, 65-88 (2005).

⁷ Jinjun Xue, and Wei, Zhong, "Unemployment, poverty and income disparity in urban China," *Asian Economic Journal*, 17/4, 383-405 (2003).

capita disposable income of the families. The other objective is to identify the relationship between unemployment and urban poverty in China⁸.

Benefits of the study

One of the main benefits on the research is making for a substantial contribution to the body of knowledge concerning urban poverty in China, since the research gathers information from different sources in order to develop concrete ideas from these sources. The study offers a solid base of discussion on the issue related to urban poverty in order to recommend the appropriate ways of alleviating these incidences of urban poverty in China.

Literature review

The measure of poverty and definition varies among different countries though there are three approaches that have been proposed such as the perspective of income, basic needs and the perspective of capability⁹. Human Poverty Index has been derived from the three approaches in order to have a description of the fundamental dimensions that are derived at a macro level. The other concept used in this approaches relates to the poverty line such as, the expected daily spending of \$1 as the cut-off by the World Bank, and it implies that families with expenditure lower than one dollar is considered poor¹⁰. Moreover, people who receive income that is below the average are considered to be living below the poverty line, and there are other indicators of poverty that include; Engles coefficient, Poverty gap, Gini coefficient and decile coefficient¹¹.

⁸ John, Giles, Park, Albert, and Zhang, Juwei, "What is China's true unemployment?" *Chinese Economic Review*, 16/2, 149-170 (2004)

⁹ John, Gibson, Huang, Jikun, and Rozelle, Scott, "Improving estimates of inequality and poverty from urban China's household income and expenditure survey", *Review of Income and Wealth*, 49/1, 53-68 (2003).

¹⁰ Xin, Meng, Gregory, Robert and Wang, Yujuan, "Poverty, inequality, and growth in urban China, 1986-2000," *Journal of Comparative Economics*, 33/4, 710-729 (2005).

¹¹ Jinjun Xue, and Wei, Zhong, "Unemployment, poverty and income disparity in urban China," *Asian Economic Journal*, 17/4, 383-405 (2003).

Measurement for urban poverty in China applies four approaches, which include decile coefficient, Engel coefficient living minimum and average income¹². Moreover, both Engel coefficients are applied by State Statistics Bureau (SSB) in conducting their surveys on the livelihood and income of the residents in urban areas, and the other two are applied by local officials for assessment of qualification for social welfare benefits or temporarily relief¹³. Therefore, those that live under the poverty line and are beneficiaries of government assistance can be referred to as urban poor people. In fact, the poverty line is mainly based on peoples' disposable income every year and the monthly rate is attained by dividing the figure by twelve. The recent decile approach used in a survey conducted in 1999 showed an estimate of the poverty line to be 2646.7 Yuan, meaning, the per capita annual disposable income that was identified in the first decile for the households surveyed¹⁴.

Methodology

In the methodology section of the research, there are two questions to be answered, and one of these questions relates to the determination of whether the household falls below the line of poverty and the significance of the changes occurring on the determinants. There are two ways to approach the questions and one these ways is using a probit model for annual surveys, and the first term on the right hand side of the equation is considered normal probability density

¹² John, Giles, Park, Albert and Cai, Fang, "How has economic restructuring affected China's urban workers?" *China Quarterly*, 185/4, 61-95 (2006).

¹³ National Bureau of Statistics, *China Statistical Yearbook 2003*, (Beijing: China Statistics Press, 2003), 8

¹⁴ Cheng, Fang, Zhang, Xiaobo, and Fan, Shenggen, "Emergence of urban poverty and inequality in China: evidence from household survey", *China economic Review*, 13/5, 430-443 (2002).

function, which is evaluated at a point. On the other hand, the second term is a linear function with characteristics and coefficients, while there a vector X applied in the study comprising of household size, age and gender of the head of that surveyed households and their years of schooling. Other things include the occupation of the household head, the proportions of the members of the household working and the distribution of their occupations.

There are other issues covered in the methodology part such as the composition of the variables, which include things like proportions of household members that can be identified to be male and others of a certain age, distribution of gender. The variations of price and income across different regions in China have shown persistence with fixed effects on various provinces, which are grouped in to economic reforms, dispersion in the regions and the human capital. The economic reforms are focused on establishing the members of a household who are working and the size of the household.

Study design

This research will take a research design that will facilitate strategies of investigating in order to gather the answers to the research question and the control variance. The research design to be adapted in this study will entail elements of the surveys, qualitative and quantitative. Therefore, a survey will be conducted to gather relevant data, and the data will be analyzed both qualitatively and quantitatively, this is because a research can fit numerous designs, thus creating an obligation of choosing the best design for the research.

Study population

The population of the research considers the listing of all individuals that will participate in the study, whereby the population is defined as it provides the categorization and the expected size of population. In this case, the population of the research entails people who live in the

urban areas, in China. The research will be conducted on their households in order to gather sufficient information that will facilitate the completion of this research.

Sampling and sampling design

The samples of the population will be done for saving on various resources like time, funds and quality analysis since there is an immense need to obtain a sample that are of considerable interest to the population. The Sampling design will be probabilistic, whereby the elements will have a known chance of becoming the selected subjects in nature for instance if the household is below the line of poverty or if they spend below the cutoff of the World Bank, which is one dollar in a day. Moreover, the probabilistic sampling will be in terms of random sampling on the population, whereby every household in the population stands an equal chance of being selected.

Data collection

The collection of data will use both primary and secondary sources of data whereby from the primary sources, data will be collected through interviews as a method of collection. The researching team will focus on discussing the instruments of choice like structuring the questions for conducting the interviews, in a way that they can enable gathering of the relevant information, from selected samples. This will also ensures the pertinent data is sources through data collections techniques that will enable the researcher reach the respondents in terms of the way instruments will be administered, for instance interviews will be conducted either face to face or through the telephone. The other source is secondary, whereby the research will borrow ideas from researches that have been conducted on the same topic. These researches will be attained from the internet through a search engine, and on this issue, the researchers will discuss the relevance of materials gathered from secondary sources.

Data analysis

The research will use both qualitative and quantitative analysis on the data collected and the subsection of data cleaning, coding and making measures such as measures of central tendency i.e. mean mode and median, measure of dispersion which entails standard deviation, range and variance. The analysis will also seek to derive a correlation of statistical tests qualitative data or theme in the qualitative analysis.

Results

The results will be attained after the analysis of the data from the survey, which will provide appropriate insight of the urban poverty at a micro level. The results will be obtained after data collected from different cities such as Guiyang, Shanghai, Xiamen, Harbin and Yinchuan, which are of different sizes and levels of development. In each of the cities data will be collected on different households selected through sampling procedures, and the data gathered from the interviews will be analyzed to acquire the information to establish a basis for a substantial discussion. The results will not only focus on the general personal information of the members of the selected households, but it will also focus on areas such as income, expenditure, attitude towards income inequities, government policies, social insurance coverage.

Discussion

After the result has been acquired, there will be ample information to form substantial information to establish a discussion that will meet the objectives of the research and derive significant sense form the results. The discussion will explore various issues raised in research in identify the actual cause of urban poverty in China and the relationship between the urban poverty and unemployment. Other issues that relate to government policies and inequities in relation to the distribution of income will be extensively discussed; thus, the research question

will be answered with relevant details and research objective will be achieved. Therefore, after the entire research objective has been achieved, there will be a basis on which to draw a substantial conclusion from the discussion.

Conclusion

China is focusing on both modernization and industrialization in order to foster the transition from the central planning to a market economy thus creating the substantial base of alleviating poverty¹⁵. The process of alleviating urban poverty is also attributed to the continuous dealing with the poverty with as market oriented transition, which has been seen to be remarkably successful¹⁶. Therefore, the Chinese population has been benefiting from the initiatives of reducing urban poverty, since the incidences of urban poverty are the effects of transition and they are they are directly felt on some parts of the cities. The economic restructuring that have been occurring in China has made two thirds of urban poor victims, though the government has established poverty reduction programs. The programs involve promoting social security programs and employment in order to reduce the social tension and inequity caused by poverty. Finally, the research will offer recommendations to alleviation of problems related to urban poverty in China, thus making a substantial contribution to the body of knowledge.

¹⁵ Xin, Meng, "Economic restructuring and income inequality in urban China," *Review of Income and Wealth*, 50/3, 357-379 (2004).

¹⁶ National Bureau of Statistics and Ministry of Labor and Social Security, *China Labor Statistical Yearbook 2003*, (Beijing: China Statistics Press, 2003), 5

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