

# Chinese Model of Economy: Xi hails 'complete victory' in China's fight to end poverty

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Chinese President Xi Jinping recently declared that China has scored a "complete victory" in its fight against poverty by lifting over 770 million people out of it in the last four decades, calling it another "miracle" created by the country that will go down in history. Since the launch of the reform and opening up in the late 1970s, 770 million impoverished rural residents have shaken off poverty when calculated according to China's current poverty line. China's success in fighting absolute poverty serves as inspiration and motivation for developing countries.

**In news:** President Xi Jinping Declares Complete Victory in Eradicating Poverty in China

**Placing it in syllabus:** Foreign Affairs

**Dimensions:**

- Features Chinese Model of Economy
- Mao's Model
- Deng Xiaoping Model
- How did this help China?
- Challenges to Chinese Model of Economy
- Lessons for India from the Chinese Model

**Content:**

**Features Chinese Model of Economy:**

**Mao's model:**

- The Great Leap Forward (Second Five Year Plan) of the People's Republic of China (PRC) was an economic and

social campaign led by the Chinese Communist Party (CCP) from 1958 to 1962.

- Chairman Mao Zedong launched the campaign to reconstruct the country from an agrarian economy into a communist society through the formation of people's communes.
- Mao decreed increased efforts to multiply grain yields and bring industry to the countryside.
- Before 1949, peasants had farmed their own small pockets of land and observed traditional practices—festivals, banquets, and paying homage to ancestors.
- It was realized that Mao's policy of using a state monopoly on agriculture to finance industrialization would be unpopular with the peasants. Therefore, it was proposed that the peasants should be brought under Party control by the establishment of agricultural collectives which would also facilitate the sharing of tools and draft animals.
- This policy was gradually pushed through between 1949 and 1958 in response to immediate policy needs, first by establishing "mutual aid teams" of 5–15 households, then in 1953 "elementary agricultural cooperatives" of 20–40 households, then from 1956 in "higher co-operatives" of 100–300 families.
- From 1954 onward peasants were encouraged to form and join collective-farming associations, which would supposedly increase their efficiency without robbing them of their own land or restricting their livelihoods.
- By 1958 private ownership was abolished and all households were forced into state-operated communes. Mao demanded that the communes increase grain production to feed the cities and to earn foreign exchange through exports

### **Deng Xiaoping Model:**

- The Chinese economic reform (known as the Opening of China) was the program of economic reforms termed

“Socialism with Chinese characteristics” and “socialist market economy” in the People’s Republic of China (PRC).

- Led by Deng Xiaoping the reforms were launched by reformists within the Chinese Communist Party (CCP) on December 18, 1978.
- Starting in 1970, the Chinese economy had entered into a period of stagnation, and after the death of Mao Zedong, the Communist Party leadership turned to market-oriented reforms to salvage the failing economy.
- The Communist Party authorities carried out the market reforms in two stages.
- The first stage, in the late 1970s and early 1980s, involved the de-collectivization of agriculture, the opening up of the country to foreign investment, and permission for entrepreneurs to start businesses. However, a large percentage of industries remained state-owned.
- The second stage of reform, in the late 1980s and 1990s, involved the privatization and contracting out of much state-owned industry. The 1985 lifting of price controls was a major reform, and protectionist policies and regulations soon followed, although state monopolies in sectors such as banking and petroleum remained.

### **Targeted Poverty Alleviation**

- In 2013, China launched its **Targeted Poverty (“Precise”) Alleviation project**, which strived to eradicate poverty through development.
- In the operationalisation of the project, China assembled a forceful team of government workers (party cadres) that carried-out the country’s national poverty reduction policies.
- It selected and dispatched a total of 255,000 village-based working teams, more than three million first secretaries of the Communist Party of China (CPC)

village committees, and village-based officials, together with millions of local officials.

- These workers travelled to every impoverished county and poor village to create a profile of every poor person in the country.
- By using survey data and matching it with individuals and households they were able to accurately identify individuals living in poverty.
- They also launched a national digital database to cover every registered village, household, and individual.
- This ensured the accuracy of poverty identification and helped nail down the causes of poverty for those individuals in the system.
- They then analysed their conditions and came up with **tailor-fit measures** to lift them out of poverty.
- The government workers also lived, ate, and communicated with the local folks in the impoverished counties, to better understand what they needed, discussed responsibilities and policies with them, and created a development program that best suited their interests, capacities, and localities.
- The rationale behind this was to develop local indigenous industries and social enterprises managed and owned by local cooperatives and by the local population.
- This in many ways has prevented local people from leaving their families to seek greener pastures in megacities, since jobs were already at their doorstep.
- This approach motivated many impoverished Chinese to work themselves out of poverty.

## **Other Components**

- **E-commerce** is another instrument used to fight poverty in China. E-commerce has now reached all of China's 832 impoverished counties; bringing them closer to the global market.

- **Investment in human capital** through a well-rounded education was another priority that contributed much to the success of China's anti-poverty initiative.
- The **massive investment in its healthcare systems**, particularly at the grassroots level, was another important factor in the success of China's fight against poverty. 99 percent of its poor people are provided with basic medical insurance that covers up to 80 percent of the cost of hospitalisation. The rural poor also receive special treatment for 30 types of diseases. Every village in China has a clinic with medical personnel and a doctor.

**Customised Bottom Up Approach:** its approach of addressing poverty at its roots in all 832 counties. Each of the impoverished counties came up with clear-cut, custom fit, and contextualized poverty alleviation strategic measures, unique to their needs.

## **How did this help China?**

- From 1978 until 2013, unprecedented growth occurred, with the Chinese economy increasing by 9.5% a year.
- The success of China's economic policies and the manner of their implementation resulted in immense changes in Chinese society in the last 40 years, including greatly decreased poverty while both average incomes and income inequality have increased
- Rapid economic growth which has virtually eliminated poverty in urban China

In terms of reducing poverty, since the 1970s, **China is responsible for over 70 percent of global poverty reduction** and has met its poverty eradication target set out by the **2030 United Nations' (UN) Agenda for Sustainable Development**, 10 years ahead of schedule. Thus far, China is the greatest anti-poverty story in history.

# Challenges to Chinese Model of Economy

Major challenges that are plaguing the Chinese economy include:

## ***Falling Growth Rate:***

- Chinese economic growth rate has been unprecedented. The economy has been growing over 10% per annum for a couple of decades now. However, since Chinese economy is centrally planned, this growth rate was planned by the government too.
- Over the years, the economy became overburdened with this debt. Now since the market sentiment is negative and more debt cannot be added, the growth rate has started crumbling.

## ***Export Driven Economy to Consumption Driven Economy:***

- The Chinese economic miracle was fuelled by the United States consumption debacle. The United States has almost extensively been consuming China's produce.
- China has been exporting to a lot of other nations as well. However, the United States single handedly accounts for over a third of Chinese exports.
- China's big challenge is to sustain its economic prowess in the domestic economy. Instead of selling to other countries, Chinese businesses now have to sell to each other, if the miracle has to be sustained.

## ***Manufacturing and Banking Viability:***

- Since the money was loaned out by state banks to various industries, the banking system is also reeling under the effects of this problem.
- The government is currently managing these non performing assets. However, these assets could cause mayhem in the Chinese banking sector.

## ***Regional Imbalances: Coastal to Internal:***

- The economic boom has led to widespread development all across China's coastal periphery. This is obvious given the fact that Chinese growth story was fuelled by exports
- Interior China is still a third world country with low standards of living.
- This can be viewed as a challenge because sustaining high Chinese growth rates with such poor infrastructure will be difficult to say the least.

**Poverty** is defined as having not enough material possessions or income to cover a person's basic personal needs, sometimes so extreme that a person lacks food, clothing, and shelter. The **poverty rate** is the ratio of the number of people in a given age group whose income falls below the poverty line.

### **Lessons for India from the Chinese Model:**

China's success in its eradication of poverty should serve as inspiration and motivation for developing countries in their respective fights against poverty.

The success of China's fight against poverty can be attributed to the decisiveness and strong political will of the CPC and its leadership. It can also be attributed to the unified and cohesive coordination between the central government, provinces, cities, and counties. India also needs to emulate such decisiveness and coordination.

India's policy approach has been criticised as being an armchair approach that is not connected with grassroots realities. India should also invest in bringing out clear-cut, custom fit, and contextualized poverty alleviation strategic measures, unique to the needs of its poor population.

India should intensify a multipronged approach to tackle multidimensional poverty in a holistic manner.

**Mould your thought:** How did China manage to end absolute poverty in the country? What can India learn from its

neighbor?

***Approach to the answer:***

- Introduction
- Discuss the Historical economic models used by China
- Discuss the current strategy it used
- Mention the lessons for India in its poverty eradication goals
- Conclusion