

CHAPTER 4

Poverty and Vulnerability

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Economic reforms and urbanization have substantially reduced poverty in China. Between 1981 and 2004, the number of people living on US\$1 a day declined from 634 million to 128 million (Chen and Ravallion 2007).¹ China has also made progress in the nonincome areas of poverty, reducing hunger, child mortality, and maternal mortality; improving maternal health and education, particularly at the primary level; and promoting women's participation in political decision making.

Although the decline in poverty slowed in the mid- and late-1990s, when the focus of antipoverty efforts shifted to hard-core poverty in isolated remote areas, the number of poor people continued to fall. In 2002 the number of poor was estimated officially at 28.2 million, about 3 percent of the rural population.² In 2003, however, for the first time

1 Chen and Ravallion (2007) define poverty as living on US\$1 a day at 1985 purchasing power parity (Y 879 per capita). Based on the Chinese government's definition, which defines the poor as people with average per capita incomes of less than Y 625 a year, the number of people living in poverty fell from 250 million in 1978 to 32 million in 2000. This figure represents the average per capita net income for all nationally defined poor counties. Since 2001, researchers at the Leading Group for Poverty Alleviation and Development have referred both to the "absolute poor" (people with net incomes below Y 629 in 2001 prices) and to "low-income people" (people with incomes below Y 869 in 2001 prices). The "low-income" definition is very close to the World Bank level of Y 879.

2 This figure is based on the official poverty line of annual per capita net income of Y 627 at 2002 prices.

since 1978, there was a slight reversal in this trend, with poverty levels rising by 800,000 to 29 million.

Within this overall picture, there remain wide variations, both between and within provinces with respect to levels of per capita and household income and consumption and human development, particularly in health, education, and social safety net provision. These variations are accompanied by continuing specific vulnerabilities, affecting in particular women, ethnic groups (national minorities), and people with disabilities.

Faced with these issues, and the possibility of their affecting the ongoing development process, the Chinese government has adopted an approach calling for the building of a *xiaokang* (harmonious) society, in which everyone will benefit from a life that is both moderately affluent (materially and socially) and sustainable. Equity in the process of development has become a major issue, with the government placing a high priority on reducing inequalities (Murphy 2004; Prime Minister's Report 2004). The government's current "five integrations" strategy aims to create policies that are more coordinated and balanced at the urban-rural, regional, social, and economic levels. In particular, urban poverty is to be addressed more systematically. The extent of the problem and how to tackle it are the focus of this chapter.

Who Are the Urban Poor?

Despite increasing awareness of urban poverty, defining the urban poor in China is beset with difficulties, because China does not have an official urban poverty line for the country as a whole. The poverty line varies from city to city, with benefits lines determined by costed basic items of expenditure. Official definitions of the urban poor exclude most migrants.

Since 2000 the government has defined the urban poor as people covered under the Minimum Living Security Standard scheme (MLSS), or *Di Bao*. According to official figures, 21 million urban residents received *Di Bao* in 2003 (Hussain 2003; Ravallion and Chen 2003).³ In one of the most thorough research exercises undertaken on urban poverty (Wang 2002), Chinese researchers from the National Bureau of Statistics (NBS)

3 The methods and cutoffs used to determine urban households' eligibility for *Di Bao* vary widely across cities, with the maximum per capita net income ranging from Y 1,211 to Y 2,310 a year. Some cities compile detailed lists of basic goods and services to establish poverty lines; others rely on informed guesses. In Beijing, *Di Bao* provides Y 280 per capita a month, plus a "food and fuel" card worth Y 40 a month. Migrant workers, university students, city farmers, and released prisoners do not qualify for *Di Bao* (see Guan 2005).

defined the urban poor as people with annual expenditure of less than Y 2,310 per capita (in 1998 prices). The NBS assessment is based on an averaging of city poverty lines. Based on these various definitions, about 4.7–6.5 percent of the urban population is estimated to be poor.

One of the most important groups among the urban poor are the elderly, a group that includes many laid-off workers. During the past decade, levels of urban poverty have been pushed upward primarily by workers made redundant from the closure of state-owned enterprises and the dismantling of the “iron rice-bowl” welfare systems once provided by these enterprises. If elderly urban inhabitants are childless, their situation is particularly difficult. In the absence of family support, they are totally dependent on pension contributions from their former employers, which are not always forthcoming.

Alongside the elderly are the disabled, who officially represent 40 percent of the urban poor. Other groups of poor include migrants from rural areas and farmers displaced as a result of changing land use in urban and periurban areas. Data from a 2003 survey by the Ministry of Land Resources (DFID 2004) indicate that there are 20 million farmers with urban residence (*hukou*) who have lost their rights to land. They tend to receive low levels of compensation and have few skills with which to obtain nonagricultural work.

The urban poor tend to have the following characteristics (Zhou 2000):⁴

- *Lower than average incomes.* On average, the incomes of the urban nonpoor are 2.3 times higher than those of the poor.
- *Lower than average levels of expenditure.* On average, nonpoor households' expenditures are 2.9 times higher than those of poor households.
- *Unemployed or jobless.* The proportion of the poor seeking work is about three times that of the nonpoor.
- *Female.* More women are living in poverty than men (12.1 percent of women and 11.7 percent of men).
- *Lower than average levels of educational attainment.*
- *Poor health.*⁵

4 The information in this section is based on the NBS survey of poor urban households and on participatory poverty assessments conducted by researchers at the Centre for Integrated Agricultural Development at the Chinese Agricultural University, notably Zhuo Xuejun (2000).

5 Data on health and education conditions for poor urban workers are presented later in the chapter.

Support for and Problems Faced by the Urban Poor

At first sight, the *Di Bao* program appears to be effective in meeting the needs of the urban poor. Basic items of expenditure are met, with some local governments also providing nonmonetary benefits (health care, schooling entitlements, and discounts on the use of utilities) to *Di Bao* participants. Local authorities and neighborhood committees try to ensure that recipients are genuinely eligible, taking into account factors such as financial assets and housing conditions. Recent research indicates that the program does a good job of targeting those most in need: larger households living in small dwellings, nonowner occupiers, people caring for disabled or ill family members, retirees, laid-off workers, and the unemployed (Chen, Ravallion, and Wang 2006). It would thus appear that the needs of the chronically poor are being met.

Research indicates, however, that there is a large gap between *Di Bao* payment levels and poor urban families' estimates of what they need to meet their subsistence needs. Using data from the 2004 Urban Short-Form Survey conducted by the NBS, Park (2005) estimates that based on subjective perceptions, 6.7 percent of the urban population considers itself poor but only 1.6 percent receives *Di Bao*. This finding is reinforced by Chen, Ravallion, and Wang (2006), who conclude that the program is more successful at reaching the chronically poor than the poor. Data from their household surveys, conducted in 35 cities, show that about three-quarters of households eligible for *Di Bao* do not receive it. Moreover, 81 percent of *Di Bao* recipients consider their incomes inadequate to meet their needs.

Coverage is also uneven. The 2004 NBS survey concluded that 85 percent of the poor live in China's smaller (prefecture-level) cities, which have more limited fiscal resources. According to the survey, 18.5 million urban residents received *Di Bao* payments, although 27.8 million were eligible. In addition, safety net benefits do not accrue to most migrants, the vast majority of whom lack urban *hukou*.

The Predicament of Rural–Urban Migrants

Officially, the urban poor represent less than one percent of the poor in China. If, however, some recent estimates of the migrant population living below the poverty line are included in this figure, both the incidence and the share of urban poverty rises. Migrant workers constitute a larger proportion of the urban poor, and the share of the urban poor increases to 10–12 percent of the poor nationwide.

Despite their contributions to the economy, migrants are disadvantaged. Most perform work that residents do not want to do, for which they are paid less than residents. Migrants are also ineligible for social benefits. Where they lack sustaining social networks, their vulnerability is particularly acute.

It is difficult to estimate the extent of poverty among migrants, because they do not hold urban *hukou* and are therefore not eligible for most welfare services. A survey conducted in 1999 by the NBS provides some information; recent research by the Asian Development Bank adds data through 2001 (ADB 2001).

The surveys find that the poverty rate is 50 percent higher among urban migrants than among permanent residents. The NBS estimates that 3 million migrants are living in poverty, but this figure appears to have been based on income available to migrants after remittances had been sent back to their village families.

Female migrants are particularly at risk. According to a survey of migrant women and children undertaken by the Ministry of Health (2003b) in Beijing 93 percent of resident women but only 10 percent of migrant women gave birth in hospitals, and 71 percent of women dying during or as a result of child birth were migrants.⁶ The vast majority of migrant women cannot afford to purchase most medicines or medical care, a situation that is exacerbated by widespread irregularities in payment by their employers.

Children of migrants face systematic barriers in access to education. These children are permitted to attend public schools, but without urban *hukou*, they have to pay higher tuition fees, which makes it difficult for them to do so. Unable to afford these fees, many migrant families leave children in their villages of origin.

Urban housing for rural migrants often lacks basic amenities and is of lower quality than the average for urban residents in the same income category (Wang 2004). A study of migrant housing in two Chinese cities finds that 80 percent of migrants rent, 7 percent share a room with another family, 50 percent live in only one room, 29 percent occupy two rooms, 4 percent have exclusive use of a shower or bath, 8 percent have use of a toilet, and 28 percent have no access to a kitchen (Wang 2004). Migrants also spend a higher proportion of their income on housing than do residents holding urban *hukou*.

⁶ The figures for female migrants dying during or as a result of childbirth in other cities in 2000 were 79 percent in Guangdong in 2001 and 72 percent in Shanghai.

Migrants face less-healthy living conditions than other city dwellers. Many cities have begun moving heavily polluting industries to periurban areas, where large numbers of poor migrants live. The polluted water and air in these areas affects their health.

Unemployment

Official data indicate that national unemployment in China stood at 3.6 percent in 2001 and 4.2 percent in 2005. A survey conducted by the Chinese Academy of Social Sciences, in collaboration with the University of Michigan, ("No Right to Work" 2004) finds that total unemployment rose from 7.2 in 1996 to 12.2 percent in 2001 (it has since declined). The Ministry of Labour and Social Security projects that the national unemployment rate will average about 5 percent by 2010 ("Unemployed Urbanites" 2006).

Since the mid-1990s, the ranks of the urban poor have increasingly included workers made redundant by the restructuring (closure or downsizing) of state-owned enterprises. For older laid-off workers, alternative employment or sources of income are limited. In 2000, two-thirds of laid-off workers received neither unemployment insurance nor *Di Bao* payments.

Health and Education

Many of the clinics serving low-income households in urban areas provide limited services, at a cost poor households can sometimes ill afford.⁷ Data from the 2003 National Health Services Survey indicate that the average visit to a health clinic costs a patient Y 97.7 in rural areas and Y 163.5 in urban areas, these figures are 75 percent and 38 percent higher than in 1998 (Ministry of Health 2003a). The average costs of hospitalization stood at Y 3,227 in 2003, with urban costs at Y 5,518.

About 55 percent of urban residents are not covered by public health insurance programs (Liu, Nolan, and Wen 2004). This represents a 20 percent decline since 1993. Rising medical costs are accompanied by increases in the number of patients relying on self-care and the number of patients buying directly from pharmacies.⁸ The cost of medicine is relatively high.⁹ According to the Ministry of Health's 2003 survey,

7 Health care costs are rising rapidly and account for 12 percent of household consumption.

8 In 2003, 36 percent of patients in the National Health Services Survey sample self-medicated, a 7 percentage point increase since the previous survey, in 1998.

9 The average cost of medicine purchased in pharmacies is Y 72 (Y 112.4 in urban and Y 50.4 in rural areas).

35.5 percent of urban people who needed to do so did not seek medical assistance because it was unaffordable.¹⁰

Data from the Beijing University School of Public Health and the Ministry of Health Maternal and Child Surveillance Network Reports indicate that 80.9 percent of urban children under the age of seven received health care in 2002. The infant mortality rate was 15.4 deaths per 1,000 live births nationally and 11.1 in urban areas. The under-five mortality rate was 19.3 deaths per 1,000 live births nationally and 13.8 in urban areas. The maternal mortality rate has decreased gradually in urban areas, from 43.1 deaths per 100,000 live births in 1996 to 28.7 in 2002, with the largest percentage decrease (12.5 percent) occurring between 2000 and 2002. Over the same period, the rural maternal mortality rate fell from 62.4 to 47.8 deaths per 100,000 live births.

Fees and other costs of education constitute a substantial percentage of the income of low-income households. Girls have less access to education than boys at the secondary and even the primary level (UNDP 2004). Faced with difficulties in meeting school costs, parents tend to withdraw their daughters before their sons (Beynon and Zheng 2001).¹¹ About 9 percent of children age 7–15 from poor households are not enrolled in school—almost twice the rate for children from nonpoor families. A key problem is the lack of state policies to assist poor households in meeting the costs of schooling.

Substantial intersectoral and regional inequities exist in both education and health. Average infant mortality rates were three to five times higher in western provinces than in coastal provinces. School enrollment rates ranged from 60–70 percent in western and central China to 99 percent in the most-developed eastern provinces (UNDP 2004).

Improving Service Delivery

The Chinese government, particularly the Ministry of Civil Affairs and local civil affairs departments, is concerned about urban poverty, particularly in the context of growing conflicts between urban communities and planning agencies. The government is calling for improvements in consultation with urban communities to address weaknesses in urban planning and devise means of addressing the types of poverty experienced by

10 The ministry's report concludes that "medical impoverishment is one of the most important reasons for poverty" (Ministry of Health: 2003a, 7).

11 In the participatory poverty assessment undertaken in Yunnan in 2001, villages in poor counties stated that they prioritize school attendance by boys.

groups of urban residents. Studies of urban poverty (Zhou 2000; Wang 2002; ADB 2004) conclude that cities have both underestimated and understated the needs of the urban poor. They also reveal a lack of support for women and the most vulnerable poor urban groups, particularly children and the disabled.

To push the urban poverty agenda forward and work more efficiently with nongovernmental and community-based organizations in urban areas, the Ministry of Civil Affairs has begun to explore ways of assessing types and levels of urban poverty in order to develop appropriate poverty reduction measures that target and monitor poor urban households.¹² It has focused on the use of participatory approaches, particularly the possible uses of participatory monitoring and evaluation.¹³

For the central government, bearing more of the costs of primary education and basic health care must be a priority. In 2004, public spending on education as a share of GNP was 2.4 percent and it remained well short of the 4 percent of GNP target. The target of spending 4 percent of gross national product (GNP) on education has yet to be met. To do so, both the central government and local governments must ensure that resources are earmarked for education and that, as required by government policy, basic education is universally provided for a minimum of nine years.

Government expenditure on health as a percentage of total government expenditure fell from 25.0 percent in 1990 to 14.2 percent in 1997 and to 10.2 percent in 2001 (WHO 2006). In 2003 it represented just 2.0 percent of GDP (UNDP 2005). As a percentage of total health expenditure, government spending fell from 46.6 percent in 1996 to 39.1 percent in 2005 (WHO 2006), while private expenditure rose from 53.4 percent to 60.9 percent. The current level of health funding is inadequate to meet required low-cost interventions in critical areas such as immunization and maternal and child health services.

Essential interventions for health care should receive adequate funding. Health insurance schemes should be extended to cover poor households, with subsidies granted to meet a substantial proportion of the annual

12 Recent reports also note a lack of coordination among organizations attempting to meet the needs of the urban poor—particularly between the Ministry and Departments of Civil Affairs, the Ministry of Education, local governments, associations for people with disabilities, the All-China Women's Federation, the All-China Communist Youth League, and the China Social Work Association.

13 For example, the ministry has been interested in research recently undertaken by the Jiangxi Poverty Alleviation and Development Office (PADO) examining the extent to which participatory assessment tools used in rural areas can be developed for use in poor urban communities.

fees required by the scheme. In urban areas, in particular, moves to subsidize health care (especially hospital costs) for households need to be strengthened.

Basic programs need to focus more on delivering essential, low-cost interventions. Better immunization and greater use of mineral and vitamin supplements need to be promoted, and more detailed information should be provided on nutrition, basic health, and maternal and child services. Given the relation between tuberculosis and HIV/AIDS, free diagnosis and treatment of tuberculosis would be advantageous. Overall, health services need to be adequately maintained and upgraded, and health management and supervision strengthened with the help of resource planning at the local level. Prices for health services need to be aligned more closely with service costs and guidelines established for the roles played by nongovernmental organizations in service delivery within the context of poverty reduction initiatives.

In improving service delivery for poor and vulnerable households in areas such as basic health, maternal and child care services, tuberculosis programs, improved immunization, and greater use of mineral and vitamin supplements, one of the most important constraints is the inability of township governments to meet the matching requirements of counterpart funding. A second constraining factor is that expenditure on infrastructure improvements for the provision of health care and education at the local level is not always followed by improvements in service provision. New health clinics often remain underutilized, with patients preferring the services of their local doctors, in less well-equipped facilities. Inadequate information has been disseminated on new services, and insufficient funds have been provided to train staff for new clinics. Moreover, new clinics often charge more for medicines than local doctors do.

Commitment by local government agencies and health bureaus to meet the needs of poor households is essential to overcome these problems. This commitment has at times been inadequate. Success in tackling HIV/AIDS, for example, relies heavily on information campaigns organized at the county level and below. Yet local politicians continue to fear that their areas will be stigmatized if they acknowledge the existence of HIV/AIDS, causing investment, business, or tourism to suffer. Communicable diseases and poor health need to be addressed by improved organization of basic immunization and nutritional information, primary responsibility for which lies at the local level.

Improving the capacity of county and township governments to deliver health and education services also requires enhancing management skills for resource planning. More attention needs to be paid to reducing

financial barriers and extending coverage of preventive programs, by consulting with stakeholders, improving monitoring procedures, and establishing information bases to enable different approaches to be tested. Failure to implement and sustain institutional improvements will adversely affect service delivery.

In education, addressing school dropout rates, particularly for girls, is crucial. The roles and commitment of local agencies will be critical in developing and implementing recently proposed national tracking systems. Locally based campaigns to convince poor households of the benefits of school attendance for their daughters will also be an important part of educational strategies, although based on experience, commitment to such campaigns will require considerable strengthening.¹⁴ Greater commitment to educate the children of migrant families is also needed. Improving the educational and skill levels of migrants will contribute to the development of the labor market. Doing so will require tackling the highly variable levels of municipal support for the implementation of policies to improve educational conditions for the children of migrant families, particularly in cities outside the southern and eastern seaboard.

Despite the central government's commitment to improving the targeting of programs to poor and migrant households, little has been done in this area. A notable exception is in Jiangxi, where the Poverty Alleviation and Development Office (PADO) has begun to work on proposals for ways in which participatory assessment tools used in rural areas can be developed for use in assessing the needs of poor urban communities. This work could be extended. Priority could be given to the development of manuals for use in participatory assessments of urban poverty and capacity-building programs for officials, relating the findings of participatory assessments to suggestions for the development of integrated social protection schemes.

Enhancing the Safety Net

By extending the recent reforms made in urban social security schemes (exemplified in the recent social security reform pilot program in Liaoning¹⁵) and by its intentions to expand the unemployment insurance

14 Educating girls will also contribute to better health of children, because better-educated mothers tend to pay closer attention to the health of their children and are better equipped to take advantage of modern medical advances (Yusuf, Nabeshima, and Ha 2006).

15 In 1999 the central government made the decision to integrate the subsectors of social security (pensions, death, disability, health, and unemployment) at the municipal, provincial, and national level and to integrate the information systems linking the three government levels in these subsectors. This effort has been piloted in Liaoning Province.

and *Di Bao* programs, the government is creating the basis for widening the provision of social security.¹⁶ In continuing this work, it is desirable that social security be extended to migrants, with priority given to covering, at the very least, all long-term migrants, who should be given the same coverage as urban residents. An additional problem area is that of municipal compliance rates, which are low and for most of areas of social security (pensions, disability, health, and unemployment), variable because of the inability of many cities to provide sufficient pooling to ensure sustainability.

Noncontributory safety net provision currently includes support for workers laid-off from state-owned enterprises. This program provides a very basic living allowance and limited subsidized medical care.¹⁷

With regard to pensions, the government has made progress in setting up a new social security trust fund. Lack of public confidence will make it difficult to develop contributory schemes, however. To pay retirees from the old system, local governments often use funds that should be going into personal accounts. Private enterprises have little incentive to join a system whose contributions go mainly to pay off the liabilities of an earlier system.

Solving pension problems will require radical solutions. To ensure that coverage under the new pension system is affordable, the central government will have to assume more of the old system's liabilities. To secure adequate funding in the longer term, the government may decide that accounts will eventually have to be transferred to asset managers, that contributions will have to be rerouted from workers and employers to fund managers, and that a central supervisory board will need to be created. Such developments may also require the involvement of foreign financial services firms, given the lack of experience of Chinese firms in managing pension assets.

In developing insurance schemes, the issue of mobility needs to be addressed squarely, recognizing that people need to be able to access support when and where they need it. The problem is that, in order to make benefits transferable, social security contributions and expenditures need to be pooled, and it is not yet clear how this ought to be done. The best level for pooling may be the province, with basic schemes for catastrophic illness and unemployment set up as a starting point. Employees in larger enterprises could be an initial pilot group in rural areas.

16 A World Bank (2003) report addresses the costs and sustainability of expanding social security provision. It stresses the importance of centralizing the financing and provision of social security and protection to the provincial level.

17 The basic living allowance provided is set at 70–80 percent of the local minimum wage.

An effective pensions policy is essential for enhancing social welfare by meeting the needs of the aging population and broadening and deepening capital markets. Developments remain at an early stage, however. Various alternatives have been proposed. The World Bank and others have suggested a three-pillar system, combining social pooling with funded individual accounts. Such a system would provide a basic pension for retired workers, keeping them above the poverty line; it would be combined with mandatory, fully funded individual accounts paid for by workers and enterprises. A third pillar would consist of a supplementary pension, which employers could choose to provide and workers could choose to contribute to (World Bank 1997). Whichever option is chosen, an appropriate system needs to be given priority, taking advantage of current high growth and savings rates. Pension reform would help sustain the momentum of state-owned enterprise reform.

The risks to this process are clear. Developing a basic pensions system requires contribution levels that enterprises may not be able to meet. Many employees are rightly suspicious of pension schemes and will require considerable reassurance and detailed information before they are willing to contribute. Moreover, arrangements are not yet in place to handle the huge sums involved in managing pension funds. Alongside the development of the basic scheme, the government will need to finance pensions already being paid as well as the accumulated pension rights of workers under the old state system. This debt will have to be funded through the sale of state-owned enterprise assets, government bonds, and additional contributions from employees, none of which is currently very appealing.

Similar arrangements could be made for poor urban families. Individual accounts could pay for low-cost health care, with insurance—pooled across enterprises—covering serious medical problems.¹⁸ Issues of confidence, appropriate use of funds, limited local funding, and a switching of central government funding will all have to be addressed.

In dealing with these issues, it will be important to keep in mind the overwhelming evidence of recent surveys that indicates that households, particularly poor households, prioritize concerns about health and mounting health care costs above concerns about unemployment and

18 The piloting and development of community-based health insurance schemes in urban areas since the mid-1990s—based on individual savings accounts contributed by employers and employees—has not included poor urban households. The scheme had 109 million beneficiaries at the end of 2003 (see Liu, Nolan, and Wen 2004).

insecurity in old age.¹⁹ Poor people believe that health is the most important area in which governments need to assist in the maintenance of their livelihoods.

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19 For example, a recent participatory assessment undertaken by researchers supervised by the Sociology Institute of the Chinese Academy of Social Sciences, based on fieldwork with household members and migrants from 12 villages in six provinces, concludes that education and health are the primary concerns of rural household members and their migrant members in urban areas. (Respondents also indicated that these were the main concerns of nonmigrant urban residents.) The results of this assessment will be included in a forthcoming World Bank report, *China's Evolving Poverty Reduction Agenda*. In a recent willingness-to-pay survey supervised by the author to assess the impact of proposed increases in water prices by a water supply company in Beipiao City (Liaoning), members of most of the 600 households surveyed cited health and education as their major concerns. The results of this survey are being drafted in a report for the Department for International Development and Ministry of Water Resources entitled *Water Resources Demand Management Project*.

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