

*PIDE Monograph Series*

**Poverty Reduction in Pakistan:  
Learning from the Experience  
of China**

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## 1. INTRODUCTION

Learning from the experience of other countries, for achieving certain development goals, is not an easy task, because different nations vary in their cultural settings, geo-political conditions and mobilisation of resources, necessary for such achievements. However, despite these limitations, the learning process can be useful, in providing necessary inputs, for designing policies and implementing them, to accomplish the goals. The success of China against poverty, during the last three decades, has attracted the attention of economists, social scientists and international organisations to draw some lessons, for other developing countries, for fighting against poverty, in their own settings. For example, Ravallian (2008) has recently given a number of policy messages, worth thinking about in an African context, that emerge from the literature on how China was so successful in the fight against poverty. Heilig, *et al.* (2005) have drawn three lessons, from the Chinese experience, for other poverty-affected developing countries, in Africa, Asia and Latin America. First, they argue that, it is essential for these countries to get their economic systems in order, and, secondly, to develop a clear concept of regional development. Thirdly, 'specific poverty alleviation measures are necessary that must be highly targeted to improve basic living conditions, education and health among the poverty affected population' [Heilig, *et al.* (2005)].

China has been successful in poverty reduction, while poverty in Pakistan has fluctuated, during the last three decades. At present, poverty in Pakistan is as high as it was in the early 1990s. In the mid-2000s, when poverty fell sharply, the MDG target of halving poverty was likely to be achieved by 2015. However, the last available MDG report (2010) concludes that 'it is expected that MDG targets related to Goal 1 (poverty and hunger) will not be met for all the indicators' [Pakistan (2010)]. Two relevant questions are: why has Pakistan lagged behind? What can it learn from other countries that made remarkable progress in poverty reduction? China is surely a good case to view achievements in this direction. The close relations between China and Pakistan make the case for comparison and learning even stronger.

China is a Middle Income Country (MIC), and Pakistan actively aspires to this status, in coming years. The recent debate on poverty reduction searches for ways to bring growth inclusiveness to both low-income and middle-income countries. The concept of inclusive growth demands for widespread expansion of opportunities, so that all segments of the society can benefit from economic expansion [Osmani (2008)]. It requires a longer term perspective, as the focus is on productive employment, as a means of increasing incomes, for excluded groups. Two pillars of

*Note:* This study was completed under the joint project of PIDE and Asian Development Bank (ADB) entitled Regional Knowledge and Partnership for Poverty Reduction and Inclusive Growth. The earlier version of the study was presented in the Regional Workshop on "Social Inclusiveness in Asia's Emerging Middle Income Countries", held on 13th September 2011 in Jakarta, Indonesia.

inclusive growth are: maximisation of economic opportunities, and provision of equal access to these opportunities. How has China, as an MIC, been successful in creating such opportunities?

Three major objectives of this study are: (i) to understand China's success against poverty, particularly the mechanism through which, the economic reforms led to poverty reduction; (ii) to give a historical review of poverty reduction strategies in Pakistan, and understand why the country could not succeed in poverty reduction; and (iii) to draw some policy lessons from the success of China against poverty.

The study is organised as follows: some methodological issues in poverty comparison between China and Pakistan are discussed briefly in the next section, followed, in Section 3, by a review of income, poverty, macroeconomic and political conditions, in both the countries. The Chinese success against poverty is examined in Section 4, whereas poverty reduction strategies in Pakistan are reviewed in Section 5. Section 6 addresses the key question of why Pakistan could not succeed in its poverty reduction efforts. Some policy lessons for Pakistan are drawn in the penultimate section, followed by concluding remarks in the final section.

## **2. METHODOLOGICAL ISSUES IN POVERTY COMPARISON**

The poverty comparison, between China and Pakistan, is not straightforward because of the differences in methodologies used for poverty estimation in both countries. The Chinese government, international agencies, economists and social scientists have made serious efforts, during the last three decades, to develop a consistent poverty series in China, so that the literature on poverty in China, is extensive. This literature is primarily on rural poverty, because in the late 1970s, per capita income in rural China was extremely low, and around one-third of the total rural population was without access to sufficient food or income, to maintain a healthy and productive life [Fan, *et al.* (2004)]. Therefore, rural poverty reduction was the early focus of the Chinese government.

Since the early 1980s, the Chinese government has applied a rural poverty line, based on a standard of 2100 calories per day, also adjusted for the non-food component [China Development Research Foundation (CDRF) (2009)]. Because of the lack of an official urban poverty line, no uniform standards exist for assessing urban poverty in China. A widely acknowledged practice is to refer to a city's security line for minimum subsistence. The CDRF (2009) inferred that the security line, for minimum subsistence, deviates from the actual poverty line for a majority of cities; but variation trends in poverty incidence, in a certain period, are generally the same.

For poverty estimation, in Pakistan, the 1963-2008 period can be divided into two broad groups; 1963-1992, for which poverty estimates are usually based on secondary or published, grouped data, using generally the calorific norm of 2550 calories per day per person. For the 1992-2006 period, poverty has commonly been



estimated, in Pakistan, by applying the official poverty line (based on 2350 calories per adult per day) on micro-data (Household Income and Expenditure Surveys-HIES). Poverty estimates, in Pakistan, are available for both rural and urban areas. During the early period, or until 1992, it was common to have different threshold levels for urban and rural areas, keeping in view the higher calorific needs of rural population for physical activities. Since the announcement of the official poverty line, in the late 1990s, a uniform threshold of 2350 calories per adult per day is used for rural as well as urban poverty estimates.

Despite these differences in methodologies used, the available poverty data are adequate for the trends comparison, between China and Pakistan. When a longer period of time, say, the last three decades, is taken into account, irrespective of the methodologies used, poverty trends are the same.

To examine poverty trends, and strategies for poverty reduction, in China and Pakistan, this paper has used the 1978-2010 period. The reason for the selection of 1978, as the starting point, is that China introduced reforms in rural areas in this year. It was an ideological shift—shifting of economic empowerment to people of China, through the provision of land. It is worth noting that no such massive policy shift was observed, in the late 1970s, in Pakistan, except for two significant developments. First, the last land reforms were carried out in 1977; these reforms have been discussed later in the paper. Second, in 1977, Martial Law was imposed in Pakistan, and during this military regime, the process of nationalisation, implemented by the Pakistan People Party's government (1972-77), was not only stopped but also reversed, to denationalisation.

### **3. A REVIEW OF INCOME, POVERTY, MACROECONOMIC AND POLITICAL CONDITIONS**

#### **3.1. Rural Poverty Trends**

Poverty data for China and Pakistan, are presented in Table 1 and Figures 1-2. As noted earlier, around one-third of the total rural population of China was living, in 1978, below the poverty line (Table 1), and in terms of numbers, these were 250 million (Figure 1). The corresponding rural population, living below the poverty line, in Pakistan, was also approximately 33 percent; Figure 2 shows the rural poor population in Pakistan as 19 million, in 1978. Rural poor in China (250 million) in 1978, were more than three times the total rural population of Pakistan, and 13 times of its poor population. Keeping in view the relatively high threshold level (2550 or 2350 calories), used in the Pakistan poverty line, as compared to the Chinese low threshold level (2100 calories), rural poverty in the late 1970s could be much lower in Pakistan than in China, if one threshold level is used for the two countries.

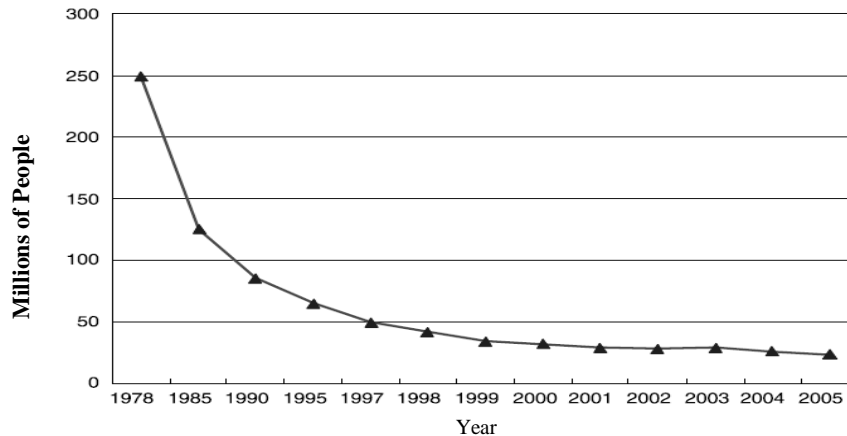
Table 1

*Incidence of Rural and Urban Poverty in China and Pakistan, 1978–2005*

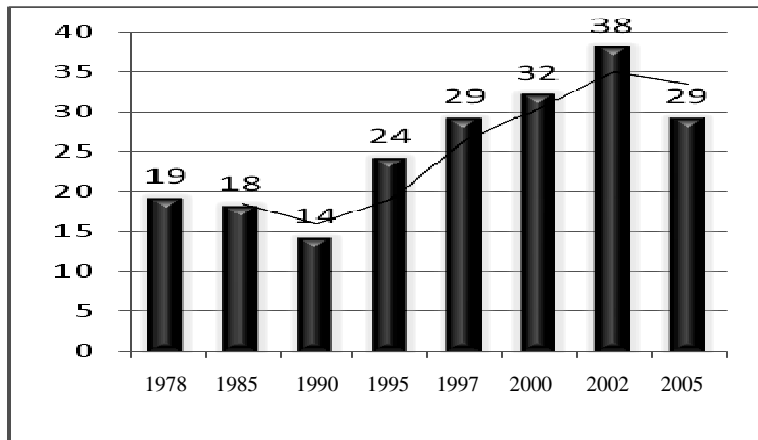
(Percentages)

	China		Pakistan	
	Rural Poverty (Official)	Urban Poverty	Rural Poverty	Urban Poverty
1978	32.9	NA	32.5	25.9
1980	27.1	NA	NA	NA
1981	24.3	NA	NA	NA
1982	17.5	NA	NA	NA
1983	15.2	NA	NA	NA
1984	11.1	NA	NA	NA
1985	11.9	NA	25.9	21.2
1986	12.0	2.0	NA	NA
1987	11.1	2.2	NA	NA
1988	10.4	2.4	18.3	15.0
1989	12.4	2.4	NA	NA
1990	11.5	2.0	NA	NA
1991	11.1	2.1	23.6	18.6
1992	10.6	3.8	NA	NA
1993	9.4	5.1	28.3	24.6
1994	8.2	5.0	NA	NA
1995	7.6	5.1(5.0)	NA	NA
1996	6.7	5.0	NA	NA
1997	5.8	5.1	33.1	22.6
1998	4.8	4.8	NA	NA
1999	3.8	4.1(6.7)	34.7	20.9
2000	3.7	4.0	NA	NA
2001	–	–	39.3	22.7
2002	–	(3.1)	NA	NA
2003	–	–	NA	NA
2004	–	–	NA	NA
2005	2.5	–	28.1	14.9
2006	–	–	27.0	13.1

Source: For China, *China Statistical Yearbook* (Beijing: China Statistical Publishing House, various years); for Pakistan, *Economic Survey of Pakistan* (1997-98 to 2006-07).

**Fig. 1. Rural Poverty in China: Population Living Below the Poverty Line**

Source: China Statistical Yearbook 2006.

**Fig. 2. Rural Poverty in Pakistan: Population Living Below the Poverty Line**

Source: Authors' estimation based on data in Table 1.

The headcount poverty, in China, fell to only 2.5 percent, in 2005, when the numbers of poor were counted as 23.6 million, ten times lower than the poor in 1978. The decline in poverty incidence in Pakistan, for the corresponding period (1978–2005), was marginal from 33 percent to 28 percent; the country has not experienced a secular decline in poverty, rather, poverty has fluctuated over time (Table 1).

The proportion of rural population, living below the poverty line, in Pakistan, first declined from 33 percent in 1978 to 18 percent in 1989, when the numbers of poor were counted as 14 million (Table 1 and Figure 2). The decade of the 1990s witnessed a sharp increase in rural poverty in Pakistan, as it jumped to 39 percent at

the beginning of the new millennium. The numbers of poor reached 38 million in 2002. The rural poor population doubled in Pakistan between 1978 and 2002 (Figure 2). The decline in rural poverty from 39 percent in 2002, to 28 percent in 2005, helped reduce the numbers of poor from 38 million to 29 million. However, when the longer period is taken into account, the numbers of rural poor, in fact, have jumped from 19 million in 1978, to 29 million in 2005 (Figure 2).

China's rural poor outnumbered Pakistan's by 13:1 in 1978, and by 2005 Pakistan overtook China in the total count of rural poor (Figures 1 and 2). No official poverty data are available for more recent periods in Pakistan, but because of the high inflation since 2008, the common observation is that overall poverty (in rural as well as urban areas) could be around 33 percent, and this figure has been reported in the official documents [Pakistan (2009)]. Since rural poverty in Pakistan, has generally been higher than urban poverty, the rural poor population at present could be much larger than the above reported number of 29 million.

It is noteworthy here that, during the last three decades, China has had more favourable demographic conditions than Pakistan, for poverty reduction. China entered the period of demographic transition well before 1980 [Ravallion (2009)], while in Pakistan, it started very late, in the early 1990s. And this transition is slow. The population growth rate in Pakistan was around 3 percent per annum in the 1980s, and at present it is 2.1 percent, which is even higher than the Chinese population growth rate of 1.6 percent per annum, in 1978. This high population growth rate in Pakistan has surely had an impact at least on the number.

### **3.2. Urban Poverty**

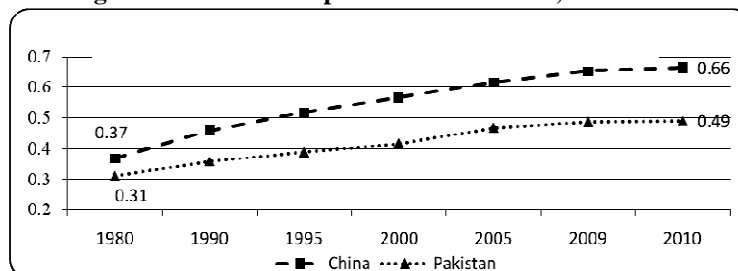
Table 1 also presents data on urban poverty, for both China and Pakistan. Urban poverty, in China, did not draw much attention prior to the 1990s [CDRF (2009)]. The rate of urban poverty, measured by income level, was around 2 percent before 1990; the rate began to rise after 1990, topping at about 7 percent, in 1999. It then started declining, and in 2002, it was only 3 percent. When one looks at these very low urban poverty rates over time, it is not difficult to understand the reasons why the Chinese government continued its focus on poverty reduction, in rural areas, during the last three decades. However, the situation in urban Pakistan is different. In 1978, urban poverty in Pakistan was as high as 26 percent, which was only 7 percentage points lower than the rural poverty (Table 1). It declined to 15 percent by 1989, but, like rural poverty there was a surge in urban poverty in the 1990s, and it reached the level of about 25 percent in 1994. Since then, urban poverty has gradually declined to 13 percent in 2006. According to the 1998 census, around 33 percent of the total population was in urban areas, and independent sources put the urbanisation level as high as 39 percent [Arif (2003)]. At present it could be even higher. So, it appears that, the numbers of urban poor, in Pakistan, are likely to be around 8 to 10 million.

This very brief review of poverty trends, in China and Pakistan, indicates the success story of the former in reducing not only rural poverty rates, but also the number of poor. The poor population is concentrated in remote areas of China, where it is difficult to trickle down the benefits of economic growth [CDRF (2009)]. The case of Pakistan is different; not only poverty rates, in both rural and urban areas, after three decades, are high by all standards, but also the numbers of poor have doubled. Poverty is widely spread in Pakistan. However, empirical research has identified high-concentration areas, including southern Punjab, cotton/wheat belt of Sindh and rural areas of KPK and Balochistan.

### 3.3. Social Poverty

Trends in social poverty, in China and Pakistan, are examined very briefly, through a composite measure of health, education and income, known as the Human Development Index (HDI). This has been developed by the UNDP, to assess levels and progress, using a concept of development, much broader than that allowed by income alone. According to this composite measure of social poverty, China has shown a considerable improvement, during the past 30 years, when HDI increased from 0.37 in 1980 to 0.66 in 2010. The corresponding increase, in Pakistan, was much lower, from 0.31 to 0.49. The gap between Pakistan and China, in HDI, has risen to 0.17 percentage points in 2010, from 0.06 percentage points in 1980 (Figure 3). However, in China, the HDI indicators in remote rural areas, where poverty is high, also remain poor [CDRF (2009)]. Pakistan's performance, in the social sector, remains poor. Literacy rate is still low and net school enrolment has not improved, satisfactorily. As in the case of poverty, Pakistan is unlikely to achieve the health, education and nutrition related targets set in the MDGs.

**Fig. 3. Human Development Index Trends, 1980–2010**



Source: Human Development Report, 2010, UNDP.

### 3.4. Macro-economic and Socio-political Conditions

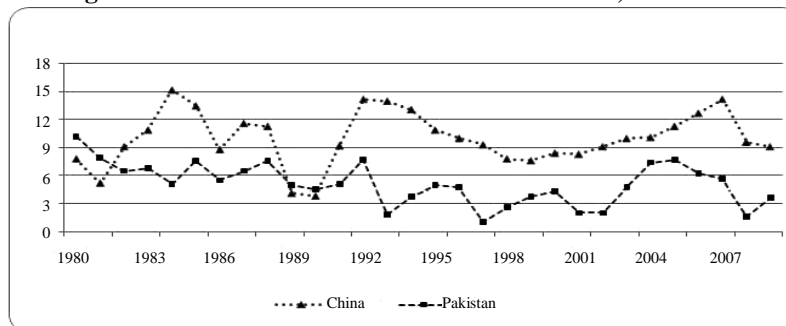
Macroeconomic stability, and a favourable socio-political environment, are necessary conditions for implementing poverty reduction policies, and ensuring that benefits of such policies reach the poor and needy. In the macroeconomic context,

the focus in this section, is on growth performance, inflation, unemployment and inequality, while for the socio-political situation, some indicators related to governance and institutions have been discussed. Figure 4, shows the outstanding performance of China, in economic growth, but relatively larger swings in Pakistan's performance. The Chinese economy continued to grow, during the last three decades, at a rapid pace, and also had low inflation (Figure 5). The average annual growth rate for fifteen years, 1990-2004, was 10 percent, the highest growth rate in the world, while the corresponding rate for Pakistan was 4.5 percent per annum, with a great jump from only 1.7 percent in 1997 to 7.5 percent in 2004. In Pakistan, in addition to the recent very high inflation, Figure 5, also shows double digit inflation episodes, in the early 1980s, and during most years of the 1990s. The unemployment rate in Pakistan has historically been low, but it has fluctuated, during the last three decades. The unemployment rate in China has historically been low, as well (Figure 6).

In short, with high sustained economic growth, low inflation and unemployment, China has a more favourable macroeconomic context for poverty reduction, since the 1980s. However, the rising inequality is a real challenge for China (Figure 7). Both relatively low and unstable economic growth, and high inflation, were among the major macro-economic challenges for poverty reduction in Pakistan.<sup>1</sup> Inequality is a challenge for Pakistan, as well (Figure 7).

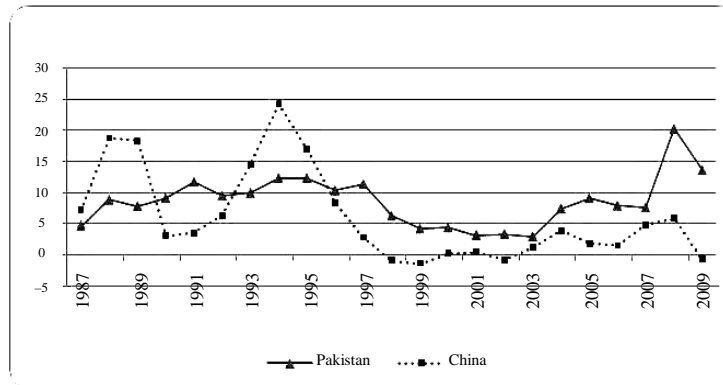
The key success of the Chinese government in reducing poverty is rooted in its solid political determination and powerful organisational ability. China has been a strong central government, with all the political authority; however, its role is just as a 'motivator', as it has delegated all economic powers to the local governments where the counties are the basic units for all decisions and implementations of rural poverty-reduction policies. Since the late 1970s, the government of China has comprehensively implemented its poverty reduction programmes, and sustained them during the last three decades.

**Fig. 4. GDP Growth Rate of Pakistan and China, 1980–2009**

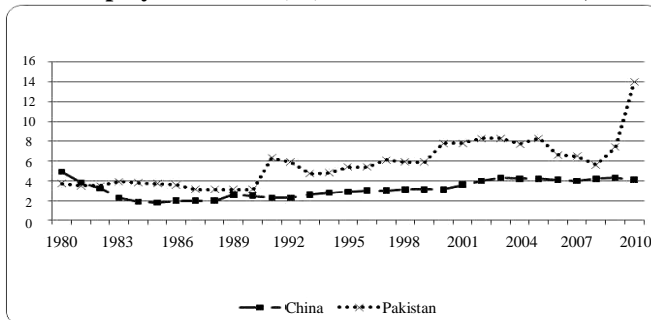


Source: World Development Indicator (World Bank).

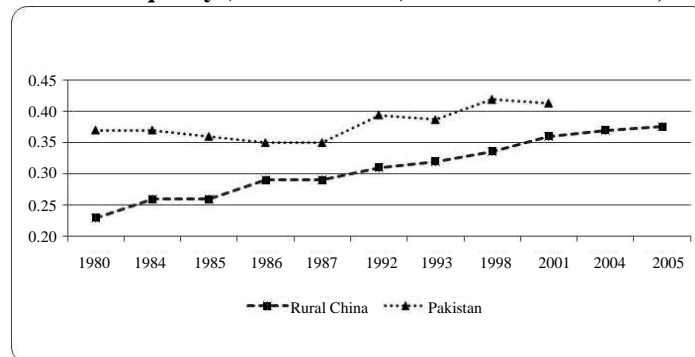
<sup>1</sup>The role of remittances, in both the macro-economic context, and poverty reduction, in Pakistan has been significant. Pakistan has received about 70 billion US dollars from 1980 to 2008 through the formal banking channel. Its impact on economic growth, and poverty reduction, is well documented [Amjad and Kemal (1997); Siddiqui and Kemal (2006)].

**Fig. 5. Inflation (CPI) in Pakistan and China, 1987–2009**

Source: International Financial Statistics (1987–2003); World Development Indicator (2004–2009).

**Fig. 6. Unemployment Rate (%) in Pakistan and China, 1980–2010**

Source: International Financial Statistics (1980–2003); www.indexmundi.com (2004–2010).

**Fig. 7. Income Inequality (Gini-coefficient) in Pakistan and China, 1980–2005**

Source: China Statistical Yearbook; Bureau of Statistics, Pakistan for 1980–1987; Anwar (2005) for 1992–2001.

Pakistan, which has been governed by civil and military regimes, since its independence (1949), could not develop a good political system. After its independence, the country saw an unstable democratic regime (1947–1958), with frequent governmental changes. During the first military regime (1958–1969), the high GDP growth, and foreign aid, only benefited the élite industrial society. During the democratic period (1972–1977), the government’s measures, including the nationalisation policies and restrictions on industrialists, created a considerable uncertainty, resulting in a fall in private investment and flight of capital. During the second military regime (1977–1988), again, the growth rate remained high, due to foreign aid and remittances, which fuelled the private and public consumption expenditures. Again the country saw a democratic era during the 1988–1999 period, with frequent changes in government, deteriorating law and order condition and a poor economic situation. The military take-over, in 1999, continued till 2008. Economic growth remained high, during the 2003–2006 period, during which the external factors played a major role, in shaping the economic landscape of Pakistan.

In addition to political instability, Pakistan has faced poor governance, natural disasters, conflicts and terrorism. These are serious impediments, in the way of growth and poverty-reduction efforts. Its rankings, in different governance and social indicators, are much lower as compared to China’s rankings (Table 2). Both China and Pakistan, have experienced natural disasters, in the recent past, such as the 2008 Sichuan earthquake, and the 2008 South flood in China, and the 2005 earthquake and the 2010 severe floods in Pakistan. The major natural disasters, mildly affected the Chinese national economic growth, but the disasters in Pakistan have adversely affected economic growth, and added more in the poor population [Arif, *et al.* (2010); Dorosh, *et al.* (2010)].

Since the 1980s, China has not faced serious internal conflicts, and security risks. The situation in Pakistan has been completely different, during the last three decades. In addition to continuous tension with India, Pakistan has been in a war-like situation, because of the Afghan—USSR conflict in the 1980s, US intervention in the region after the 9/11 event, extremism, terrorism and ethnic and sectarian conflicts. All these conflicts have badly affected the security and law and order situations in Pakistan. Their adverse impacts on economic growth, inflation, unemployment and poverty-reduction efforts are also obvious.

Table 2

*Governance and Institution Indicators in Pakistan and China*

Indicators	Pakistan	China
Judicial Independence	74/139	62/139
Public Trust of Politicians	91/139	22/139
Burden of Government Regulation	72/139	21/139
Irregular Payments and Bribes	117/139	63/139
Property Rights	107/139	38/139
Favouritism in Decisions of Government Officials	87/139	37/139
Business Cost of Terrorism	138/139	79/139
Organised Crime	127/139	76/139
Transparency of Government Policy-making	115/139	38/139

*Source:* Global Competitiveness Report: 2010-11.



### 3.5. Should China be an Economic Role Model?

One issue, which has been discussed in the recent poverty literature, is whether China should be an ‘economic role model’ for other developing countries, facing high levels of poverty. Should Pakistan learn from China’s success against poverty? This question is particularly important, because some Chinese policies, reflect unusual circumstances in China.<sup>2</sup> As Ravallion (2001) notes,

‘the period since 1980 has seen a sequence of (often radical) economic reforms in China, which moved the economy from being highly controlled to more market-oriented. These reforms naturally reflected (relatively unusual) circumstances in China, and make little or no sense as a blueprint for policy-making anywhere else’.

However, there are strong reasons, for Pakistan to learn from the Chinese success against poverty. First, poverty levels (around 33 percent) were the same in China and Pakistan, in the late 1970s. It is true, that during the last three decades, in addition to economic reforms, China has had more favourable socio-political and demographic conditions than Pakistan has had. But, the lesson to be learnt is about how China succeeded in improving the living standards of its rural population. Second, the sustained high economic growth, a necessary condition for poverty reduction, has remained a challenge for Pakistan. China’s industrial and service sectors growth, was actually based on the fundamental agricultural reforms, introduced 30 years ago [Heilig, *et al.* (2011)]. Pakistan can learn from these Chinese policies. Third, rapid economic growth and active macro-economic, industrial and social policies propelled China into the ranks of the middle-income countries (MICs), and Pakistan actively aspires to MIC status, in coming years. How can the Chinese experience be utilised to achieve this status?

However, there are four major limitations in learning effectively, from China’s success against poverty. First, until the late 1970s, most economic resources in China were under state control, and through reforms they were equitably distributed in rural areas. It empowered the poor. The power and political structure, in Pakistan, is entirely different, comprising of civil and military bureaucracy, political and religious forces, landed rural élites, and strong caste, and *biraderi* (clan) system. Throughout its reforms, the Chinese government has targeted the poverty-stricken regions, whereas it is difficult to distribute economic resources, say land, in poor regions of Pakistan, where a few families control the land. Second, as compared to China, Pakistan tends to have weaker state institutions, and this has an adverse effect on both the implementation of anti-poverty programmes and the provision of key social services and infrastructure to the people. Third, population growth in Pakistan is still high, around 2 percent per annum, despite the onset of fertility decline, in the early 1990s.

<sup>2</sup>One can also argue that Pakistan should first learn from the Indian experience of a high sustained growth rate. But the success of India against poverty is not impressive.

The high dependency ratio, because of high fertility, seems to be a binding constraint, for economic growth and poverty reduction. Finally, the poor law and order situation linked with extremism and terrorism, after the 9/11 event, could be a serious constraint to designing pro-poor policies and implementing them.

#### 4. UNDERSTANDING CHINA'S PROGRESS AGAINST POVERTY

##### 4.1. Rural Reforms

During the first phase of rural reforms (1978-1985), the Household Responsibility System (HRS) was introduced, in which equitable land was allocated to millions of individual farmers, with remuneration linked to output. Because of the opening of the Chinese market, and the sharp increase in prices of agricultural products, agricultural production grew rapidly, and it led to growth in income and reduction in rural poverty. This process benefited the entire rural Population [CDRF (2009)]. The rural per capita income increased at a rate of 15 percent per annum, during 1978-1984 periods (Table 3). Consequently, rural poor population declined from 33 percent in 1978 to only 11 percent in 1984.

Table 3

*Per Capita Income and Incidence of Rural Poverty in China*

Year	Per Capita Income (Yuan)	Poverty Rate	Gini-coefficient
1978	220	32.9	0.21
1984	522	11.1	0.26
1989	674	12.4	0.30
1995	846	7.6	0.34
2000	1,169	3.7	–
2005*		2.5	

Source: China Statistical Yearbook (Various Issues).

\*Numbers taken from CDRF (2007).

After 1984, the growth of the rural economy declined and it adversely affected the growth of peasants' incomes. The central government carried out a national rural development plan for poverty alleviation, and implemented it in two stages. During the first stage (1986-1993), the focus was mainly on depressed areas and rural poverty decreased to 80 million in 1993, from 125 million in 1985. On the basis of equitable intervention, the poor regions have embraced development in terms of culture, education, health care and other social undertakings [CDRF (2007)]. During the second stage (1994-2000), the government launched its poverty alleviation plan in which 592 poor counties were designated as 'national poor counties' where 79 percent of the total poor were located. A special focus was given to livestock raising, cash crop planting and labour migration. As a result, the rural poor decreased to 30

million by the end of 2001. The pattern of public spending, during these two phases, played a major role in increasing both agricultural production and incomes of the rural population [Fan, *et al.* (2004)].

Since the start of the new millennium, China started its flagship poverty alleviation programme with community based decentralisation ideology. By the end of 2001, about 21 percent of all rural villages (148,000 villages), were officially designated as poor villages. These villages were targeted by providing education, training, subsidised loans, and agricultural tax exemptions to peasants [Park and Wang (2010)].

Around the 1980s, rural dwellers were allowed to move to small towns only. Township and Village Enterprises (TVEs) were encouraged, and they became initial drivers of China's economic growth. This form of labour mobility has been called "leave the land, but not the village" [Fei (1989)]. It absorbed a large quantity of surplus agricultural labour, in the manufacturing sector, by adopting labour-intensive techniques [Byrd and Lin (1994); Zhou (1994)]. At present, TVEs have the leading role in various industries, e.g., the share of TVEs in construction material industry measured in production value and employees is 74 percent and 69 percent, respectively. It lifted out millions of people out of poverty [Cai, *et al.* (2004)]. Over the last three decades, the rural non-farm sector has not only played a leading role in rural poverty reduction, by contributing in the national economy, it has also played an important role in diversifying rural income. Table 4 shows that income from non-farm sources in China increased from 22 percent in 1980 to 51 percent in 2001, implying an extensive sorting out of rural households between those who stayed as pure farmers, and those who embraced mixed agriculture-non-farm activities [Alain, *et al.* (2005)].

Table 4

*Composition of Rural Income in China by Productive Activities (%)*

Year	Primary Sector	Secondary Sector	Tertiary Sector	Other Incomes
1980	78.2	10.1	0	11.7
1990	74.4	10.3	11	4.2
1995	63.2	18.2	12.4	6.2
2001	49.2	22.5	22.6	5.7

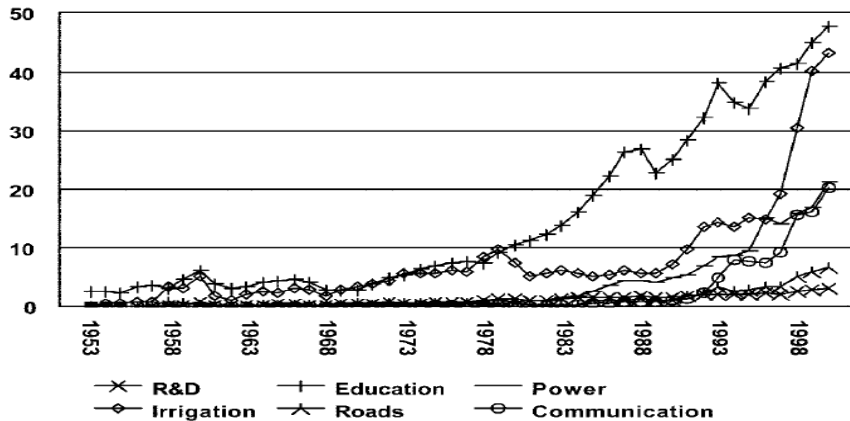
Sources: National Bureau of Statistics of China, 2003.

#### 4.2. Public Investment in Education, Research and Infrastructure

The Chinese agricultural growth and rural poverty reduction are linked to public investment. As Fan, *et al.* (2004) argue, these are the several prior decades of government investment which made it possible, through the economic reforms that began in 1979, to achieve rapid economic growth and poverty reduction. The first phase of reforms (1978–1985), was mainly an institutional reform, in which the

government started to invest in agricultural research and development (R&D) (Figure 8). Since 1986, the government started to invest heavily in roads, education and irrigation, which, later, stimulated agricultural production, and created employment opportunities, in farm and non-farm sectors. The ‘9-year compulsory schooling system’, since 1978, improved the quality of the labour force.<sup>3</sup> Under the commune system, and before the reform period, irrigation investment rose rapidly as the government mobilised a large number of rural labourers in irrigation projects. Overall, the public spending policies have mainly targeted the poverty-stricken regions, and marginalised groups, with the aim of pulling them out of poverty.

**Fig. 8. Public Investment in Rural China**



Source: Fan, *et al.* (2004).

#### 4.3. Labour Absorption in Non-farm Sector and Urbanisation

Until the late 1970s, the Chinese labour market remained under central command, with a managed employment system. During the Great Leap Forward (1958–1959), backyard furnaces and other rural industrialisation schemes were pursued for labour absorption, while the rural/urban migration was controlled by household registration system, ‘*hukou*’. As a result, the share of urban population increased only to 18 percent in 1978, from 13 percent in 1950. The restructuring of state-owned enterprises (SOEs), and economic reforms in late 1970s, started to erode this division by shifting resources toward the non-farm sector and urban areas.<sup>4</sup>

The rural reforms led to a rise in agricultural production, and facilitated the newly-rich farmers to enter the cities [Banister and Taylor (1990)]. The stagnant agricultural production during 1985-1989 also encouraged farmers to leave the land. While the government continued to control rural/urban migration [Alain, *et al.* (2005)], in response

<sup>3</sup>State Statistical Bureau, *China Statistical Yearbook*, 2001.

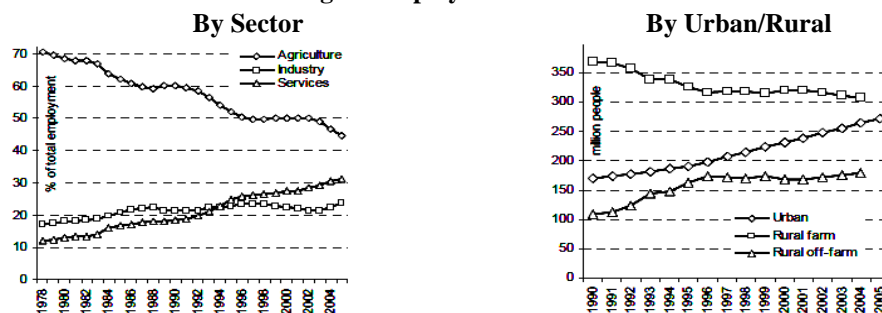
<sup>4</sup>Cai, Park, and Zhang (2004); Fox and Zhao (2002); Knight and Song (2005).

to strong push factors from rural areas and weak pull factors from cities, the Chinese farmers developed non-farm activities in rural areas by establishing TVEs and specialised households [Zhou (1994)]. The high public investment in education and infrastructure, also provided opportunity to develop these non-farm enterprises [Fan, *et al.* (2004)]. The rural non-farm employment rose by 61 and 34 percent, in 1984 and 1985, respectively. Total employment in TVEs rose from 28 million in 1978, to 70 million in 1985, and to 123 million by 1993 [Cai, *et al.* (2004)]. This phenomenon had two important consequences for the Chinese labour market. First, it absorbed rural labour and facilitated industrialisation, without relying on migration. Second, because TVEs were relatively unregulated, their free entry increased competition in the market and created pressure for SOEs reform [ADB (2007)].

Since 1986 China has adopted a migration policy ‘to strictly control the development of large cities, rationally develop medium-sized cities, and encourage the growth of small towns’. As a result, the number of towns increased from 2,786 in 1983 to 20,358 in 2005 [China in Brief (2005)]. During this period, a number of ‘push’ and ‘pull’ factors spurred rural workers to seek employment in cities as the growth of TVEs eventually slowed, and parallel economic reforms brought opportunity in urban areas, with a surge in demand for labour, leading to a gradual relaxation of migration controls.

The urban share in total population rose from 19 percent in 1980, to 44 percent in 2006. Since 1990, the urban employment grew on average 3-4 percent per annum, while the share of agriculture in total employment fell continuously from 70 percent in 1978, to 45 percent in 2005 with stagnant rural industry (Figure 9). As noted by World Bank (2007), this rural-urban migration has not only become the main pathway of poverty reduction in China, but also remained an important contributor to strong economic growth and labour-based comparative advantage in global markets. By analytical decomposition, Ravallion and Chen (2007), have estimated that almost one quarter of poverty reduction over the 1981–2001 period, can be attributed to urbanisation, even holding poverty measures constant in both rural and urban areas.

**Fig. 9. Employment in China**



Source: NBS (2005, 2006).

#### 4.4. Regional Cooperation and Globalisation

The trade reforms in China were initiated in 1980, and accelerated in the mid-1990s when SEZs were extended to the whole country. China got access to WTO in 2001 [Ravallion and Chen (2007)]. Since 1993, China has been boasting the largest amount of FDI flows of all developing countries, which not only fuelled industrialisation by diffusing new technologies, management skills and establishing global networks but also contributed in institutional reforms [Dollar (2007)]. The major objectives of the Chinese FDI policy are: strengthening the country's industrial base with value addition, increasing the level of exports, promoting regional development and transferring technology [Long (n.d.)].

Coastal open cities, and open economic regions, provided exclusive economic incentives to local and foreign investors. Three types of high-tech parks were created, with *spark parks* in remote and lagging areas to stimulate growth by high-tech innovations, *torch parks* in small and medium-sized cities to enhance growth in surrounding hinterlands and *comprehensive high-tech parks* in large cities and metropolitan areas [Laquian (2005)]. Although FDI and trade reforms played a limited role in poverty reduction,<sup>5</sup> they laid the foundation for future institutional reforms, PRC's access to world markets and larger-scale poverty alleviation plans.

#### 4.5. Rising Inequality in China

A serious consequence of the PRCs economic progress since 1978 is the widening gap between rich and poor. In 2004, about 50 percent of total PRC income went to the top 25 percent of the population, while the bottom 20 percent received only 4.7 percent [*New York Times* (16 October 2005)]. The increase in inequality (7 percent per decade) implies that China will be a high inequality country by 2015, with Gini index of 50 percent. Another serious problem is that the progress against poverty has remained geographically uneven, where the coastal areas remained better than inland areas [Ravallion (2009)], thus leading to regional inequality. Urbanisation in China is also associated with social problems; about 20 percent of the population of big cities consists of temporary migrants or floating population, living in cities for many years but without official non-agricultural worker status. They are not entitled to urban benefits such as permanent jobs, standardised wages, health services and education for children.

The rapid decline in population growth in China has led to an increase in old age population. In 1990 only 9 percent of China's population was over the age of 65, but by 2030 this proportion is projected to 22 percent—more than a quarter of the world's old people will live in China. In 2001, the government was spending only 2 percent of GDP on formal systems of old age support, but it will have to spend more than 10 percent in 2030 if it follows the same track of Western countries [CDRF

<sup>5</sup>Ravallion and Chen (2004, 2007); Lin and Liu (2008); Ravallion (2007).

(2007)]. Since late 1990s, China is following a comprehensive social security system comprising basic medical insurance, unemployment insurance and subsistence security for urban residents. However, the ongoing social security system is not rightly covering the low-income population, as the poverty-stricken regions are facing huge financial burdens to provide the minimum livelihood security lines [Wang and Fan (2005)].

Overall, the schooling and health facilities in PRC rose over time; however, a deeper bias across the various income groups and regions also arose [Ravallion (2009)]. In 2005, the schooling rate of all children (ages 7-15 years) in rural areas was 97.2 percent; it was 90.1 percent for children from poverty-stricken families. A rural survey in 15 poor provinces, in 2006, shows that about 61 percent of the families are hardly covering their medical expenses and educational expenditure of their children [CDRF (2007)].

## **5. POVERTY REDUCTION STRATEGIES IN PAKISTAN: A HISTORICAL VIEW**

In the late 1970s, as discussed earlier, poverty in Pakistan, particularly in its rural areas, was at least as high as in China; around one-third of the rural population was below the poverty line. Two fundamental questions are: (i) what approach has Pakistan used to alleviate poverty, and (ii) since poverty is still high in Pakistan, why have the approaches or policies not worked for poverty alleviation? While the second question is the subject matter of the next section, the first question is addressed here.

Although urban poverty remains a challenge in Pakistan (see Table 1), poverty is largely considered a rural phenomenon, because around 70 percent of the poor live in the countryside. The poverty reduction strategies in the rural areas for the last three decades (1980-2010) can be broadly grouped into the following categories; land reforms, agricultural growth, rural developments programmes, non-farm sector development and urbanisation, human development, and net or income transfer programmes to the poor.

In 1980, although 60 percent of the rural households were cultivators, only 38 percent owned some land. More than one-third of the country's total farms were reported to be smaller than 5 acres, and these farms occupy only 7 percent of the total farm area [Khan (1998)]. Only 3 percent of farms were 50 acres or more, and the total area under them was 24 percent [Malik (2005)]. The situation has hardly changed in three decades. In 2000 only 37 percent of rural households owned land, and 61 percent of these owned fewer than 5 acres (15 percent of total land). Two percent of households owned 50 acres or more, accounting for 30 percent of the total land [World Bank (2007)]. The overall Gini-coefficient of land ownership remained almost constant at 0.66 during the last four decades (Table 5). In Pakistan, land is distributed far more unevenly than income [Adams (1995); Hirashima (2009)].

However, the tenurial status of rural farm households has markedly changed during the last three decades. The proportion of owner-operated farms increased from 55 percent in 1980 to 78 percent in 2000, whereas the proportion of farms operated by owner-cum-tenants and tenants declined over time (Table 6). This decline shows that some households engaged in cultivation do not have access to land any more. Today, a large rural population either has no access to land or owns and cultivates a small piece of land.

Table 5

*Distribution of Landownership in Pakistan*

	1972	1980	1990	2000
Gini-coefficient	0.66	0.65	0.66	0.66
% of Landless Households	–	63.0	62.0	63.3
% Share of Holdings < 5 Acres				
(a) Households	47.3	Na	54.4	61.2
(b) Land	5.4	Na	11.4	14.8
% Share of Holding 50 + Acres				
(a) Households	3.3	Na	2.8	2.0
(b) Land	22.4	Na	34.0	29.7

Source: World Bank (2007).

Table 6

*Percentage Distribution of Farms by Size and Type of Tenure*

Size of Farm (acres)	Owner			Owner-cum-tenant			Tenant		
	1980	1990	2000	1980	1990	2000	1980	1990	2000
< 5	70.7	78.8	83.0	8.9	5.8	4.1	20.4	17.0	12.9
5 to < 12.5	45.1	59.0	70.1	22.0	15.8	12.4	32.9	25.2	17.5
12.5 to < 25	46.0	58.7	67.6	28.0	22.3	18.6	26.0	18.9	13.8
25 to < 50	50.0	62.9	73.2	32.0	23.8	17.9	18.0	13.3	8.9
50 and More	62.7	72.7	78.7	28.4	20.5	15.4	8.9	6.8	5.9
All Farm	55.0	68.8	77.6	19.0	12.4	8.4	26.0	18.8	14.0

Source: Malik (2005).

### 5.1. Land Reforms

In order to correct the land distribution and improve the living standards of the rural poor, three land reforms have so far been carried out in Pakistan. In all the three reforms, a landownership ceiling was fixed and the area owned over and above the ceiling was resumed by the government (Table 7). However, the resumed area was small, and the land distribution impact of these reforms was limited, as in three reforms only 2.542 million hectares could be distributed among 0.6 million



beneficiaries (Table 7). The resumed area was only 6 percent, 2.5 percent and 8 percent of the total cultivated area in 1959, 1972 and 1980 respectively (Table 7). Although the Gini-coefficient of land ownership improved because of these reforms, it had little impact on the incomes of the rural population [Naqvi, *et al.* (1989)]. The distributed land was not of high quality and not all beneficiaries were the landless sharecroppers. More importantly, landless agricultural workers were not included in any list of the beneficiaries [Khan (1998)]. There was also a lack of follow-up system, including lack of distribution of farm credit and inputs. Thus, all the three major attempts of redistributing land in Pakistan, have failed to correct the skewed land distribution [World Bank (2007)].

The government in the past, has also distributed state owned land among the landless peasants. But this has also had little impact on the rural poor, because the distributed land was too small as compared to the needy, landless, rural population [Qureshi (2001)]. Unlike China, where the land reforms initiated in the 1980s, benefited the entire rural population, the beneficiaries of land distribution in Pakistan were limited in numbers, and the landless were not included in the list of beneficiaries.

Table 7

*Land Reforms in Pakistan (000 Hectares)*

Reforms	Ceiling (Acres)		Area Resumed	Area Disposed of	Balance	Beneficiaries (000)
	Irrigated	Non-irrigated				
1959	500	1000	1022.9 (5.6%)	955.7	62.3	186.6
1972	150	300	481.2 (2.55)	295.9	185.3	71.5
1977	100	200	1578.3 (8%)	1290.1	288.2	272.6

*Source:* Qureshi (2001). In parentheses are the resumed areas as present of total cultivated area.

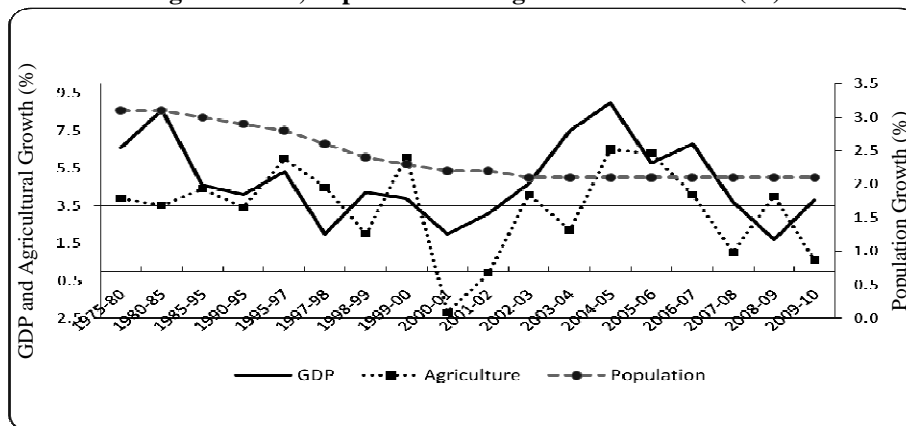
## 5.2. Agricultural Growth and Rural Poverty

In addition to land reforms, agricultural growth in China played a key role in rural poverty reduction (see Section 4). Figure 10 presents historical data on GDP growth, agricultural growth and population growth for Pakistan. The growth in agricultural output affects the growth rate of GDP: the higher the agricultural growth the higher the GDP growth. The growth in both GDP and agriculture has not always been higher than the annual population growth. The latter, for instance, was higher than the former in 1997-98, 2000-01 and 2008-09, thereby, affecting adversely the well-being of the population.

In the late 1970s, the annual agricultural growth was around 4 percent and until the early 1990s, it remained between 3 and 4 percent per annum. Several policy changes with respect to agriculture, including favourable adjustments in the prices of outputs and inputs, and introduction of new cotton varieties contributed to this growth. Public sector institutions, also, expanded credit for mechanical technology and investment in large-scale private farming and processing, during this period [Khan (1998)]. The performance of the agricultural sector, in the 1990s, was low and it was affected by natural calamities, political instability and economic imbalances, reduced vigour of crop seeds and sharp increase in the cost of production. During the 1990s, the unprecedented level of corruption also has an adverse impact on economic growth and poverty [Hussain (2003)].

When a longer period is taken into account, the data show that 'apart from a period of slow growth in the first half of the 1970s, average growth (in agriculture) exceeded 3.2 percent annually in each quinquennium from 1960 to 2000, due in large part to high growth in the crop sector in the 1970s and 1980s as a result of the Green Revolution' [World Bank (2007)]. Severe drought and environmental factors are the major reasons for the weak performance of the agricultural sector during recent years (Figure 10).

**Fig. 10. GDP, Population and Agricultural Growth (%)**



It seems that despite year to year variations in the agricultural growth rate, overall the sector has performed modestly during the last three decades. However, the benefits of this growth have accrued mainly to large and medium farmers rather than to small farmers or landless households. Additional increments of agricultural income, in the 1980s, contributed in raising the inequality (Table 8). The data, for more recent periods, also show that medium and large land owners (those with 12.5 acres or more), account for 10 percent of agricultural households and receive an estimated 32 percent of agricultural incomes [World Bank (2007)]. The magnitude of

growth linkage effects can determine, the extent to which non-agricultural households, gain from agricultural growth. A World Bank study, based on simulation results, of a 10 percent increase in the output of all major crops (wheat, basmati and IRRI rice, cotton and sugar cane) shows that:

the largest gains of increased agricultural crop production accrue to large and medium land owners, whose incomes rise by 7.2 percent. Incomes of small farm owners and pure tenants also rise by about 4.6 percent. Due to multiplier effects, incomes of non-farm rural household groups so rise by 3.4 percent on average. The poorest rural household groups (agricultural labourers and rural non-farm poor, 29 percent of the rural population), reap only 6.7 percent of the total income gains, and their incomes rise by only 2.6-4.1 percent. Much of the income gains accrue to the owners of capital in both rural and urban areas [World Bank (2007)].

This limited impact of agricultural growth, on incomes of the rural non-farm poor, is influenced by both the segmentation of Pakistan's agricultural labour market and agriculture's declining contribution to both total GDP and rural household incomes. Thus, the agricultural growth has a smaller impact on GDP growth and rural poverty reduction today than it did in the past. Although agricultural growth still has a positive impact on rural poor incomes, this is smaller than it was three decades ago [World Bank (2007)].

Table 8

Source of Income	<i>Factor Inequality Weights of Source Incomes in Overall Income Inequality</i>					
	1986-87		1987-88		1988-89	
	wc	wg	wc	wg	wc	wg
Agriculture	0.456	0.377	0.421	0.355	0.426	0.387
Livestock	0.030	0.065	0.077	0.110	0.009	0.060
Non-farm	0.062	0.170	0.074	0.172	0.105	0.187
Rental	0.220	0.201	0.216	0.164	0.339	0.238
Transfer	0.232	0.187	0.211	0.199	0.120	0.128
Total	1.000	1.000	1.000	1.000	1.000	1.000

*Source:* Adams (1995, Table 4). wc is the factor inequality weight calculated from the coefficient of variation, and wg is the factor weight calculated from the Gini-coefficient.

The beneficiaries of almost all major agricultural policies in the past, seem to be mainly large owners and traditional landlords [Khan (1998)]. For example, during the 1960s, the large farmers were the beneficiaries of initial agricultural subsidies [Arif and Ahmed (2001)]. The withdrawal of government developmental subsidies on inputs, in the 1990s, affected the production of small farmers [Kemal (2001)]. No taxation on agricultural incomes maintains inequalities between income groups

operating within the agricultural sector and, outside, in the other sectors. Small farmers get a very small proportion of loans from the formal sources (Table 9). The landless and sharecroppers without collateral, are not eligible for credit from formal sources such as banks [Khan (1998)]. The situation has not changed much after 30 years; in 2002-03, according to World Bank (2007), 80 percent of the cultivating households participated in the credit market, but two-thirds of the total credit came from informal sources. Only 11 percent of the farmers obtained loans from formal sources.

The agricultural price system and market mechanism, are highly reflexive in Pakistan. Though the government has procurement prices of some agricultural products, the coverage and implementation is limited, and it has generally underpriced the agricultural products with lower profit margins for farmers. The command over land determines social status, political power and economic well-being in rural settings [Hirashima (2009)]. Thus, landed élites in rural Pakistan, have a decisive influence on the social and economic life of poor residents. The rural poor, particularly tenants and small farmers, much dependent on landlords and *arthis* to get loans for agri-inputs, generally have to pay high prices for inputs [Hussain (2003)].

Table 9

*Distribution of Loans by Agricultural Development Bank of Pakistan, 1982-83*

Ownership Status	Loan Amount (Million)	Percent Share
Landowners		
Upto 5.0 Hectares	463.74	20.1
Over 5.0 to 10.0 Hectares	800.48	34.6
Over 10.0 to 20.0 Hectares	512.30	22.2
Over 20.0 Hectares	342.52	14.8
Landless	191.40	8.3

Source: Khan (2005).

### 5.3. Rural Non-farm Economy

It appears from the previous discussion, that agricultural growth, alone, is not sufficient for rapid rural poverty reduction, because its benefits in the past have accrued mainly to households with access to land, and the majority of the rural households does not own land. Thus, an increase in rural non-farm incomes, in addition to increases arising from growth linkages associated with increases in agricultural incomes, is critical for rapid rural poverty reduction. The focus of this section is on two dimensions of the rural non-farm sector: employment and income. Table 10 presents data from the Labour Force Surveys on industrial composition of rural employed workers for the 1974-2008 period. The employment share of the agricultural sector has declined from 72 percent in 1974-75 to 61 percent in 2007-08, a reflection of a

Table 10

*Percentage Distribution of Employed Persons of 10 Years Age and Above by Major Industry, 1974-2008*

		Agriculture Forestry, Hunting and Fishing	Mining and Quarrying	Manufac- turing	Electricity, Gas and Water	Construction	Wholesale, Retail Trade, Restaurant and Hotels	Transport, Storage and Communication	Financing, Insurance Real Estate and Business Services	Community, Social and Personal Services	Activities Not Adequately Defined
2007-08	Total	44.65	0.12	12.99	0.70	6.29	14.62	5.46	1.41	13.66	0.10
	Rural	60.94	0.14	8.37	0.42	6.09	9.19	4.42	0.44	9.96	0.03
	Urban	6.21	0.07	23.89	1.36	6.75	27.45	7.92	3.70	22.39	0.26
2001-02	Total	42.09	0.07	13.84	0.81	6.05	14.85	5.90	0.89	15.50	–
	Rural	59.01	0.07	8.68	0.57	6.23	9.20	4.81	0.29	11.13	–
	Urban	5.18	0.06	25.10	1.34	5.66	27.19	8.27	2.19	25.03	–
1990-91	Total	47.85	0.15	12.23	0.83	6.62	13.24	5.24	0.89	13.27	0.06
	Rural	63.79	0.14	8.08	0.54	6.63	7.77	3.68	0.34	8.97	0.06
	Urban	7.63	0.17	22.35	1.55	6.59	26.57	9.07	2.25	23.75	0.07
1982-83	Total	52.73	0.10	13.44	1.13	4.80	11.94	4.69	0.82	10.19	0.27
	Rural	67.69	0.11	9.38	0.96	4.12	7.14	3.09	0.26	6.94	0.31
	Urban	6.70	0.08	25.94	1.65	6.88	26.70	9.20	2.54	20.17	0.13
1974-75	Total	54.80	0.15	13.63	0.49	4.20	11.90	4.87	0.67	9.78	0.33
	Rural	72.08	0.13	9.32	0.23	3.41	5.81	2.94	0.09	5.70	0.29
	Urban	6.20	0.19	25.74	1.23	6.41	25.93	10.30	2.31	21.26	0.44

Source: Various editions of *Economic Survey of Pakistan* and *Labour Force Survey of Pakistan*.

shift away from the agricultural to the non-agricultural sector. This shift is primarily to the service, trade and construction sectors. The share of rural manufacturing in total employment, at best, remained constant or even declined. This shift also represents the movement of labour from commodity production to the production of services. The rural non-agriculture economy has become services-oriented because of changes in agrarian structure [Arif, *et al.* (2000)]. It is worth repeating here that the corresponding shift of labour from agriculture to other sectors in China was relatively larger; the employment share of agriculture, dropped from 70 percent in 1978 to 45 percent in 2005 (see Figure 9).

The study carried out by Arif, *et al.* (2000) shows that in 1996-97 the overwhelming majority of non-agricultural workers was either self-employed or earning wages. The situation remained unchanged in 2001-02 [World Bank (2007)]. The self-employed workers are engaged mainly in trade (53 percent), services (15.2 percent), manufacturing (13.2 percent) and transport (12.4 percent). The wage employees are found in construction (31.7 percent), services (31.4 percent) and manufacturing (13.2 percent) sectors [Arif, *et al.* (2000)]. The World Bank study has estimated from the 2004-05 PSLM survey that there are about 3.8 million rural non-farm enterprises, and 29 percent of rural households own these enterprises (a shop and/or a business). 'On average 1.4 persons were employed in a rural enterprise. Most of them were family members. They are thus a source of employment for family members' [Arif, *et al.* (2000)]. However, the rich or better-off families own more enterprises (37 percent) than the poor households (24 percent), showing a positive association between wealth status and ownership of a rural enterprise (Table 11).

Table 11

*Percentage of Rural Households in Pakistan that Own Shop and/or Other Businesses*

Quintiles	Pakistan	Punjab	Sindh	KPK
Poorest Quintile	24	28	14	20
2	27	33	18	24
3	29	35	16	30
4	30	35	20	33
5	37	41	24	45
Total	29	34	19	30

Source: World Bank (2007: Table 4.1).

Table 12 shows the data on sources of income for two periods: 1986-89 and 2002. The former shows the three-years average based on a small data source of 727 households, collected from four districts [Adams (1995)], while the data for 2002 is based on a national representative survey [Malik (2005)]. Although, because of different sample sizes, data may not be strictly comparable, the two studies have used the same categories of income sources which help understand the importance of the non-farm sector. The two studies are not different in the share of non-farm sector in total household income. However, there are marked differences in other sources of income. Table 12 shows the dependency of poor (landless and small farmers) on the non-farm sector. For the landless group, the non-farm income accounts for 47 percent of the average total income in 1986–89. In 2002, non-farm income (wages and salaries) was 76 percent of the total income of landless households. There is a negative relationship between landholdings and income from non-farm sources, while the relationship is positive between landholdings and crop income. Thus ‘the poor have not benefited much from the direct effects of accelerated growth in agriculture’ [Adams (1995)]. The majority of the rural poor households in the non-farm sector are engaged in unskilled and low-productive activities, and derive their income from the construction sector, where nearly half of them are under-employed. The better-off households in the non-farm sector, derive their incomes from the services and manufacturing/mining and trade sectors [Malik (2005)].

Table 12

*Source of Income by Operated Landholdings, 1986-89 and 2002*

Size of Landholding	Period	Wages and Salaries					All Income	% Households
		Transfer Income	Crop Income	Rental Income	Livestock Income	Wages and Salaries		
No Land	1986-89	46.5	11.3	26.6	1.2	14.4	100	
	2002	76.3	20.1	1.4	0.7	1.5	100	56.6
Upto 1 Acre	1986-89	54.7	21.6	4.8	2.7	16.2	100	
	2002	45.5	24.1	26.7	1.0	2.7	100	5.1
Upto 5 Acres	1986-89	30.4	23.7	24.2	4.4	17.2	100	
	2002	23.4	10.3	61.2	2.5	2.6	100	18.0
Upto 12.5 Acres	1986-89	25.6	17.3	21.7	19.9	15.5	100	
	2002	9.4	4.3	82.4	1.6	2.2	100	14.0
More than 12.5 Acres	1986-89	17.6	10.9	29.7	30.4	11.4	100	
	2002	4.5	2.1	89.1	3.0	1.3	100	6.3
All Households	1986-89	32.2	15.2	24.9	13.3	14.4	100	
	2002	35.8	11.1	49.5	1.7	1.8	100	100

*Source:* For 1986-89, Adams (1995, Table 8); for 2002, Malik (2005, Table 7).

*Note:* 1986-89 refers to 3 years average. For 1986-89 period, the last two categories of landholdings are 5-<10 acres and ≤10 acres respectively. The column on wages and salaries corresponds with the non-farm income.

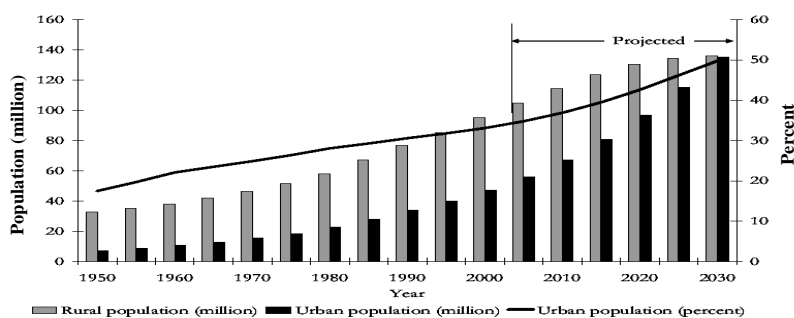
It has been discussed earlier that rural poverty is higher in southern Punjab, cotton/wheat belt of Sindh, KPK and Balochistan. The sources of income vary across these agro-climatic zones, and also across poverty status in each zone. In pure agricultural zones i.e. cotton/wheat Punjab, low-intensity Punjab, cotton/wheat Sindh, rice/other Sindh, the resources are less diversified and the majority of the poor rely on crops as their sources of income, while in other zones, such as *Barani* Punjab, where poverty is low, wages and salaries is the major source of income for the poor rural households (Appendix Table). Thus, the availability of income (through job opportunities) from non-farm sources can go a long way to reduce rural poverty in Pakistan. These opportunities are limited in most regions of the country.

#### 5.4. Urbanisation

The growth of the non-farm sector, also, has a strong association with the growth of towns and cities, which provide job opportunities to labour that could not be absorbed in the rural economy. Job opportunities in the rural sector, both agricultural and non-agricultural, are limited in Pakistan. This opens doors for the rural population to move to towns and cities. Unlike China, Pakistan has a *laissez-faire* policy toward internal migration [Tahir, *et al.* (2004)]. So, two questions are relevant here. What role has rural-urban migration played in urbanisation? Has the urbanisation contributed in improving the well-being of the urban as well as rural population?

In 1951, the period when the economy of Pakistan was predominantly rural-based, the level of urbanisation was only 18 percent. Over the last six decades, Pakistan has experienced a large increase in population with different population growth rates for urban and rural areas [Arif (2003)]. At present, Pakistan with an urbanisation level of about 37 percent (Figure 11) has the highest population share in urban areas as compared to the other South Asian countries. By 2030, the urban population is expected to have grown by 80 million, reaching 135 million, or 50 percent of the total population (Figure 11).

**Fig. 11. Trends in Urban and Rural Population, Pakistan**



Source: Roberts and Kanaley (2006).



Both natural increase and net migration are the major contributory factors to urban population growth in Pakistan. The contribution of migration to urban population growth has been around 20 percent during the intercensal periods—1972-1981 and 1981-1998. By using the Pakistan Demographic Survey data, Karim and Nasar (2003) estimated that about 24 percent of the total annual urban population growth could be attributed to in-migration, and about 30 percent of population loss in rural areas to out-migration during the 1981-98 intercensal period. Since the early 1980s, rural to urban flows of population have dominated the other flows, e.g., rural to rural and urban to rural [Irfan, *et al.* (1983); Arif and Hamid (2010)].

Overall, 50 percent of the urban population is concentrated in 7 major cities of the country, with a population of a million or more (Karachi, Lahore, Faisalabad, Rawalpindi, Hyderabad, Multan and Gujranwala). Until 1972, the growth rate of large cities was higher than the growth rate of medium and small cities. Since then a decline in the growth rate of major cities, and an increase in the growth rate of small- and medium-sized cities has been observed [Arif and Ibrahim (1998)]. This change in growth of cities by size, shows the movement of rural population, not only to large urban centres, but also towards their nearby small or medium towns.<sup>6</sup>

Because of the *laissez-faire* policy toward internal migration, urbanisation, in Pakistan, is largely considered as haphazard because, first, the concentration of urban population in the major cities has relegated a large number of other urban centres into a status of under-developed. Second, the development of infrastructure has not kept pace with urbanisation. A large proportion of urban population, primarily migrants, is living in *katchi abadis* (settlements with no regular status) which lack the basic urban facilities. Third, cities are characterised by a small industrial base, high unemployment, particularly among youth, poverty, mainly in slum areas, shortage of housing, inadequate transport, poor governance and environmental degradation [Pakistan (2010)].

But, all these problems should not hide the positive contribution of urbanisation in socio-economic development, as well as poverty reduction. Similarly, it is not possible to defend the argument that urbanisation in Pakistan is haphazard, because of the concentration of population in 7 or 8 large cities. The fact is that movement of population, towards these centres, was in response to the problems associated with the refugees' movement at the time of Independence in 1947, as well as the industrial growth which took place in the 1950s and 1960s. Because of better infrastructure, major investment (37 percent) was made in Karachi, followed by Lahore, Hyderabad, Faisalabad and other major cities. The city system in Pakistan

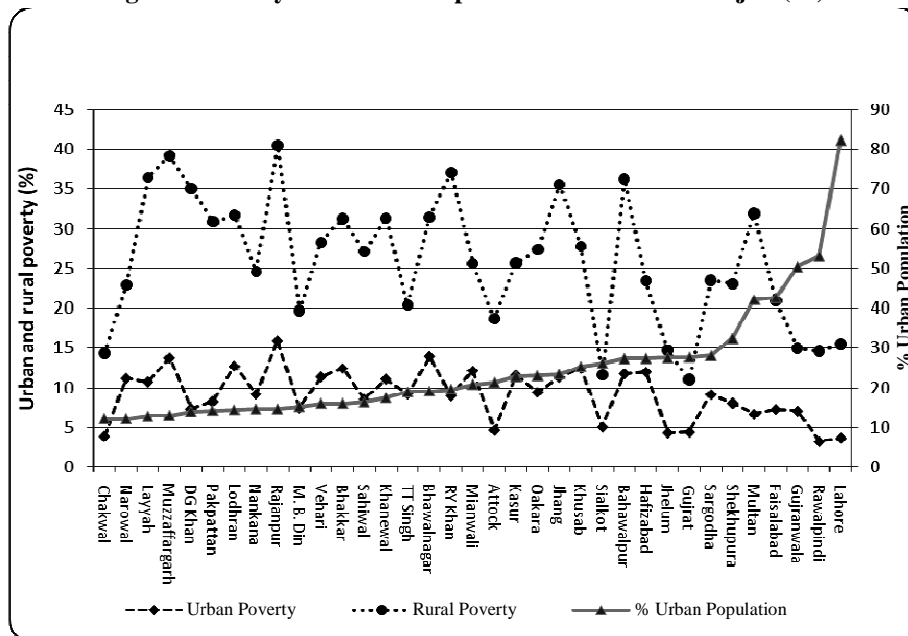
<sup>6</sup>The four provinces of Pakistan show huge variation in the nature of urbanisation. More than 60 percent of the population of urban Sindh lives in Karachi. The situation is different in Punjab where 22 percent of the urban population lives in Lahore, and half of the total provincial urban population live in five large cities. The capital of KPK, Peshawar, has a population of approximately one million (without counting the Afghan refugees), which is 33 percent of the urban provincial population. The share of Quetta, the capital city of Balochistan, in the total urban provincial population is 37 percent.

cannot be considered haphazard. Its four large cities reflect the rank-size rule, which also applies well on the medium-sized cities [Arif (2003)].

At present, contribution of the urban-based economy to Pakistan’s GDP is more than 78 percent, and cities are gradually moving to steer economic growth. The rising income level of the urban population has also contributed to the expansion of a middle class in towns and cities [Pakistan (2010); Nayab (2011)]. Urban poverty is much lower than rural poverty, and in the late 1980s and mid-2000s, it was in single digits. Urban poverty is largely concentrated in *katchi Abadis* which are the home of migrant populations. However, these migrants’ living standards in urban slums are much better than their socio-economic conditions back in rural communities. Had migrants not moved to town and cities, rural poverty would have been much higher than its present level.

This point is substantiated when one looks at the district level statistics on both poverty and urbanisation. These statistics are available for the Punjab province only, and are presented in Figure 12. Generally, the districts with high incidence of urbanisation have lower levels of poverty, in both urban and rural areas. Poverty in Punjab is concentrated in southern and western districts, where levels of urbanisation are, in general, lower than districts located in northern and central Punjab, where levels of urbanisation are high, but poverty in both rural and urban areas is low.

**Fig. 12. Poverty and Urban Population in Province Punjab (%)**



Source: Azhar (2011).

In some parts of the country, urbanisation, linked with industrialisation, has integrated the rural population into the cities and towns. One such system is found in Lahore and its surrounding districts, Gujranwala, Faisalabad and Sheikhupura. The new emerging cluster of districts, Gujrat, Sialkot and Gujranwala, famous for light industry, is another example of integration of rural population into cities and towns. Rural areas, surrounding the Rawalpindi and Islamabad districts, have access to the formal urban services sector—in armed forces and civil departments. According to Adil (2011), ‘travelling on the Grand Trunk Road from Lahore to Rawalpindi is like passing through a city thoroughfare from one part of a mega city to the other’.

The district level data also show that urbanisation has contributed in achieving high levels of literacy. For example, districts in northern Punjab, mostly in the high-literacy belt, are more urbanised than districts in southern Punjab, with below average levels of literacy. Similarly, in Sindh, Karachi, Hyderabad and Sukker are the most urbanised districts. The same is the case with Quetta in Balochistan. On the basis of deprivation indices (calculated from the district-level data on education, housing quality and congestion, residential housing services and employment), the high-literacy districts are mostly the least deprived ones.<sup>7</sup>

The contribution of urbanisation, in reducing urban and rural poverty, is through the integration of the rural population into cities and towns, education, probably skill development, and the provision of better job opportunities. However, large variations in urbanisation, across more than 100 districts of the country, seem to be the major obstacle in giving the rural population access to the urban non-farm sector. The growth of small- and medium-sized cities as commercial and industrial centres, can go a long way to improve the living standards of the poor rural population, particularly the landless households. The new growth strategy, developed by the Planning Commission, aims to make cities the hubs of commerce by relaxing zoning and building regulations, privatising state-owned land, encouraging competition among developers and focusing on research and development in low-cost energy efficient construction techniques [Pakistan (2011)]. The timely implementation of this strategy will, surely, contribute in improving the well-being of both the urban and rural populations.

## **5.5. Public Spending**

### *5.5.1. Rural Development*

Since the First Five-Year Plan (1956–1960), successive governments have tried to address the issue of poverty reduction and social development, primarily through rural development programmes. Such programmes date back to the 1950s when the Village Aid (1952–1961) programme was launched (i) to increase agricultural as well as village-based industrial production; (ii) to establish schools and health centres; and (iii) to

<sup>7</sup>Jamal, *et al.* (2003) Mapping the Spatial Deprivation of Pakistan. *The Pakistan Development Review*.

provide basic facilities such as farm-to-market roads, water supply, and sanitation facilities. Different governments initiated successive rural development programmes, under various names, but with similar objectives: the Rural Works Programme (1963–1972), the People’s Works Programme (1972–1982), the Integrated Rural Development Programme (1972–1980), the Five-Point Programme (1985–1988), the Tameer-e-Watan Programme (1991), and the Khushal Pakistan Programme (1991–2001).

After 2001, the expenditure on rural development, infrastructure and irrigation are included in 17 pro-poor sectors, as identified in the Poverty Reduction Strategy Paper (PRSP). Table 13 shows that resource allocation for rural development, in the 1980s and 1990s, was not adequate to bring a change in rural life. During the PRSP period, the public spending has modestly increased only in irrigation, probably because of large dams. Figure 13, in fact, shows a decline in public spending on rural development, and a modest increase in infrastructure expenditure. While assessing public spending during the five-year plans, Khan (2003) argues that not a single development plan has achieved its financial targets. Governments are apt to cut down on development expenditure in periods of fiscal adjustment, without assessing the cost benefit of such an action.

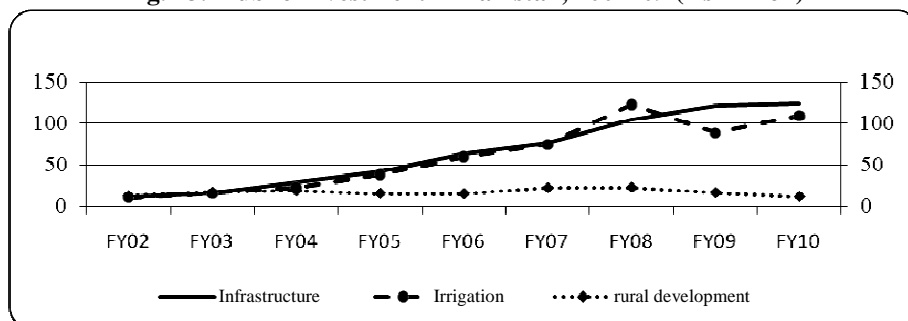
Table 13

*Special Programmes for Poverty Reduction and Human Development*

Programme	Period	Expenditure (Rs Billion)
Prime Minister’s Five-Point Programme	1985–1990	2.7
People’s Programme	1988–1991	
	1994–1997	12.4
Tameer-e-Watan Programme	1991–1993	
	1998–2000	7.3
Social Action Programme	1985–2002	355.6
Khushhal Pakistan Programme	1991–2001	22.7
Total	1985–2002	400.7

Sources: Khan, M. A. (2003). Public Expenditure, Poverty and Human Development: the Experience of Pakistan. In *Pakistan Human Condition Report 2003*. Islamabad: Centre for Research on Poverty Reduction and Income Distribution, and United Nations Development Programme.

Note: Expenditure values are given at constant 1992-93 prices.

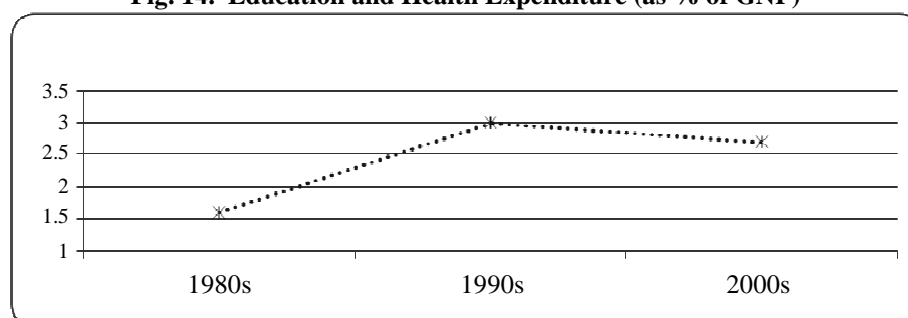
**Fig. 13. Public Investment in Pakistan, 2001–09 (Rs Billion)**

In terms of achievements, the experience of PRSP can best be considered as mixed. The 2003-07 period was successful in improving economic indicators, moving real GDP growth from 3.1 percent in FY 2001-02 to 9.0 percent in FY 2004-05, surpassing PRSP targets for the said years, and maintaining a high average growth rate of 7.0 percent over the four years period (FY 2003-04 – FY 2006-07). The overall poverty during this period declined sharply, by more than 10 percentage points (see Table 1). However, the second phase of PRSP, covering the 2008-11 period, has not been successful in sustaining the growth momentum achieved in the mid-2000s. All recent literature considers that poverty has increased to a level similar to that witnessed at the beginning of the PRSP process [Pakistan (2010)].

### 5.5.2. Social Development

Figure 14 presents data on health and education expenditure, as percentage of GNP; it increased from 1.6 percent in the 1980s to 3 percent in the 1990s, and for the 2000s decade this share declined to 2.8 percent. Because of poor performance of the country in the social sector, particularly in health and education, the resource allocation cannot be considered adequate. It is worth mentioning here that the Social Action Programme (SAP), launched by the government in the mid-1980s, in two phases, focused on education, health, water supply and sanitation, and population welfare. Out of the total allocated budget of more than Rs 600 billion for the SAP, less than 60 percent (Rs 356 billion) could be used.<sup>8</sup> The main shortfall occurred during the programme's second phase (1997–2002), when only 45 percent of the allocated money was used.<sup>9</sup>

**Fig. 14. Education and Health Expenditure (as % of GNP)**



<sup>8</sup>Khan, M. A. (2003). Public Expenditure, Poverty and Human Development: The Experience of Pakistan. In *Pakistan Human Condition Report 2003*. Islamabad: Centre for Research on Poverty Reduction and Income Distribution (CRPRID) and UNDP.

<sup>9</sup>ADB (2002). *Hari Issues, Final Report, Additional Preparatory Work on the Sindh Rural Development Project*. Islamabad; Khan, M. A. (2002). Social Sector-I, Review of Social Sector and Social Action Programme. In *Pakistan Human Condition Report 2002*. Islamabad: CRPRID; and Khan (2003) (footnote 8).

Like the earlier development programmes, the SAP could not bring about any real qualitative change in the country, particularly in rural areas. Even the services that have been made available have neither really benefited communities, nor been fully utilised because of: (i) lack of awareness, (ii) absence of people's participation, and (iii) centralised decision-making. Public spending under the SAP, despite the shortfall mentioned earlier, may have been sufficient for providing a reasonable level of basic public services, but weak public institutions at all levels of government, and the mismanagement, misuse, and wastage of resources have meant that desired results have not been achieved. According to Khan (2003), one of the most important lessons to be learned from the SAP is that increased public expenditure is a necessary, but not sufficient, condition for expanding access to and improving the quality of social services. Unless institutional efficiency is enhanced, and the broader participation of communities ensured, the SAP experience indicates that public resources will continue to be mismanaged. China presents a different picture. As discussed earlier, during 1986-2000, it was the pattern of public spending that contributed the most to economic growth and poverty reduction. The government of Pakistan has not used its resources effectively, in the past, to alleviate poverty through social development (Figure 14).

### 5.5.3. *Safety Nets and Income Transfer Programmes*<sup>10</sup>

A relatively new element in Pakistan's poverty reduction strategy is targeting of the poor and vulnerable, whereby benefits are transferred directly to the poor. However, the extent of benefits to the poor, from targeted programmes, has always been in some doubt. Zakat, the Food Support Programme run by the Pakistan Bait-ul-Maal, the Employees Old Age Benefit Institution (EOBI), the Workers Welfare Fund, and Employees Social Security Institutions (ESSIs) are all important social safety nets. The EOBI, Workers Welfare Fund, and ESSIs are essentially labour welfare schemes for the formal sector, which employs only a small proportion of the total workforce. The Government's current microcredit initiatives are executed by the Khushali Bank, the Pakistan Poverty Alleviation Fund (PPAF), and the Zarai Taraqiati Bank.

The Food Support Programme and Pakistan Bait-ul-Maal, are funded by federal budgetary allocations; organisations such as ESSIs and Workers Welfare Fund boards, receive funding in the form of contributions from organisations or individuals. Zakat is deducted, at source, by financial institutions on savings accounts, fixed deposit savings certificates, and national income tax units. Labour welfare schemes, such as those run by the EOBI, Workers Welfare Fund, and ESSIs have inadequate national coverage: owing to the lack of resources relative to the scale of the problem, only 4 percent of the non-agricultural workforce employed in

<sup>10</sup>The contribution of Benazir Income Support Programme (BISP) in household well-being or poverty reduction has not been discussed because it is a relatively new initiative.

the formal sector benefits from these schemes. Regarding two income transfer programmes, Arif and Bilquees (2007) show that zakat is generally distributed among the poor, but it does not help the recipients to move out of poverty. Rather, zakat in its present structure creates dependency, and probably reduces dynamics, among the chronically poor, particularly in rural areas. Similarly, Bait-ul-Maal has not been successful in pulling the poor out of poverty.

## **6. WHY PAKISTAN COULD NOT SUCCEED IN POVERTY REDUCTION**

Based on discussion in the previous section, the anti-poverty campaign in rural Pakistan, for the 1978-2006 period, can be classified into three stages. First, until the late 1980s, when poverty declined considerably, the successive governments have tried to address the issue of poverty reduction, primarily through land reforms and rural development programmes. The main goals of these programmes were to give the poor access to land, increase employment opportunities and provide essential infrastructure in rural and low-income urban areas, by building farm-to-market roads, rehabilitating water supply schemes, and repairing existing schools, small roads, streets, and drains. However, in poverty reduction during the 1980s, the major role was played by foreign remittances from the Middle East; both land reforms and rural development have a limited role in poverty reduction during the period. Second, in the 1990s, when poverty increased in Pakistan, the Social Action Programme (SAP) dominated, with a focus on education, health, water supply and sanitation, and population welfare. The SAP, however, could not bring about any real qualitative change in the country. The anti-poverty campaign in the 2000s, the third stage, is primarily based on the Poverty Reduction Strategy Paper (PRSP), initiated in 2001, with a focus on economic growth, improving social development indicators, governance reforms, transfer of growth benefits to the poor and vulnerable and infrastructure development. During this stage, poverty first declined and then increased (see Table 1). So, Pakistan has not experienced a secular decline in poverty; rather poverty has fluctuated during the last three decades. There could be several reasons for Pakistan not being successful in poverty reduction. This section, however, has identified some important factors in the context of the discussion, carried out earlier in this paper, while comparing the experiences of China and Pakistan during the last three decades.

### **6.1. Policy Gaps or Poor Implementation**

There is no doubt that Pakistan has a long history of poverty reduction policies. But the question is: are there any gaps in these policies while addressing the poverty issues? Or could Pakistan not achieve the poverty reduction targets because of poor implementation of right policies and programmes? A close look at the analysis, carried out earlier in this paper, points towards the existence of both policy

gaps and poor policy implementation. For example, the genesis of the Chinese success against poverty reduction is in its large implementation of empowerment-policy, through the allocation of all agricultural land, during a short period of five years (1978-83), to individual farmers, on equitable basis [Martin (2008)]. Landholding is the main source of empowerment for the rural population, and access to it can bring a qualitative change in their lives [Hirashima (2009)]. The land distribution in China empowered the poor, to control their own labour and land. In Pakistan most land is owned by individuals; thus the state cannot take the radical step of distributing the private land to landless households. Pakistan's three land reforms were aimed at getting land from large landowners and distributing it among the peasants. However, there were policy gaps in terms of fixing high ceilings in these reforms—500 acres in 1959, 250 acres in 1972 and 100 acres in 1977—and giving other concessions to keep more land for orchards, tube-wells etc. Moreover, the poorest of the rural poor, landless households, were not included in the list of beneficiaries of land resumed during these reforms.

Unlike China, which developed multiple public policies, beneficial to peasants, agricultural policies in Pakistan such as subsidies, taxation and the price system have largely been more beneficial to large and medium farmers, than to small farmers, peasants and non-farm, poor households. The other major policy-gap relates to the non-farm sector. In fact, Pakistan has no policy to develop the rural non-farm sector, which employs half of the rural labour force. Rural enterprises, in Pakistan, remained traditional and immature, with lack of innovations, and good quality products. Because of poor public investment, in education and health, the majority of the owners and managers of these enterprises tend to be uneducated and inexperienced. The Pakistan Rural Investment Climate (RIC) survey (2005), indicates, that access to formal finance, particularly long-term financing, is the major challenge for rural entrepreneurs in Pakistan. Similarly, there are policy gaps in managing urbanisation, or creating an environment to make cities the engines of growth, so they can absorb the growing rural labour force. The new growth strategy, which aims to make cities hubs of commerce and economic activities, is a step in a right direction; there is a need to implement it.

The implementation of poverty reduction policies has generally been poor. Three sectors (or programmes) are noteworthy. First, rural development, as a poverty reduction tool, has been part of all the 5-year development plans, starting from the mid-1950s. But, because of the lack of adequate resources, and poor implementation, rural development remained poor in Pakistan. The second is the SAP of the 1990s. Although considerable resources were allocated for it, because of poor policy implementation, the set targets could not be achieved. Third, during the first phase of the PRSP, high economic growth led to poverty reduction. But, the sustainability of the PRSP, in improving the well-being of poor households, seems to be difficult. With the devolution of several ministries, both the implementation, and monitoring, of the PRSP has also become difficult.



## **6.2. Weak Institutions, Poor Governance and Deteriorating Law and Order Situation**

Unless institutional efficiency is enhanced, and, the broader participation of communities ensured, the experience of Pakistan indicates that public resources will continue to be mismanaged. At present, the poor governance, and deteriorating law and order situation, are also among the major obstacles to running business in Pakistan. The rising militancy, during the last few years, has created an overall uncertainty, which led to lower investment, and decline in FDI. It has also limited the government capacity to spend on pro-poor expenditures, due to a massive spending on the anti-terrorism campaign, during the last four years. The institutional dimensions of governance uncover a negative, and significant, association between rule of law and poverty [Haq, *et al.* (2007)]. At present, the state of governance, in Pakistan, is a serious impediment in the way of growth and poverty reduction efforts.

## **6.3. Neglect of the Social Sector**

Pakistan is hardly spending 2 percent of its GDP on education, and allocation for the health sector is stagnant at only 0.6 percent of GDP. As reported earlier, education expenditure, as a percent of GDP, has declined during the recent period. Pakistan is unlikely to achieve, health and education related, MDG targets. The skill level of the labour force has not improved over time. This neglect of the social sector has negative implications for achieving sustained, high economic growth, and reducing poverty. In China, investment in human capital, such as compulsory 9-years schooling, has made a significant contribution, first, in agricultural growth, and then, in industrial growth by shifting the labour between these two sectors.

At the micro level, the incidences of poverty are highly linked with literacy and education. Education is considered to be the most significant factor distinguishing the poor from the non-poor. Educational differences also explain the poverty gaps in rural and urban areas, supporting the idea that literacy is likely to have higher returns in urban areas [Jafri (1999); World Bank (2002)]. Education and skill levels are also directly related to employment. The poor usually have low levels of skill, and can only find employment in low-paid jobs. Poor health has commonly been related to the incidences of poverty and changes in poverty status [Hussain (2003)]. Most of the poor households suffer from ill health, and are forced to bear the high cost of medical treatment. Illness is often a catalyst in pushing households deeper into poverty, and thus, ill health and poverty are linked in a vicious cycle. In fact, Pakistan has paid a high price, for neglecting social sector development, during the last 5-6 decades.

## **6.4. Power Structures in Rural Areas<sup>11</sup>**

The highest, and most persistent, levels of poverty occur in those rural areas of Pakistan, which are traditionally considered feudal, such as rural Sindh, southern

<sup>11</sup>It depends heavily on Arif and Farooq (2011).

Punjab, the tribal areas of Khyber Pakhtunkhwa (KPK) and Balochistan. In rural areas, landed élites have a decisive influence, not only on the social and economic life of residents, but also on local, as well as central and provincial decision-making. The size of landholding is regarded as directly proportionate to power, and the landed elite in Pakistan, enjoys more power than its Indian counterpart. The dependency of the poor on local power structures takes a variety of forms. Distortions in the input and output markets, functioning against the poor, tend to generate poverty in rural areas [Hussain (2003)]. Tenants, as well as small farmers, who cultivate their own land, generally have to pay relatively high prices for inputs, while receiving relatively low prices for outputs, as compared to large farmers. At the same time, the lack of access to formal credit markets, often, forces poor tenants to borrow from their landlord. This generates a form of forced labour, and tenants are sometime obliged to work on their landlord's farm, at less than market wage rates, or, even without wages [Hussain (2003); Arif (2004)]. Landlords may also exert control, over water courses, which influences their relationship with their tenants, because it provides the former with absolute control over cultivation [Hooper and Hamid (2003)].

### **6.5. Lack of Effective Targeting**

Pockets of poverty still exist in China's rural areas, particularly in the central and western parts of the country, where natural conditions, ethnic and cultural factors are associated with the persistence of poverty. The villages of poverty counties are typically separated from regions with modern manufacturing industries, and wealthy consumer markets, by long distances, insufficient infrastructure or natural barriers, such as mountain ridges, deserts, swampy lands, or mighty rivers [Heilig, *et al.* (2005)]. The Chinese government has launched its development-oriented, poverty-alleviation programme (2001-2010) in poor counties, with the aim of solving subsistence problems of the poor, and improving their development capability. Although poverty in Pakistan is spread widely, there are pockets of poverty in southern Punjab, rural Sindh, KPK and Balochistan. No attempt has, so far, been made to target poor regions for development and poverty reduction. Thus, there is higher inequality, across regions and provinces, in terms of physical and social infrastructure. The province Punjab has better ranking, while the two provinces, KPK and Balochistan are poor by all infrastructure indicators. Even within Punjab and Sindh, the rural Sindh and southern Punjab, have poor level of access to physical and social infrastructure, as compared to the northern and central Punjab. These infrastructural differences across the regions, explain the poverty and inequality differences, as the regions with a poor level of infrastructure have comparatively less social and economic integration, in terms of diversified resources, human capital, and access to jobs in the formal market [Arif, *et al.* (2011)].

### **6.6. High Population Growth**

In the 1980s, Pakistan's annual population growth rate was around 3 percent, and fertility transition began late, in early 1990s. But the population growth rate is still high, 2.1 percent per annum. This high growth rate has several implications for economic growth and poverty reduction. The growing labour force cannot be absorbed productively in the weak economy, leading to high youth unemployment and underemployment. A large part of the labour force is unskilled or semi-skilled, and its contribution to industrial and economic growth is low. It works, largely in the informal sector, on low wages, insufficient to escape poverty. At the micro level, high fertility leads to high child dependency ratios, that have adverse implications for savings and investment. As discussed earlier, China has a much better demographic situation than Pakistan since the late 1970s. This has contributed in poverty reduction in the former.

### **6.7. Conflicts and Poverty Reduction**

Finally, the Afghan crisis, since the late 1970s, has affected Pakistan's external and internal dynamics. It has promoted extremism, drugs and weapons in Pakistan. As a result, the law and order situation started to deteriorate from the 1990s accompanied by political instability. The recent U.S.-led war on terror in Afghanistan, since 2001, has significantly affected the internal and external scenario of Pakistan, by promoting regional instability and creating severe economic challenges for her. The rising militancy, and worsening law and order situation, during the last few years, have adversely affected the macroeconomic and political atmosphere. The estimated cost of the 'War on Terror' to Pakistan was around Rs 678 billion in FY09, and this has led to massive unemployment, especially in the affected regions.

## **7. POLICY LESSONS FOR PAKISTAN**

To draw lessons for developing countries, from the Chinese success in poverty reduction, Heilig, *et al.* (2005) distinguished three types of poverty: (i) systematic poverty caused by an inefficient and dysfunctional economic system that is isolated from the world economy, e.g., that found in the former USSR, Eastern Europe, Maoist China and several African nations; (ii) poverty caused by geographical and ecological conditions such as insufficient precipitation, a too cold or too hot climate, high altitude, steep slopes, chemical or mechanical soil constraints or serious water or wind erosion; and (iii) distributional poverty caused by social and economic injustice, cultural factors, or individual handicap. It seems, from the analysis carried out in this study, earlier, that Pakistan is largely trapped in distributional poverty, which, according to Heilig, *et al.* (2005), is 'the most difficult and resistant type of poverty, because very often it is associated with sentiments of guilt, inferiority, and hopelessness, among those who are affected'. To reduce this type of poverty in

Pakistan, the following general lessons can be drawn from the Chinese experience of poverty reduction.

### **7.1. Asset Creation**

Land is the major asset in a rural setting. It has been shown, earlier, that the bulk of rural poverty in China declined between 1978 and 1983 (Table 1), when land was distributed, almost equally, among peasants. China's agricultural policies, which followed this distribution, brought a qualitative change in incomes of the rural population. In Pakistan, as noted earlier, land is owned by individuals and its distribution is skewed, limiting the benefits of agricultural growth mainly to large and medium landowners. Land distribution is also a major source of social inequality in rural Pakistan. Three land reforms in 1959, 1972 and 1977, respectively, were failed attempts to improve the land distribution. Rural poverty still concentrates among the landless and small farmers. In this scenario, land reforms could be one obvious choice to empower these poor families. Their effectiveness depends upon the existence of a strong political will and the prevailing socio-economic structure in rural society. However, 'if the solution is sought within the framework of the market economy, total household income should grow fast enough to be able [to have] access to the land market in due course of time' [Hirashima (2009)]. Two factors are crucial for this purpose: the diversification of rural household income through high quality education, particularly technical education, and the strong policy intervention to manage land prices, so that the future income-asset relationship favours the landless and near landless rural population [Hirashima (2009)].

### **7.2. Growth Inclusiveness**

The agriculture growth-poverty linkage, in Pakistan, has not been very effective, in poverty reduction. The spill-over effect of agricultural growth, in the past, has been too weak to reduce poverty on a sustained basis, while China's experience supports the view that promoting agricultural growth, and rural development, is crucial for pro-poor growth [Ravallion (2008)]. Moreover, agricultural policies, in Pakistan, have been biased against small farmers. The focus of these policies should be the small farmers, to increase their incomes. A faster growth with enhanced investment in infrastructure, should be rigorously pursued. There is a need of more intervention, in the area of livestock, to diversify resources of small farmers and landless households. Productivity gains, in the livestock sector, are especially important for pro-poor, rural income growth, since the distribution of livestock in rural Pakistan is more equitable, than the distribution of land [Adams (1995)].

### **7.3. Macroeconomic Stability**

As Heilig, *et al.* (2004) argue, the poverty-affected developing countries, need to first get their economic systems in order. A sound macroeconomic system with

stable inflation is a prerequisite for eradication of poverty and inequality. For this purpose, fiscal policy and monetary policy play important roles. Through fiscal policy, the fiscal deficit and the debt burden can be reduced, and the level and quality of public investment programmes can be enhanced. Since 2008, the economy has faced severe macroeconomic challenges, with rising inflation, poor growth especially in the real sector, rising unemployment, unstable current account deficit and rising debt burdens. At present, the government is facing severe hurdles in sustaining the ongoing pro-poor, development expenditures, due to growing fiscal deficits. Without macroeconomic stability, especially growth in the agricultural and manufacturing sectors, ensuring sufficient employment generation, for the job seekers, is merely a daydream.

#### **7.4. Enhancing Capacity of Institutions**

Chinese success, in poverty reduction, has been possible through strong public institutions implementing supportive policies, and public investment. Pakistan is lagging behind in this respect. The system of the local bodies, introduced in 2000, has been abolished, thus creating a vacuum in the way of implementing poverty reduction policies. Pakistan must enhance the capacity of institutions to implement policies.

#### **7.5. Integration of Markets—Development of Non-farm Sector/Urbanisation**

Unlike China, the agricultural sector in Pakistan has not provided a breakthrough for the development of rural non-farm sector. While the TVEs in China complement, and compete with, the urban industry, these enterprises in Pakistan remain traditional and immature, with lack of innovations and good quality products. However, the urbanisation process in Pakistan has been positive in developing rural-urban linkages, enhancing literacy and reducing poverty in urban, as well as in rural areas. For self-help to happen there must be an ‘opportunity’. Rural to urban migration, a step toward self-help, could be a way out of poverty. The city is an opportunity for the poor. Chinese experience has shown that poverty is eliminated in cities. These cities provide opportunities to the poor from the rural hinterland, when the land is unable to support them. The implementation of the new growth strategy, by making Pakistani cities the hubs of commerce, can help alleviate poverty in a reasonable time frame.

#### **7.6. Public Investment**

High quality education in rural areas, particularly technical education, is necessary for poverty reduction. Knowledge and skills are the driving forces of economic growth and social development. The pattern of public spending in China played a key role in, improving, both the infrastructure and human capital. Fan, *et al.*

(2004) have empirically shown that while ‘during the period 1978-84, institutional and policy reform was the dominant factor both in promoting growth and in reducing rural poverty, during the period 1985–2000, public investment [in education, irrigation, R&D and infrastructure] became the largest source of economic growth and poverty reduction’. By learning from the experience of China, the Government of Pakistan needs to set priorities in its spending; the focus should be on education, health and rural infrastructure.

### **7.7. Reducing Regional Disparities**

In Pakistan, there are higher, and rising, inequalities across the regions. The poor regions are still deprived, in terms of social and physical infrastructure, and industrial setup. Although inequality and regional disparities are high in China, it has developed strategies to target the poor regions for investment. This type of targeting is missing in Pakistan. Poor regions should be targeted for more investment.

### **7.8. Reaping the Demographic Dividend**

Finally, the fertility transition has started in Pakistan. It brings about sizeable changes in the age distribution of population; the proportion of children declines, that of the elderly cohort increases modestly, and, most importantly, that of adults of working-age increases sharply. Thus, the demographic transition presents the economy with a “demographic gift”, in the form of a surge in the relative size of the working-age population. There is a need to absorb this population in productive employment. Moreover, this is the right time for Pakistan to pursue the small family norm in the country, particularly in rural areas. This will lead to a low dependency ratio, more household savings and reduction in poverty [Arif, *et al.* (2011)]. To reap the demographic dividend, investment in youth, in terms of enhancing their skill levels, and providing them productive employment are necessary conditions. The new growth strategy has also considered changes in the age structure of population as a source for economic growth. The provision of job opportunities for youth can help reap the demographic dividend, and steer the country to high sustained growth.

## **8. CONCLUDING REMARKS**

This study has reviewed the poverty reduction mechanism through which China has been successful in reducing its poverty during the last three decades. Pakistan, however, could not succeed in its efforts during this time period. In the late 1970s, rural poverty rates, in both China and Pakistan, were around 33 percent; poverty fell about 9 times both in rates and numbers in China during the 1978-2005 period, while in Pakistan it fluctuated, and remained high. This historic Chinese success in poverty reduction was mainly based on: rural agricultural reforms introduced in the late 1970s, massive targeted public investment since the mid-1980s, promotion of the rural non-farm economy and urbanisation in 1990s.

Moreover, the foundations of Chinese success, in poverty reduction, are rooted in its solid political determination and powerful organisational ability, which ensured macroeconomic stability and successful poverty alleviation policies at the macro level, and empowered the poor at the micro level. Successive policies and programmes have also been launched in Pakistan, but they have not brought any real change in poverty, mainly due to policy gaps, poor implementation, weak institutions and poor governance, low public spending, low human capital, population pressure and conflicts.

The economy of Pakistan is highly dependent on agriculture, with large swings in agricultural growth, and, stagnant productivity. As a result, the bulk of poverty in Pakistan has concentrated in those rural areas, which are highly dependent on agriculture, i.e., southern Punjab and rural Sindh. In response to a similar reality, as the one Pakistan is facing today, China, in the late 1970s introduced rural agricultural reforms that provided foundations for reducing poverty, establishing the rural non-farm economy and rapid industrialisation. At present, the growth-promoting strategies, in Pakistan, are mainly focusing the manufacturing and services sectors, to absorb the surplus labour. A modification in sectoral development priorities is required for Pakistan, to develop the rural economy, by focusing on the farm as well as the non-farm sector. Land reforms, livestock promotion and availability of inputs could be some of the obvious choices to empower the small farmers and landless households. In parallel, long-term public investment in irrigation, agriculture R&D and physical and human infrastructure is crucial to raise agricultural productivity.

The provision of high quality, basic education, particularly technical education, will not only provide the skilled labour for various sectors of the economy, but also provide a breakthrough to develop the rural non-farm sector in Pakistan.

The role of urbanisation in Pakistan has been positive and encouraging in reducing urban and rural poverty, and developing a few clusters where the rural population is well integrated into city life. However, cities in Pakistan are characterised by small industrial bases, shortage of houses, and poor infrastructures and transportation systems. A planned urbanisation policy is required, for Pakistan to build better rural-urban integration, by establishing small and medium-sized cities, as the hubs of commercial and industrial activities. A special effort is also required to raise the capacity of local governments and municipal institutions.

A major drawback, of Pakistan's poverty alleviation policies, was that the majority of the policies were 'universal', in which the entire country and/or entire population was equally targeted. As a result, the coverage and implementation of these policies remained inadequate. The Chinese experience suggests geographical targeting, where populations of the poor regions are targeted for different schemes and programmes.

The demographic transition, in Pakistan, has contributed to increasing the working-age population, and lowering the dependency ratios; however, the progress is slow. To reap the demographic dividend, this study suggests enhancing the knowledge base and skill levels of youth and providing them productive employment opportunities. This inclusiveness will bring economic and social prosperity to the country.

*Appendix*

Appendix Table

*Sources of Income by Agro-climate Zone and Poverty Status*

	Poverty Status	Wages and Salaries					Total Income
		Wages and Salaries	Transfer Income	Crop Income	Rental Income	Livestock Income	
Rice/Wheat Punjab	Poor	63.28	9.04	24.83	1.52	1.32	100
	Non-poor	29.62	13.99	50.4	4.24	1.75	100
	Total	37.39	12.85	44.5	3.61	1.65	100
Mixed Punjab	Poor	48.48	12.28	33.6	1.31	4.33	100
	Non-poor	31.44	16.73	46.12	3.09	2.63	100
	Total	37.6	15.12	41.59	2.45	3.24	100
Cotton/Wheat Punjab	Poor	39.36	4.4	53.39	0.65	2.2	100
	Non-poor	18.04	5.93	71.34	2.37	2.32	100
	Total	26.45	5.33	64.26	1.69	2.28	100
Lower-intensity Punjab	Poor	36.11	7.84	51.93	1.11	3.01	100
	Non-poor	26.01	9.51	58.79	3.35	2.23	100
	Total	31.05	8.68	55.37	2.23	2.68	100
Barani Punjab	Poor	64.85	19.24	14.94	0	0.97	100
	Non-poor	54.79	31.98	12.5	0.07	0.66	100
	Total	56.94	29.26	13.02	0.05	0.73	100
Cotton/Wheat Sindh	Poor	30.13	0.87	67.65	0.05	1.3	100
	Non-poor	29.37	1.58	66.93	1.13	0.98	100
	Total	29.76	1.22	67.3	0.57	1.15	100
Rice/Other Sindh	Poor	34.02	1.16	64.21	0.18	0.43	100
	Non-poor	39.85	2.55	55.57	0.79	1.23	100
	Total	37.14	1.9	59.59	0.51	0.86	100
KPK	Poor	44.92	28.87	23.38	1.27	1.56	100
	Non-poor	39.05	37.1	20.15	2.42	1.29	100
	Total	41.38	33.84	21.43	1.96	1.4	100
Balochistan	Poor	56.24	1.49	40.6	0	1.67	100
	Non-poor	53.05	4.87	38.65	0.56	2.88	100
	Total	54.16	3.69	39.33	0.36	2.46	100
Rural Pakistan	Poor	41.66	7.96	47.78	0.69	1.9	100
	Non-poor	32.08	13.16	50.58	2.38	1.8	100
	Total	35.18	11.14	49.49	1.73	1.84	100

Source: Malik (2005), based on HIES data 2001-02.



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