



**China International Development Research Network (CIDRN)
Annual Meeting 2013-14**

Beijing 25 September 2014

Field Visit to Yiwu, Zhejiang Province

22-24 September 2014

Notes from the International Advisory Group Team

In the context of the 2014 Annual Meeting of the CIDRN, a field visit for members of the International Advisory Committee was organised by the Research Centre for International Development (RCID) based at the China Agricultural University. The field visit centred on Yiwu, a city in Zhejiang Province, as a case study of accelerated, inclusive growth.

Attached are notes from the visit, together with the presentation of the Zhejiang experience provided to the team by a Provincial policy official, who has been deeply involved in the Zhejiang development process, involving small farmers from the beginning of the industrialization process (see annex for the presentation by Mr Shao Feng).

Participants in the Field Visit:

CIDRN Chair: Prof Li Xiaoyun

CIDRN International Advisory Committee Team: Richard Carey, Barry Carin, James Putzel

CIDRN Strategic Oversight Committee: Richard Garratt, DFID, Beijing

RICD Secretariat/CAU: Prof Wu Jin, Prof Xu Xiuli

Observer: Stephan Klingebiel, German Institute for Development Studies

Rapporteur: Liu Xiaoqian, Max Planck Institute for Social Anthropology

Programme

- Factory visits in Yiwu
 - Langsha Holding Group (now the world's largest socks and hosiery production enterprise), employing 10,000 workers and 10,000 latest generation knitting machines imported from Italy.
 - Farphie Power Transmission and Distribution Company, an SME employing some 50 workers making electric circuits, from basic household equipment to tailor made installations for factories, hospitals, building sites etc and exporting to countries in Asia and Africa.
- A visit to the Zhejiang commodities market, the largest wholesale market in the world, preceded by a briefing from its management on the history, strategic planning and vision for the next five-ten years
- A trip to Jinhua to meet with the Institute for African Studies at Zhejiang Normal University and to view the world-class collections and installations of the museum of African art located at the Institute
- A visit to an urban village, where farmers had turned over their land to the local government in return for the construction of a substantial village for their families and as a base for new livelihoods
- A dinner discussion with local entrepreneurs in Yiwu , graduates of the China Agricultural University

Key Observations

The Zhejiang case is a major example of an urbanization-industrialisation process drawing labour from a poor rural economy into manufacturing and services employment and small business creation, with eventual huge scaling up and insertion into the global economy. This process was ignited by the public entrepreneurship of a local mayor in the early 1980s, starting with the organization of a farmer's market, and facilitated by ongoing provincial and

town and village action on the strategic and infrastructure fronts and fueled by privately-owned companies using family and informal sources of finance. It was thus a bottom-up process.

IAC members were able to witness at first hand a range of the public policy and economic and social development vectors at work, and the approach to current and future challenges, notably:

- the capacity of the local authorities in Yiwu to take a long-term view, to stay with it and at the same time to shape it continuously as future perspectives unfold, for example by linking to e-commerce via Alibaba and planning for the anticipated consumer goods import market expansion as China's economic rebalancing proceeds. Not many authorities in OECD countries have the attention spans required for such approaches.
- the adoption of the private joint stock enterprise as the institutional form for developing the economy, in conjunction with the strategic planning and coordination and overall management role of the authorities in developing the wholesale market and its infrastructure.
- through this combination, the Chinese private sector has become the source of virtually all the job-creation in Zhejiang and in most other parts of China (the resistance we encountered in our field visit last year in Ningxia to the joint stock company seemingly an exception).
- at the wholesale market, the absence of any visible security personnel was remarkable. It seems clear that the 15,000 foreign buyers who live in Yiwu feel to be in a safe environment. A special local government service (the Yiwu Foreign-Concerning Service Center) is devoted to solving the problems of foreign buyers.
- the entrepreneurial tradition in Zhejiang Province has been a key factor, evidenced in the motto of the commodities market company: "to trade profitably, to trade conveniently, to trade safely, and to trade with a comfortable heart". The replication of such a success story clearly would be difficult in venues where a long term strategy from above and entrepreneurship from below are lacking.
- for the future, it is clear that housing and education provision for migrant families will need upgrading, and the progressive reform of the hukou system now underway is essential for this.
- As wage rates rise in China, enterprises will need to adapt in order to maintain profitability. Here, the management of the world-ranking sock and hosiery company told us that the key is not labour productivity, but, by market positioning strategies, especially through building brands and constant attention to design leadership.

A main lesson to underline is that while the role in these achievements of the expansion of private enterprise is absolutely clear, so too is the strategic role the state (in a highly decentralized form in Yiwu) has played to make this happen. The role of the local authorities has been pivotal to promoting opportunities for small enterprise to drive economic growth and to facilitating the transition of people from agricultural and near subsistence economic activities into manufacturing and commercial activities. Public policy and public action has guaranteed the essentials of security in terms of predictability, basic infrastructure and peace and order which have stimulated people to invest in businesses with hard earned savings and "sweat equity". The historical and cultural context of the rapid emergence of Yiwu as a trading/manufacturing hub is unique in some basic respects and would be impossible to

replicate in any simple way. Yet the idea of manufacturing hubs has been translated into many different contexts and could be reproduced in Sub-Saharan African countries to transformative effect.

Field Notes

1. **Entrepreneurship in tradition:** Yiwu has enjoyed the fame of being the place for trading small commodities in China for many decades. It is said that the trade of daily products in Yiwu started during the Qing dynasty. It is recorded that the barter between chicken feather and candies marks the beginning of its trading history. This tradition is acknowledged by most people we met who consider it a major factor explaining the outstanding development of commerce in this area. In addition, there are some proclaimed key characteristics of Yiwu entrepreneurship (see point 4).
2. **(the micro model) Family (and) enterprise:** Family enterprise is the main form of business organization. Two previous students from the China Agricultural University who are now a couple and trade cloth in Yiwu told us that the experiences and *guanxi* network accumulated by one's family and kin are indispensable for young people to enter the local market, that even if the second-generation do not work in the company of one's parents, they may still choose to trade similar commodities and utilize existing knowledge and networks, and that the role of family and kin is seen in many matters as important in running a business, such as sharing customers, supplying stocks and solving conflicts etc. We visited two private enterprises: the first one was the Lang Sha Group, set up by three brothers in the early 1990s. The other one, FARPHIE producing electric power transmission and distribution equipment, is owned by a young couple in their thirties.
3. **(the macro factor) Transition(s) in economic structure:** A major reform of local economy is claimed by local officials and private entrepreneurs to be the establishment of industrial manufacture in the early 1990s. This move had been led by the then city mayor who saw that a major risk in the local economy was its sole reliance on the trading business, as this meant that the economy would be entirely dependent on external supply over which the local government and traders had little control. To lower this risk, the government decided to encourage local traders to engage in industrial manufacture by supporting them with beneficial policies. Meanwhile, a major investment by the local government was to build a concentrated marketplace covering five large blocks, located at the centre of the city with the capacity to accommodate all traders. A state-owned shareholder company was formed to manage it. The transformation of the economic structure from trading-only to manufacture-cum-trading is recognized as the major action underpinning the success of the Yiwu economy in the recent decades. The leading role of the state is thus emphasized, including the significance of particular individual officers, formulating the overall strategy as well as specific beneficial policies. Yiwu was eventually approved as the tenth Special Economic Zone in China in 2007, but was not among the early SEZs. While the expansion of the Yiwu economy and the generation of wealth by individual households did not take place overnight, its take-off should still be considered relatively fast - within twenty to thirty years' time, that is within one generation.
4. **Some characteristics of Yiwu economy gathered from interviews/meetings:** A human-centred approach seems to be integrated to the creation of an attractive and trustful business atmosphere. The four-sentence principle of the marketplace company reads, 'to trade profitably, to trade conveniently, to trade safely, and to trade with a

'comfortable-heart' (*shuxin*). Some interviewees claimed that Yiwu had the 'real market economy' - meaning that, with the decentralization policy, a great deal of autonomy and preferential investment policies are given to small traders and producers. Other local proverbs describing Yiwu's business characteristics include 'small business is also business, so not one penny should be ignored', and 'profits belong to all parties. The other party can gain more, and we gain less. But we keep the business going first.', and 'The monks can flee away, but the temple is always there' – referring to the relative advantage of having an actually existing market.

5. **Urbanize the suburb (city expansion):** Yiwu city has expanded significantly over the years. An increasing area of surrounding villages is undergoing urbanization. We visited one such village that had been converted to a community (*shequ*), and the original villagers had been registered as citizens. The new houses are built up in a concentrated area on the original village site. Most houses have similar exterior, each with five stories. The internal design and decoration of these houses are varied. Most households let out the ground floor to businesses, usually employing migrants, where the space is used as either workshop or storehouse, or otherwise the householders use it for their own business (in the latter case, the rooms cannot be let out to those working in their business). Householders do not appear to pay tax on this rental income. To provide community welfare services, a row of elderly care rooms are built in front of the residence houses, including two entertainment rooms respectively for Majiang (Mahjong) and TV, and a canteen where breakfast and lunch are provided at a very low price for those aged above sixty-five. There is also a community clinic, where the staff is supplied and paid by a local nursing college. There is no special schooling service and children are sent to nearby schools. These services are initiated and managed by the community office. In addition, there is a village co-operative managing the community economy. All the original villagers are shareholders. Many young people in the community, whose families' agricultural land rights have been reallocated for urban use, engage in the trading sector either as employees or self-employed. The older villagers normally take care of their grandchildren, stay with the adult son's family and enjoy the community services.
6. **The state-market-society triangle:** It was very clear that the explosion of manufacturing and trading activity in this area since the reforms was facilitated by significant state investment in infrastructure and a raft of incentives to stimulate investment. There seems to be a relatively synergistic interaction between government policy and the private sector. The policies to establish industrial manufacture, including the industries of color printing, packing, knitwear, craft jewelry, socks and zippers etc, and the building of the central marketplace appear to have been well-received and exploited by the private sector. Meanwhile, the monopoly of the state-owned company in providing shops for traders is balanced by the random provision of additional space by nearby households who let out their ground floor with attractive relative advantages, such as providing the storage room much closer to the shops.
7. **Migrant workers:** At present, two thirds of the local population are composed of the migrants from within and outside Zhejiang province. They occupy many job positions ranging from unskilled workers to business managers and entrepreneurs. The number of migrant workers has passed a peak. In recent years, it has started to decline, mainly because some migrant workers have moved to other places, including returning to their hometowns, to set up their own businesses with the skills and social networks accumulated during their time in Yiwu.
8. **The (predictably) increasing demand on public service provision:** The large number of migrant workers generates heavy pressure on the provision of public services, such as

children's schooling. The local capacity to provide compulsory education has not been developed proportionately to the rapid increase in its population. It is said that the children of the migrants occupying higher positions in factories, such as managers, are normally assured a seat for schooling. For the children of the workers, there is a credit calculating system which allows those who got an overall higher score to be admitted first. In addition, there are also schools and kindergartens set up by the community or private sector to accommodate those left out by the public system, often with less satisfying facilities. However, it seems many migrants have left their children in their home villages in the care of relatives where they have access to school.

9. **Foreigners:** it is reported that more than 50% of foreigners (approximately 15,000 residents) are from Arab countries and 20-30% from Sub-Saharan Africa. They do their own trading business or are employed by the local enterprises.
10. **E-business:** we were told that one major issue regarding the sustainability of the Yiwu economy concerns the development of E-business. The marketplace company sees the emergence of online business across the country as its most threatening competitor, since the latter is exempted from taxation at present. The marketplace company has already set up their own e-business platform, called Yiwugou. Comparing to other e-businesses in China, which have a longer history and a larger amount of transactions, the company sees their comparative advantage to be the possession of the actual physical marketplace which corresponds to online shops on a one-to-one basis, and thus it gives a much stronger sense of credibility – thus responding to the most serious risks perceived in transactions in the virtual world. The policy also could facilitate future taxation of e-business to provide financing for the local government.
11. **Future - A global vision:** Yiwu is currently the largest trading market for small commodities in China. In the future, it aims to increase its share in the global market. This means that more commodities will be imported and exported with enhanced spatial and technical capacity. In particular, it is less concerned with expanding exports to developing country markets but rather aims to expand its penetration in the European and the USA markets. For this to happen, fair trading policies and political stability are considered the most important factors.



Stopping Poverty Urbanization: Zhejiang Practice

Shao Feng
Zhejiang Poverty Alleviation Office
September 22, 2014



Poverty Urbanization

Phenomenon

Increase of urban poverty rate along with decreased rural poverty rate

Perspective

“Poverty Urbanization” is a concentration of rural poor in cities, or “urbanization of poor population”

Cases

- “Poverty Urbanization” is not mainly about “urbanization of poor population”;
- Rather, it’s resulted from exclusive urbanization & industrialization and unequal access to public service;
- It can be stopped.



Introduction

Elimination of extreme urban-rural poverty

Zhejiang Practice

Uniquely inclusive industrialization/urbanization

Equalization of public service is promoted

Immersive development-oriented poverty reduction is implemented

Conclusion

Experiences and challenges

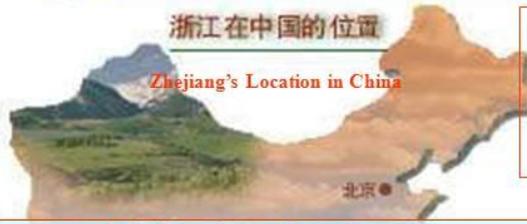
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1. Elimination of Extreme Urban-Rural Poverty



About Zhejiang

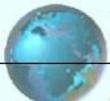
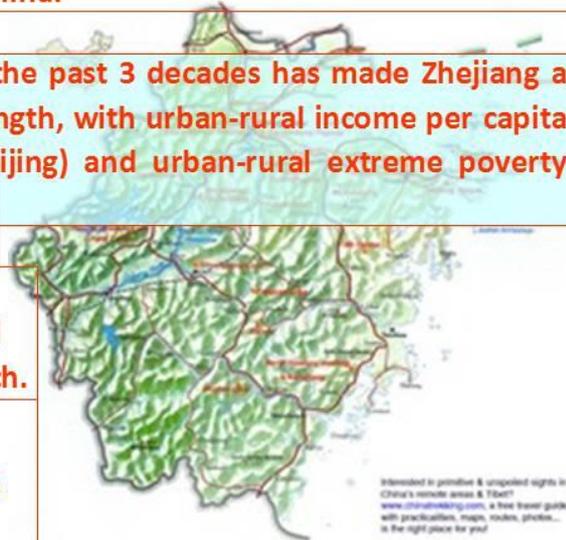


Being a small eastern coastal province, Zhejiang occupies 101,800 sq. which account for 1.06% of the total area of China.

Industrial & urban development over the past 3 decades has made Zhejiang a big province in terms of economic strength, with urban-rural income per capita ranking No.3 (next to Shanghai & Beijing) and urban-rural extreme poverty basically eliminated.

It's a place with many residents, mountains, and islands but limited land resources, so before 1978, it was not rich.

In 1978, its poverty rate was as high as 36.1%, and that's 5.4 percentage points higher than national average.



Major Economic Indicators for Zhejiang and China in 1978 and 2013

| Indicator | Zhejiang in 1978 | | Zhejiang in 2013 | | China in 2013 |
|---|------------------|------|--------------------|------|------------------|
| | Figure | Rank | Figure | Rank | Figure |
| Permanent Residents (10,000) | 3,751 | | 5,498 | 10 | 136,072 |
| Urbanization Rate (%) | 14.5 | | 60.0 | 6 | 53.73 |
| Number of Employed (10,000) | 1,795 | | 3,708 | | 76,977 |
| Employment Structure | 53.2:29.8:17.0 | | 14.2:47.0:38.8 | | 31.4:30.1:38.5 |
| GDP (bn) | 124 | 12 | 37,569 | 4 | 568,845 |
| GDP Per Capita (RMB) | 331 | 16 | 68,462 (11,055 \$) | 5 | 41,805 (6751 \$) |
| Industry Structure | 38.1:43.3:18.6 | | 4.8:49.1:46.1 | | 10.0:43.9:46.1 |
| Fiscal Revenues (bn RMB) | 27 | 14 | 6,908 | 5 | 129,143 |
| #Local Fiscal Revenues (bn RMB) | 27 | 16 | 3,797 | 5 | |
| Disposable Income Per Capita of Urban and Rural Residents (RMB) | 332 | 9 | 37,851 | 3 | 26,955 |
| Rural Net Income Per Capita (RMB) | 165 | 8 | 16,106 | 3 | 8,896 |
| Deposit Balance of Financial Institutions (bn RMB) | 35.8 | | 73,732 | | 1,070,588 |
| #Balance of Personal Savings (bn RMB) | 7.7 | | 29,360 | 3 | 465,437 |
| #Balance of Personal Savings Per Capita (bn) | 21.6 | | 53,406 | 4 | 34,205 |



Elimination of Extreme Urban-Rural Poverty

Extreme urban-rural poverty in Zhejiang is basically eliminated

- **Subsistence Allowance System:** To ensure livelihood for the extremely poor and elimination of extreme poverty. In 1996, Zhejiang established urban-rural subsistence allowance system, the first province that implemented the system on a rural and urban basis in China.

| 2013 | National | Urban | Rural |
|---|---|------------|------------|
| Headcount | 629,000 | 73,000 | 556,000 |
| Standard | RMB | 16.95 ¥ /d | 12.93 ¥ /d |
| Higher than 2 Dollars/Day regardless of exchange rate | PBC ER 6.19 | 2.74 \$/d | 2.09 \$/d |
| | IMF PPP 4.25 | 3.99 \$/d | 3.04 \$/d |
| | WB PPP 3.52 | 4.81 \$/d | 3.67 \$/d |
| The Extremely Poor in Zhejiang | <ul style="list-style-type: none"> ● Non-participants with income lower than standard but fail to meet other conditions ● Non-participants who should have been covered if not for a poor job of outreach | | |

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Elimination of Extreme Urban-Rural Poverty

Scattered and temporary extreme poverty of people migrating from other provinces

- Zhejiang is economically developed with presence of many private companies and job opportunities, so it receives lots of people migrating from outside Zhejiang. In 2013, permanent residents of such nature were about **14 million**, accounting for **one quarter** of the total.

| | | |
|--|--|---|
| Stable Job | Unemployment 3.01% | Monthly Unemployment Insurance Benefits: RMB1,046 (5.63 \$/d) |
| Higher Income | Average Income: RMB56,571 | Monthly Minimum Income: RMB1,080 (5.74 \$/d) |
| Increased Family Migration | 39.6% married families living for 3Y+ | Up by 2.1 pp |
| Migrant Children | Primary School: 1.12 m (32%) | Junior High: 280,000 (18.8%) |
| The Extremely Poor of Such Nature | <ul style="list-style-type: none"> ● New-comers with poor skills and fail to get employed in time ● Low-skilled workers who fail to adapt to transition/upgrading and yet to participate in social security ● People migrating with their families but stay underemployed with low income | |

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Elimination of Extreme Urban-Rural Poverty

During industrialization and urbanization, Zhejiang has not only eliminated urban-rural extreme poverty, but also put an end to “poverty urbanization”.

- Inclusive Industrialization and Urbanization

- Equal Basic Public Service

- Immersive Development-oriented Poverty Reduction

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2. Uniquely Inclusive Industrialization/Urbanization

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Uniquely Inclusive Industrialization/Urbanization

Unique Industrialization/Urbanization

- **General Phenomenon:** During industrialization and urbanization process, first-generation entrepreneurs around the world own almost all types of capital (landlord/aristocrat), and they convert agricultural capital into industrialization and urbanization capital.

| | | | |
|-----------------------|---|------------------|----------------------|
| ● Zhejiang Phenomenon | People promoting initiation/development of industrialization/urbanization: Ordinary farmers or even poor farmers | | |
| Background | More Population/Mountains, Less Land | Scarce resources | Few State Investment |
| Model | Endogenous industrialization/urbanization with farmers as main facilitators, private firms main players and counties main battlefields. | | |
| Feature | Farmers becoming initiators, investors, entrepreneurs, employees and people sharing benefits of industrialization/urbanization | | |
| Reason | Philosophy of "small" and "big" | | |

- This is the underlying reason for our elimination of extreme poverty and no occurrence of poverty urbanization or urbanization of poor population

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Uniquely Inclusive Industrialization/Urbanization

● Small Product & Big Industry

- Labor-intensive small commodity production that mainly produces daily necessities becomes the top choice of entrepreneurial farmers in the process of industrialization/urbanization because of its low investment threshold, low skill requirement, big demand, big employment capacity and big market.
- Large number of entrepreneurial farmers make small commodity production a big industry for employment and income increase of farmers.
- Hundreds of labor-intensive industries derived from that create so many jobs that not only ¾ farmers in Zhejiang realize non-agricultural employment and 10 million farmers from outside are employed here
- Challenge: Slow-down of migration, tight labor supply/demand, increased labor cost
- Promote technical advances and realize industrial upgrading;
- Develop service outsourcing and processing trade (production chains/spare parts) in rural areas;
- Execute regional transfer by going outside province/country and realize rebirth via integrating non-local economic/HR resources and increased scale, updated equipments and upgraded technologies of our own.

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Uniquely Inclusive Industrialization/Urbanization

● Small Firm & Big Cluster

■ Choosing small firm as organizational set-up is a necessary choice for farmers investing and starting businesses

■ Farmers set up small businesses of a specialty industry within an area which gradually becomes a business cluster featuring specialized division of labor and socialized coordination-Block Economy

■ In 2008, 312 block economies with sales exceeding RMB1 billion registered a RMB2.81 trillion total sales, RMB612.2 billion worth of exports and 8.31 million practitioners, accounting for 54%, 62% and 56% of provincial total.

■ Challenge: Decreased industrial advantages and increased market competition

■ Establish regional science innovation center, organize industry association and public service platform, create regional brand, concentrate onto industrial park, expand JV/cooperation with foreign MNEs and domestic firms, utilize internationally advanced techniques, upgrade industry, scale up production, popularize product brand and increase corporate profitability;

■ “Going Global” in a clustered way, go public overseas and realize M&A, establish international marketing network and find new space for development.

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Uniquely Inclusive Industrialization/Urbanization

● Small Market & Big Distribution

■ Millions of “state co-ops” selling products and expanding markets for small businesses in 1980s are replaced by specialized wholesale markets under support of government.

■ Specialized wholesale markets provide a public marketing platform for small businesses, save them challenges and costs of expanding markets, and develop markets for products.

■ In 2013, there were 4,316 commodity exchange markets with total turnover reaching RMB1.78 trillion. Of that, 815 markets achieved turnover over RMB100 million; and there were 157 registered online markets with turnover of RMB1.96 trillion.

■ Challenge: Expanded production scale, change of marketing model and development of E-commerce

■ Mall: Become commercial cluster that integrates raw material purchase, shopping, touring, catering and recreation;

■ Park: Become all-in service center that has sales exhibition, recreation service, distribution, processing, warehousing and logistics premises;

■ IT: Become modern commercial center with information service, online trading and long-distance transaction functions;

■ Export: Become export platform for SMEs products

■ Suburb: Become big logistics center for clustered development of markets

■ Chain: Create “wholesale market chains” in other places

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Uniquely Inclusive Industrialization/Urbanization

● Small Town & Big Platform

- Cities are ideal for developing industry, but with urban-rural segmentation, farmers cannot make it in cities.
- Low-threshold small towns become a big platform for farmers to start business or get employed and form clusters, and a big channel that connects urban and rural areas, which explains our urbanization model that features “networked” development of counties and small towns.
- In 2013, there were 90 counties and 639 small towns (200 central towns) in Zhejiang.
- Challenge: Low innovation/competition ability of small/medium-sized cities & small towns
- Change the form of urbanization, create city clusters with big cities as center, medium cities the bond and small cities/towns the basis, maintain advantages of small/medium cities and small towns in creating jobs and facilitating rural development, and strengthen innovation and competition ability of city clusters.
- Foster 40 central towns and empower them with functions of a small city.

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Uniquely Inclusive Industrialization/Urbanization

● Small Capital & Big Cooperation

- Agricultural surplus is the first pot of gold for farmers participating in industrialization/urbanization. In early days of reform and opening-up, with household contract operation system and distribution system of “state first, collectives second and household third”, farmers converted agricultural surplus into industrialization capital.
- It is slow to accumulate agricultural surplus which is of limited amount, and a single household is not able to create a business, therefore farmers set up joint stock partnerships as a way out.
- At that time, there were so many economic entities with the nature of joint stock partnerships in Zhejiang.
- Challenge: Some have converted into private or joint-stock firms. Currently, during the process of market-based and modernized agricultural development, farmers and farmer co-ops face the challenges of undercapitalization, lack of function and weak strength.
- Utilize joint-stock partnerships extensively and build farmer co-ops;
- Farmer co-ops has once again taken on a joint-development model and formed a networked and compound agricultural operation system in the process of cooperation and re-cooperation.

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Uniquely Inclusive Industrialization/Urbanization

● Small Finance & Big Service

- To solve the difficulty of slow accumulation and limited amount of agricultural surplus, we encourage using idle capital of first entrepreneurs and developing private finance service when farmers fail to get service from regular financial institutions, and we have witnessed entrepreneurial efforts of many farmers who have utilized mutual finance. This is a key factor that justifies large number of entrepreneurial farmers in Zhejiang.
- Regrettably, due to exposure to risks and a lack of monitoring system, micro-finance organizations set up by farmers were eliminated at that time.
- Challenge: Increased entrepreneurial opportunities but limited capital and access to regular financial service
- Motivated by rural financial system reform, farmers start establishing mutual finance co-ops again, which have supported development of modern agriculture, processing trade, tourism, community service, etc.
- In the field of poverty reduction, there are many key recipient villages, farmer co-ops and industry associations that start setting up mutual finance organizations.

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Uniquely Inclusive Industrialization/Urbanization

Philosophy of “Small” and “Big”

| | |
|---------|-------------------------------------|
| “Small” | Enable employment and participation |
|---------|-------------------------------------|

| | |
|-------|--|
| “Big” | The conditions and means for and results of survival and progress of “small” ; and meet the demand of market economy development |
|-------|--|

“Small” is the prerequisite and foundation for “big”, and “big” the condition and result of “small”; the two rely on and condition each other. That is the philosophy of “small” and “big”.

Over the past 3 decades, 7 million ordinary agricultural laborers in Zhejiang have become investors and operators of modern industry, and tens of millions of traditional agricultural producers have become workers and practitioners in modern industry, and which is what we call “millions of able persons starting businesses bring along cooperative entrepreneurship and full employment of tens of millions of farmers” and “first entrepreneurs bring along followers and promote nation-wide entrepreneurship; persons getting rich earlier bring along followers and realize common prosperity”.

Small is beautiful

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3. Equalization of Public Service is Promoted

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Equalization of Public Service is Promoted

- **General Phenomenon:** The mid-stage of industrialization/urbanization is a stage full of changes and conflicts, which might result in widening of urban-rural gap, regional gap and strata gap and thereby hindering or even stopping modernization process.
- **Zhejiang Exploration:** Since late 1990s when we were entering mid-stage of industrialization, Zhejiang has started from implementing urban-rural integrated subsistence allowance system in 1996 and facilitated equal access to public service by “establishing system, increasing coverage” (before 2007) and “extending coverage and improving system” (after 2007)

This guarantees our efforts in stopping poverty urbanization.

Promoting equalization of public service: Ensure social security, social programs and public facilities with support of public finance to enable residents of different regions, various groups, and rural and urban areas to enjoy equal access and benefits. Establish and improve systems and expand coverage to ensure equal participation in modernization and equitable sharing of benefits.

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Public Service in Zhejiang

| | | |
|-------------------|-----------------------|--|
| Social Security | Social Employment | Integrate urban-rural employment |
| | Social Insurance | Old-age, medical, job injury, unemployment and maternity insurance |
| | Social Relief | Subsistence allowance, support of extremely poor, medical, education, housing, disaster & employment relief |
| | Social Benefits | Social service and care for children, older people, single mother family, disabled persons and chronic psychotics with weak ability in everyday living |
| | Social Charity | Charity for senior citizens, orphans, poor and needy and disaster-affected people |
| Social Programs | Education | Pre-school, compulsory, secondary vocational and senior high |
| | Medical | Public health, basic medical care, urban-rural medical service system |
| | Culture | Urban-rural community culture, mass culture, mass sports and mass exercising |
| Public Facilities | Public Transport | Public transport facility and service |
| | Water/Power Supply | Water and electricity supply network |
| | Communication Network | Radio, TV, Internet, postal and telecommunications |
| | Environment | Sewage and waste treatment |

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Social Security System

Social Relief System

| | |
|----------------------------|---|
| Subsistence Allowance | <ul style="list-style-type: none"> ● System: Urban-rural integration ● Target: Extremely poor, some of the relatively poor, and people with temporary difficulties in the province ● Criteria: Determination based on subsistence allowance as well as different categories and counties ● Responsibility: County and provincial government provide categorized assistance ● Principle: Uphold bottom line, help the distressed, achieve sustainability, link with other social security systems and adapt to socio-economic development level |
| Support of Extremely Poor | |
| Relief of Natural Disaster | |
| Medical Relief | |
| Education Relief | |
| Housing Relief | |
| Employment Relief | |
| Temporary Relief | <ul style="list-style-type: none"> ● This system has protected basic livelihood and right to social participation of rural and urban residents with difficulties, eliminated extreme poverty and urbanization of poor population in the province. ● With deepened reform of <i>Hukou</i> system, this system will cover migrants whose <i>Hukou</i> has transferred to Zhejiang |

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Social Security System

Social Insurance System

| | |
|---|--|
| Old-age Insurance | <ul style="list-style-type: none"> ● System: Leaning towards urban-rural integration ● Target: EBOI targets all contract workers in companies and public institutions in Zhejiang; URSOI targets urban and rural residents with Zhejiang <i>Hukou</i> ● Responsibility: Shouldered by individuals, companies, collectives and governments (depending on type of insurance) ● This system has ensured the right of the employed in the province (incl. migrant workers from outside Zhejiang) to participate in employee social insurance, helped increase availability of medical and old-age service for urban and rural residents, especially farmers, and stopped poverty urbanization resulted from unemployment of migrant workers in cities both from inside and outside Zhejiang and blocked poverty due to health and age issues of urban and rural residents. |
| Employee Basic Old-age Insurance | |
| Urban-rural Resident Social Old-age Insurance | |
| Medical Insurance | |
| Employee Basic Medical Insurance | |
| New Rural Cooperative Medical System | |
| Unemployment Insurance | |
| Work Injury Insurance | |
| Maternity Insurance | |

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Social Security System/Social Program System

Public Employment Service System

- Feature: Urban-rural integration irrespective of region, comprehensive contents, and convenient service
- This system has provided workers from Zhejiang or other regions who are willing to get employed in Zhejiang with an access to convenient and quality employment service.
- This is a big reason for full employment of urban and rural workers in Zhejiang and of migrant workers as well as low urban-rural employment rate, and it's a vital link in stopping poverty urbanization.

System of Balanced Development of Urban-rural Basic Education

- Feature: Gradually balanced in urban and rural areas, and basically equal for children from Zhejiang or other regions
- Balanced development of urban-rural basic education, fast progress of secondary vocational education, and schooling of migrant children have fundamentally stopped inter-generational transmission, regional dispersion and urbanization of poverty.

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Public Program System/Public Facility System

Urban-rural Public Health and Basic Medical Service System

- Feature: Urban-rural integration with no boundaries
- This system has increase health level of urban and rural residents and reduced poverty induced by health problems

Urban-rural Public Facility System

- Feature: Leaning towards urban-rural integration, keeping improving internally, and getting increasingly comprehensive contents
- Well-established rural infrastructure has improved production and living conditions, stimulated production and reduced factors causing poverty

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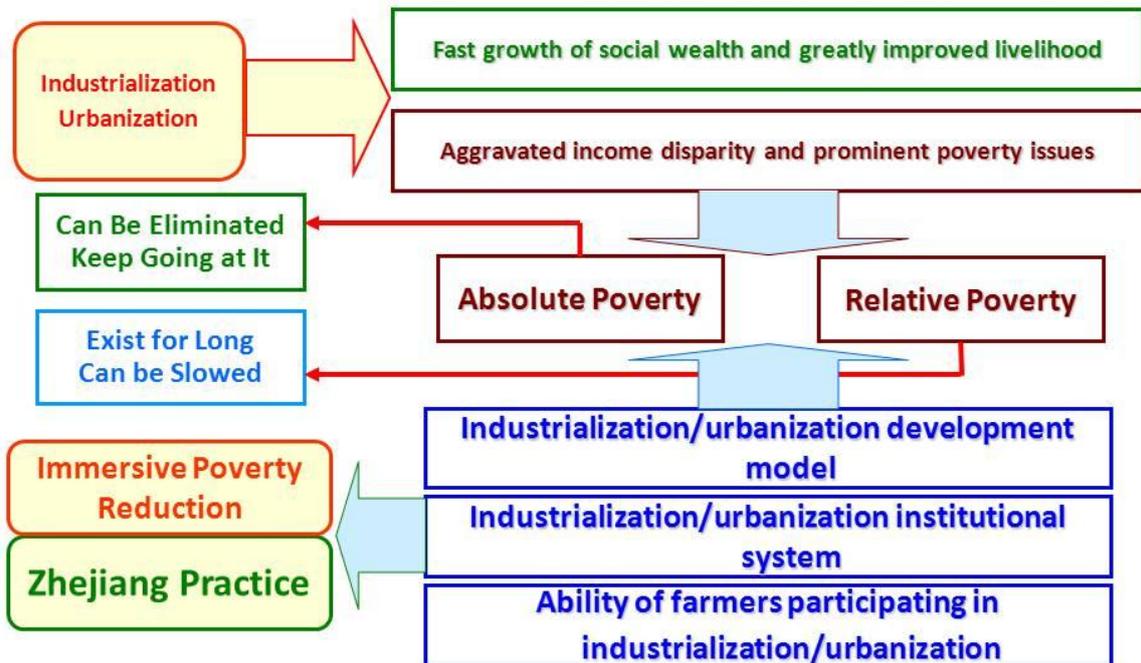


4. Immersive Development-oriented Poverty Reduction is Implemented

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Immersive Development-oriented Poverty Reduction is Implemented



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Innovating Poverty Standard Determination Mechanism

Absolute Poverty

Poverty Standard: Determined by basic life demands and change with price levels

- **Rationale:** Income level that sustains households or individuals is actually **standard for subsistence allowance**.
- **Absolute space-time:** Basic life demands of people in different space-time are **basically the same**, so in terms of **purchase power**, absolute value of absolute poverty line is **basically the same**.
- **World Bank poverty line** is 1.25 \$/d (in 2005 constant price), which is calculated on a **dollar purchasing power parity (PPP) basis** for different countries and years and on a **consumer price index (CPI) basis** for the same country and region but in different years.

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Innovating Poverty Standard Determination Mechanism

Relative Poverty

Poverty Standard: Determined by household income level and change with income increase

- **Rationale:** Income level defined by a country and region for low-income population that takes up a certain proportion of the total. It is usually determined as a certain percentage of median household income.
- **Relative space-time:** Due to extremely varied income levels in different space-time, absolute value of relative poverty line is very inconsistent.
- **OECD relative poverty line** is set at 60% of the median household income and covers 10%-20% of the total population of a country. Absolute value of relative poverty line of a country and region in different years increases with median household income.

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Innovating Poverty Standard Determination Mechanism

Poverty Standard

Determined by basic life demands and change with price levels

Determined by household income level and change with income increase



- **Zhejiang Poverty Standard:** In 2011, the new national poverty standard was RMB2,300, and Zhejiang raised it to 45% of provincial rural income per capita of previous year (RMB4,600). In 2013, when identifying new low-income rural households, the poverty line was raised once again to RMB5,500 (2012). In developed regions within the province, local poverty standard was set and low-income households were identified according to criteria of “no less than 45% of rural income per capita of previous year and no less than 10% of local rural population” (cities: RMB7,500-9,000; some counties: RMB10,000).

- **Target:** 1.76 million households and 4.17 million individuals were identified, accounting for 12.7% of rural population, according to provincial and local poverty standard; of that, 1.34 million households and 3.18 million individuals belong to low-income groups by provincial poverty standard.

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Facilitate Farmer Relocation

Targets

- **Leave Mountains:** Households living in high or remote mountainous areas
- **Avoid Disaster:** Households living in areas with geological hazards
- **Leave Reservoirs:** Households living in key reservoir areas
- **Move from small islands to big ones:** Households living in remote islands
- **Live Ashore:** Fishermen living on boats

Relocation Methods

- **Major:** Overall relocation of natural villages
- **Others:** Fragmentary relocation of households

Resettlements

- **Major:** Counties and central towns
- **Others:** Small towns and central villages

Resettlement Methods

- **Major:** Concentrated settlement in land-saving communities (apartments)
- **Others:** Self-built terrace houses and self-bought commercial houses

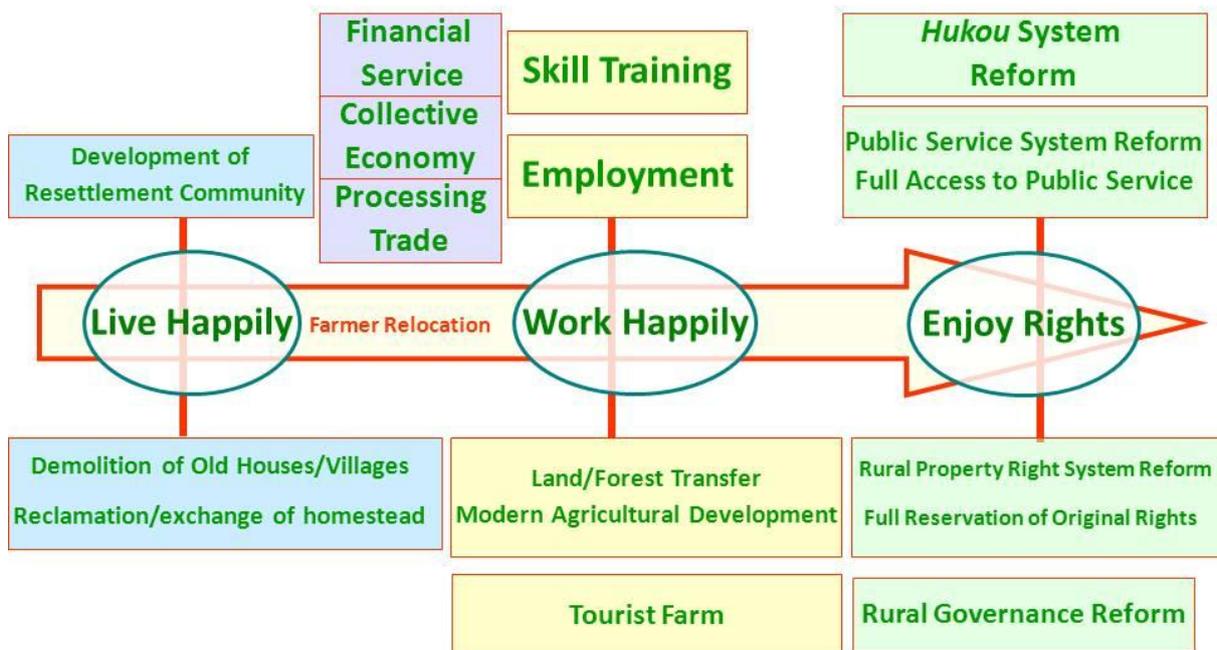
Government Subsidies

- **Province:** RMB8, 400 and 40 m² per person
- **City and County:** Fiscal subsidies and fee waiver

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Facilitate Farmer Relocation



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Support Entrepreneurship of Farmers

Expand Industry

Specialty Planting/Breeding

- **Orientation:** Make specialty agriculture more modernized
- **Measures:** Foster big planters/breeders, co-ops and leading companies, implement poverty reduction by starting business or cooperation; implement poverty reduction by technology and finance

Processing Trade

- **Orientation:** Scale up, cover more and develop sustainably
- **Measures:** Cultivate and reward agents; business connection/negotiation service; technological competition; organize association and develop credit service

Leisure Tourism

- Foster tourist farm operators and quality routes
- Bring along employment of low-income households and develop specialty planting/breeding industry

Community Service

- Develop community living service
- Build full employment villages; set up labor service co-ops

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Support Entrepreneurship of Farmers

Change Pattern

- **Poverty Reduction by Cooperation:** Support able persons to start/restart businesses and development of various cooperative economic organizations; encourage participation of households in the form of joint-stock cooperation
- **Poverty Reduction by Starting Business:** Build entrepreneur parks and bases for low-income households; provide factors/administrative approval service; support entrepreneurship of people with practical skills, returned rural migrant workers, college graduate village officials, and secondary vocational school/ junior college graduates to bring along expanded employment of low-income households

Improve Service

- **Poverty Reduction by Technology:** Carry out technology special commissioner system; and the program of "Enrich Households and Counties by Technology"
- **Poverty Reduction by Finance:** Expand issuance of "Harvest-Microfinance Card" and "Harvest-Entrepreneur Card" and forest ownership mortgage loans, and conduct piloting of expanding collaterals; implement poverty reduction microfinance system; and establish mutual finance co-ops

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Implement Regional Special Support

Orientation

Increase income, ameliorate livelihood, improve ecological environment and enhance endogenous functions

Objective

- By 2016, rural net income per capita in 12 counties will have increased by 12%, of which, income of low-income households increased by 15%+ with low-income households (except households having subsistence allowance) with net income per capita over RMB8,000 accounting for 50%+ of the total. Low-income households and urban-rural income per capita will be catching up with provincial average. Education and health service will be evidently improved, and ecological environment among the best in the province.

Principle

- Integrated and scientific development; overall planning with priorities highlighted; adaptive and targeted support; people playing a dominant role led by government; moderate concentration with performance underlined

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Implement Regional Special Support

Priorities

- Strengthen development-oriented poverty reduction and increase income increase ability and income level:

| | |
|---|--|
| <ul style="list-style-type: none"> ■ Poverty Reduction by Technology ■ Poverty Reduction by Industry ■ Poverty Reduction by Finance ■ Poverty Reduction by Employment | <ul style="list-style-type: none"> ■ Poverty Reduction by Health ■ Poverty Reduction by Education ■ Poverty Reduction by Social Security ■ Poverty Reduction by Relocation |
|---|--|

- Support specialty industry and increase endogenous capacity and development level:

| | |
|---|--|
| <ul style="list-style-type: none"> ■ Modern Agriculture ■ Processing Trade ■ Leisure Tourism | <ul style="list-style-type: none"> ■ Village-level Collective Economy ■ Development Platform for Secondary/Tertiary Industry |
|---|--|

- Accelerate development of public service, increase service capacity and improve livelihood:

| | |
|---|--|
| <ul style="list-style-type: none"> ■ Rural Sewage Treatment ■ “Beautiful Village” Development ■ Education Facility Development | <ul style="list-style-type: none"> ■ Health Facility Development ■ Cultural Facility Development ■ Service Facility Development |
|---|--|

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5. Experiences and Challenges



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Practices

Our practices over the past 3 decades have shown that poverty urbanization is not inevitable during the process of industrialization and urbanization. What we should do is adjusting and optimizing urbanization model instead of slowing it down or even stop it, and implementing policy that is conducive to equal participation and benefits-sharing for farmers, so that maximum number of motivated farmers can be actively engaged rather than passively involved in urbanization.

- —Consider farmers and even the poor ones as main players in promoting industrialization and urbanization, as “treasures” in creating social wealth rather than “burdens” for the government.
- —Consider “small things” as “big carriers” for farmers participating in industrialization and urbanization, as “good things” we must have instead of “bad things” that should be got rid of, even at developed stage.
- —Consider “decentralization and service” as major projects for supporting farmers’ participation in industrialization and urbanization, as reflections of government’s leading role rather than symbols of doing nothing, even while strengthening regulation and control.

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Challenges

Zhejiang has ushered in a new stage where industrialization keeps upgrading, urbanization keeps transforming, agricultural modernization keeps progressing, IT keeps popularizing, urban-rural development keeps integrating and ecological civilization keeps developing. And we have both unprecedented opportunities and challenges.

- —Industrialization keeps upgrading, which might lead to unemployment of many low-skilled rural workers, and the young ones mostly would stay in cities while the older ones return home, and some of them might be reduced to relative poverty.
- —Urbanization keeps transforming, especially *Hukou* system, which will convert more rural migrant workers into urbanites, and government will face huge pressure of housing security and social relief for possibly increased poor urban population.
- —Agricultural modernization keeps progressing, which might make middle-aged or older farmers who are in lack of capital and skills become the relatively poor, and poor rural population might increase as well.

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Experiences

- —IT keeps popularizing, which might re-widening the narrowing urban-rural gap, and which in turn would increase poor rural population.
- —Urban-rural development keeps integrating, which might result in system conflicts and reform. In that process, farmers who move to cities might lose their rights or benefits, and the society might be disordered, causing more pressure and difficulty for the government.
- —Ecological civilization keeps developing, which might constrain economic progress of ecologically sensitive regions, and farmers there might face new difficulty of income increase.

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