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Social Capital and Its Contingent Value in Poverty Reduction: Evidence from Western China

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Summary. — Previous literature suggests that social capital at the individual and community levels can contribute significantly to poverty reduction. In this paper we empirically investigate the relationship between social capital and households' probability of living under poverty. We used a large-scale cross-sectional survey in western Chinese provinces to explore the impact of households' social capital on four different poverty measures. Our results indicate that in addition to the structural and relational properties of households' social networks, the types of resources embedded in these networks such as business ties, political ties, and appropriable social organizations can contribute significantly to poverty reduction. Moreover, since our study is situated in China's emerging economy context, we can thus further explore how variations in macrolevel institutions affect the usefulness of various social resources in reducing poverty. We discovered that the quality of local institutions as measured by local residents' trust toward the institutions can modulate the effectiveness of political ties and appropriable social organizations, such that the impacts of political ties and appropriable social organizations tend to diminish in communities with higher level of institutional trust than they are in communities with lower level of institutional trust, while business ties turn out to be effective in alleviating poverty in both high- and low-trust communities.

Key words — poverty, social capital, appropriable social organization, institutional trust, Asia, China

1. INTRODUCTION

The past three decades have witnessed China's rapid economic growth, accompanied by an impressive reduction of poverty. Since China is the largest contributor to global poverty alleviation (Ahlstrom & Ding, 2014), the proportion of China's population living on less than $1.90 per day is estimated to have fallen from 85% to 11.2%. This indicates that more than 650 million people were raised out of poverty, [1] which translates into over 70% of global poverty reduction. Although this percentagewise poverty reduction is impressive, the absolute number of people living under poverty remains significant. Seventy million poor citizens present an arduous task for China's current leadership. The Chinese leader described eliminating rural poverty as the most difficult challenge in building a "moderately prosperous society," [2] and urged governments at all levels to beef up "precision" poverty-relief measures since the country plans to lift all people out of poverty by 2020. [3] In response to top leaders' decisions, in 2015 the Chinese government announced that it would invest 600 billion RMB to relocate 10 million poor people over the next five years. [4]

Although the Chinese government has realized that it is imperative to identify the poor population more precisely, which will lead to higher efficiency in resource usage, the poverty alleviation measures still follow the traditional "basic needs" approach. In fact, increasing attention is being paid to the social aspect of development. Scholars have begun to argue that a country's economic development is embedded in its social organizations, and addressing structural inequalities requires not only economic changes but also societal transformation (Stiglitz, 2002). One approach to untangling and analyzing some of the social forces at work in development is through the concept of social capital. Different from the "basic needs" approach, the social-capital perspective views networks as vital ingredients for economic development and argues that networks and associational life are resources for promoting development from the bottom up (Narayan, 1997; Putnam, 1993). Social relations are viewed as key channels for mobilizing growth-enhancing resources such as economic information and financial capital, and are therefore a tool to ameliorate poverty (Batjargal & Liu, 2004). Moreover, the generalized trust that emerges from these interactions is fostered within community financial transactions, which in turn leads to the reduction of poverty (Dasgupta, 1988). This perspective has inspired international development agencies to launch innovative, relationship-based approaches to poverty alleviation (Woolcock & Narayan, 2000).

Woolcock (1998) developed social capital theory in the poverty research field by distinguishing the roles of different types of social capital and their likely outcomes. At the micro level, social capital consists of bonding capital and bridging capital. The term "bonding capital" refers to resources embedded in the strong ties between immediate family members, neighbors and close friends. This capital helps people guard against poverty by providing immediate assistance (Cleaver, 2005; Woolcock & Narayan, 2000). "Bridging" capital, gained through contact between people of different ethnic, geographical, and occupational backgrounds, is important in terms of getting ahead; in other words, it provides actors with the opportunity to promote their interests with people of influence in institutions such as government agencies and banks (Woolcock & Narayan, 2000). They argue that positive outcomes can be attained when people are willing or able to nurture social ties within their local communities, and between

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local communities and groups with external and more extensive connections to civil society (Grootaert, 1998).

However, from the institutional perspective, the vitality of community networks and civil society is largely the product of the political, legal, and institutional environment. The macro political framework, namely state institutions' capacity and their responsiveness to civil society, can facilitate or impede the capacity of communities to mobilize social resources (Rankin, 2002; Woolcock, 1998). The capacity of social groups to act collectively depends on the quality of the formal institutions under which they reside. This point is more important for emerging economies because economic transactions are heavily influenced by various particularistic relationships (Williamson, 1981). In addition, market-supporting institutions are often not in place, and thus malfeasance or opportunism cannot be prevented. This institutional incapacity impedes the emergence of a strong sense of generalized trust, which not only adds additional costs to economic activities but also negatively affects resource-sharing activities among community members (Cleaver, 2005).

In light of these arguments, this paper uses data from China's western provinces to explore the relationship between social capital and poverty. We examine how microlevel social capital affects households' likelihood of living under poverty and explore how the qualities of macrolevel institutions influence the effectiveness of various types of social capital in reducing poverty. We choose China as our empirical context because the country has seen dramatic reductions in poverty in recent years, which represents a great success example for poverty reduction in Asia (Ahlstrom, 2010; Ahlstrom & Ding, 2014). If we exclude the number reduction of Chinese population living in abject poverty below the $2 a day level, the decline in poverty in Asia has been less impressive. Although China has achieved high economic growth for over thirty years, the country still has a sizeable number of people living in poverty. This means that the battle against poverty is far from over in China. New groups of poor populations continue to emerge, making poverty reduction more difficult, especially in the western areas (Li & Sicular, 2014). The richness of the Chinese experience also suggests that there is great potential for new insights for Asia based on Chinese experience in terms of social capital and poverty reduction.

The rest of this paper is organized as follows. We first introduce the theoretical background of this study, and proceed to propose a few testable hypotheses. We then move to the statistical tests of the hypotheses, which are followed by discussions of the findings and their implications for future research and practice.

2. POVERTY, SOCIAL CAPITAL, AND INSTITUTIONAL TRUST: THEORETICAL BACKGROUND

Previous development studies have frequently adopted the embeddedness perspective to examine the relation between social and economic development. These studies have highlighted the role of social capital at both individual and community levels in the achievement of a series of development outcomes including poverty reduction (Bebbington, 1999; Grootaert & Van Bastelaer, 2002; Narayan, 2002; Woolcock & Narayan, 2000). It is argued that the type and quantity of resources that can be accessed or mobilized through one's social ties can affect actors economic status by limiting the information they can receive, by conditioning chances to acquire resources containing necessary knowledge and technologies, by reducing the costs and risks associated with economic activities, and by the contact's social influence that one can utilize to get help or cope with environmental hazard (Batjargal & Liu, 2004; Bian, 1997; Kwon, Heflin, & Ruef, 2013; Li & Sicular, 2014; Mouw, 2003). Therefore, actors that are rich in social capital have a lower probability of living in poverty (Cleaver, 2005; Glauben, Herzfeld, Rozelle, & Wang, 2012).

Past studies have mainly focused on the influence of the structural features of social networks. Network size and tie strength are the most explored network features. A larger network expands one's search scope and helps actors to locate more-useful resources (Batjargal, 2003). As the number of network contacts increases, more choices are available and the expected value of the best choice tends to be higher with the occurrence of extra options. In addition, as network size increases the proportion of family members and relatives within the network decreases, which in turn improves network diversity and gives actors more heterogeneous social resources (Bian & Li, 2001; Marsden, 1987). These advantages can arguably enable households with larger networks to go beyond their immediate social circle in order to establish contact with external actors and mobilize high quality resources.

In addition to network size, tie strength is another focus. Studies show that tie strength is associated with households' social capital portfolio. The strong ties in rural households function as bonds and tightly connect them with their extended families, relatives, and friends. Although in many cases, such bonding capital can provide immediate material or financial assistance, as well as emotional support, a network rich in strong ties often significantly limits actors' search scope and thus lacks the more-diffuse and extensive bridging social capital required to escape from poverty (Falco & Bulte, 2011; Narayan & Pritchett, 1999). As Beall (2001) argues, reliance on close family ties can preclude people from social networks beyond family that provide an important source of information about jobs and services. Other studies also point out that when households gather information or specific knowledge on market conditions and opportunities, networks with many weak ties become important for success (Batjargal, 2003; Bruderl & Preisendorfer, 1998; Davidsson & Honig, 2003; Hoang & Antoncic, 2003). Therefore, weak ties broaden the household's network and facilitate access to more-diversified economic information and resources.

In addition to the social capital, institutional trust is also found to be crucial for enhancing social exchange and communication, and trust toward institutions can lead to increased efficiency and productivity by reducing the need for monitoring time and associated costs (Doh & Acs, 2010; Fukuyama, 1995; Putnam, 1995; Thöni, Tyran, & Wengstrom, 2012). A high level of social trust leads community members to believe that dealing with strangers brings more opportunity than risk (Rotter, 1980). It is a significant predictor of cooperative behavior and is the basis for reciprocity, acting to lubricate the inevitable frictions of social life. Moreover, in certain societies trust toward organizations or institutions reflects people's confidence in organizations or institutions and proxies the quality of local governance (Guiso, Sapienza, & Zingales, 2004; Lee, Jeong, & Chae, 2011). In this sense, a high level of trust can thus translate directly into high levels of economic development (Doh & McNeely, 2011).

While past literature have noticed the effects of social capital and quality of local institutions on poverty reduction, these enquires have been either done separately, or in a parallel or loosely connected manner. As a result, they are inadequate in presenting a more complete picture that shows how different types of social capital function to reduce poverty and how the

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