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Research for Action 26

Welfare Changes in China during the Economic Reforms

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(UNU/WIDER)

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FOREWORD

Transition in Asian has generally been viewed as a model of success and the object of widespread celebration and admiration. There has been a general presumption that positive growth rates must have had a positive impact on human welfare. In transitional Asia, however, this presumption and the nature of the recent welfare changes have so far been analysed only tangentially and, therefore, remain to be verified.

This study, prepared by Dr Aiguo Lu, a Research Fellow at UNU/WIDER, is one of the first outcomes of the UNU/WIDER research project on this subject. The study examines the welfare changes in China during the reform period which began in 1978, a process of large-scale socio-economic transformation accompanied by rapid economic growth. After examining the various welfare indicators, the study concludes that while obvious progress has been made, not all changes are positive. This result appears to be more startling when considering two important factors. One, China had set up remarkable social and human development record under the central planning system despite its very low income levels. And second, emerging negative impact on social and human development has taken place despite an enormous increase in material wealth, which had created considerable resources for welfare improvement.

Based on the analysis of both successes and failures in welfare provision during the reforms, the study suggests that there has been a shift in the development patterns, i.e. from 'support-led' to 'growth-mediated' processes. The 'growth-mediated' model, however, has its limitations even when it has been established on broad-based growth as the experience of China until only a few years ago has shown. The study, therefore, proposes that social supporting mechanisms be re-emphasized in order to offset the negative impact on human well-being, observed during the transition to market-oriented economy in several Asian countries.

The study supports an active role of the state, but does not take a clear stand on advocating greater government spending on welfare. Given China's regional diversity, complexity of organizational frameworks, informal social networks, specific traditions and culture, the choice of a feasible welfare system can only be made within the spectrum of the alternatives suitable to China's particular socio-economic conditions.

I strongly recommend the reading of this original and thought-provoking study.

Professor Giovanni Andrea Cornia
Director, UNU/WIDER
September 1996

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Aiguo Lu
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ABSTRACT

The study examines welfare changes in China during the reform period (1978-) by analysing various welfare indicators, the causes of change, and the shifting models. It provides an empirical case to the general debate over the relationship between positive economic growth and its impact on social and human development. It suggests that while 'growth-mediated' pattern of welfare improvement, as compared to 'support-led' pattern, has certain advantages, its limitations are also obvious. Therefore, during the current large-scale transformation, social supporting systems or mechanisms have to be re-emphasized in order to achieve a balanced development of economic and human welfare.

I INTRODUCTION – ISSUES AND BACKGROUND

It is frequently assumed that the overall welfare of a population is dependent on the country's general level of economic development and this is commonly measured by such indicators as the average per capita income. The *World Development Report*, a World Bank publication, classifies countries into groups of low, middle, and high income economies based on the level of GNP per capita. To measure social (human) development or the welfare situation of a given country, different sets of indicators are used by the World Bank and other institutions. International comparison seems to show that to a large measure social development follows the level of economic progress. For example, social indicators almost without exception are more favourable in countries of the high income group, generally the developed countries, than in nations outside this group. Developed countries enjoy higher living standards and their welfare records are generally better. This group has set the standard of living for others to catch up. Indeed, is it not the attainment of similar living standards that has inspired other countries to strive for economic modernization? It is widely believed that as the economic pie becomes larger, it naturally leads to higher living standards and modernization would, indeed, enlarge the economic pie of a country.

On the other hand, it is no secret that although the well-being of a population is typically associated with positive economic development, they are not synonymous and the relation between the two is not straightforward. It is interesting to note that social development indicators in developed countries have much in common, but vary widely in other countries, including those at similar per capita income levels. Studies have suggested that, in addition to GDP per capita, the degree of income equality and access to welfare provisions have played a significant role in determining the well-being of the population. There are numerous cases to illustrate this important point. It was argued that the better and rather homogeneous human development record of the developed countries was at least in part attributed to rather uniform and relatively low income inequality which stood at around 0.25-3.0 of Gini coefficient in the late 1980s (Milanonvic 1993), as compared with, for example, Latin America, where income inequality is higher despite the fact that income level is lower. Socialist countries had better human development records than other countries at similar economic and per capita levels. In Asia, pre-reform China and Sri Lanka have made enormous progress in promoting human development to match the mid-income countries even though they were and still are among the lowest per capita income economies in the world. The state of Kerala in India is a good example of how human conditions can be improved in spite of the fact that the per capita GDP in the region is not particularly high and its gross domestic product is actually lower than the average for India as a whole (Isaac and Tharakan 1996: Frank and Chasin 1994).[1] Moreover, it should be recognized that not all social groups within the developed countries enjoy the high living standards indicated

[1] For other Kerala studies, see reference in Drèze and Sen (1989:222).

by the general level in statistics. Substantial differences in human development can be found, for example, between racial groups in the United States. The deprivation of Afro-Americans has reached the degree that 'the US black population in general has lower chances of reaching a mature age than do the immensely poorer people – women as well as men – of Kerala or China' (Sen 1995:22-5).

Analysing historical experiences of rapid reduction in mortality, Jean Drèze and Amartya Sen (1989) distinguish between two types of successful processes, i.e. of 'growth-mediated' and 'support-led' processes. In the 'growth-mediated' process, a broadly based and participatory economic growth provides security among the population with widely shared economic and social benefits. The 'support-led' process does not operate through fast economic growth, but 'instead works through priority being given to providing social services (particularly health care and basic education) that reduce mortality and enhance the quality of life' (Sen 1995:15). Broadly based rapid economic growth and social support are factors which contribute to social development. One can further argue that the worst possible scenario would be the absence of either process while the optimal situation would develop with the existence of both.

China, under the socialist system and central planning economy, had produced the best economic and social development record in its modern history. But that was not all. Although China, at the end of this period, was still one of the poorest countries in the world in terms of per capita income, most of its social indicators compared very favourably with other developing countries at similar or even higher income levels. One of the most obvious manifestations is that life expectancy at birth has increased rapidly, from below 40 years in the beginning of the 1950s to approximately 65 years by the year 1978.

To highlight the development outcomes of China, India can be used for comparison, as has been done by many researchers (e.g. Drèze and Sen 1989; Lin *et al.* 1994; Bhalla 1995). At the end of the 1940s, China and India had similar low levels of gross national product, of literary and of life expectancy. Three decades later, the development of the two most populous and economically backward countries had diverged radically. China's economic performance was relatively better than but not superior to India in every sector. For example, China's agricultural growth did not surpass India's. In 1950-80, the average increase in grain production was 3.00 per cent in China, compared to 3.08 per cent in India (Lin *et al.* 1994:84). A more striking contrast between the two countries, however, was in their records of human development.

TABLE 1.1
SOCIAL DEVELOPMENT INDICATORS IN CHINA AND INDIA
CIRCA 1980

	China			India		
	Female	Male	F/M ratio	Female	Male	F/M ratio
Life expectancy	66.6	64.9	1.03	52.1	52.9	0.98
Infant mortality rate	45.6	46.9	0.97	119.0	114.0	1.04
Literacy rate (15 years and over)	54.8	80.8	0.68	25.7	54.9	0.47
Completion of secondary education [1]	18.4	33.7	0.55	4.2	13.2	0.32
University graduates [2]	0.5	1.3	0.37	0.9	3.2	0.27

Source: Asian Development Bank (1993: 215-7 and 251-3.)

Notes: [1] Percentage of aged 20 years and over who have completed secondary school.

[2] Percentage of aged 25 years and over who are university graduates.

During the 30-year period prior to the reforms, China made great strives in life and death related trends, as is well illustrated by the above comparison with India. Although both countries started from similar backward conditions in the late 1940s, China by 1980 was considerably ahead of India in most of the human development indicators except for university education. One of the most striking deviations between the two countries was gender difference. China's record of gender equality compared very favourably to India's, including in the field of university education. Life expectancy in India remained lower for women than for men, while in China life expectancy for women improved more dramatically, rising from 36.7 years in 1949 to 66.6 years in 1980 and surpassing that of men as early as in 1957 (CPIRC 1994:14). Moreover, not only was India's infant mortality rate twice that of China, but also infant mortality rate for girls in India was higher than for boys, opposite to the situation in China. It was obvious that by 1980 both countries were far from achieving gender equality but the gap was much greater in India than in China.

To be sure, even when compared with India, not all social development records indicated favourable advancement for China. Arguably, the darkest page in China's post-1949 period was the failure of the Chinese government to prevent the large-scale incident of famine in 1959-61 which disastrously cost millions of lives.[2] On the other hand, India, since its independence, has succeeded in avoiding the major famines which were frequent occurrences before 1947. But overall, given its low level of per capita income, social development in China with the single exception of the famine years of 1959-61 has been successful.

[2] Famine related deaths have been estimated from 17 to 30 million, an astonishing number even for the most populous country in the world. Many studies have analysed the causes of the famine, as for example those by Coale (1981), Aston *et al.* (1984), Riskin (1987), Peng (1987), among others. Following the collapse of the agricultural production, during 1959-61 a drop in the per capita grain output of 17-30 per cent below the 1956-57 level led to an acute shortage of foodstuff. But to determine how the famine could have happened on such a large scale and have lasted for so long or why no outside sources were solicited to mitigate food shortages would require extensive examinations far beyond the accepted explanation of bad weather. No doubt, it was policy failure; but it was more than just policy failure and Sen, for one, has argued that the key factor was the lack of a political system of adversarial journalism and opposition (1982 and 1983).

Was it the rapid economic growth or the development of the social support system that contributed to China's generally successful social development in the pre-reform period? Or to put it differently, was China's experience based on 'growth-mediated security' or on 'support-led security'? At first glance, it seems that both factors were at work. After 1949, China managed to create an extensive system to meet the basic needs of the population, mainly through the establishment of the commune system in the rural areas and the central planning supply system in the cities. These systems also provided health care, education and social welfare. In addition, despite the difficulty of accurately measuring economic growth in this period either from data received from Chinese sources or from international organizations such as the World Bank, there is little doubt that the first three decades after the revolution produced China's most impressive record for economic growth in any previous period. This having been said, the question remains: which factor – economic growth or social support – was more vital to China's social achievements?

In their book, *Hunger and Public Action*, Drèze and Sen (1989) concluded that China's pre-reform social development experience was mainly 'support-led' success. Admitting the formidable difficulties of cross-country comparison, they nevertheless went on to argue that the World Bank growth rate of GNP per head for China which was much higher than for India (5.1 per cent versus 1.8 per cent during 1965-86) was simply not plausible. According to their own estimation, the Chinese growth rate before the economic reforms was somewhat higher than that of India but not radically so. Therefore, in comparison with India, China's considerable achievements in the areas of life expectancy, mortality, health and education must be attributed in the first instance to social measures rather than to escalated economic growth.

The argument that China's welfare achievements in the pre-reform period were mainly based on 'support-led security' can be supported further by other evidence beyond the China-India analysis. For example, by the end of the pre-reform period, China ranked as the 22nd poorest country in the world (World Bank 1980: 110-1). But measured by human development indicator (HDI) values in 1980, a UNDP report ranked China as the 51st country of the lowest human development, up from 45th position in 1960. In addition, China was among the dozen or so countries in the world to move from low human development in 1960 to medium in 1980 and the advancement made by China was the most substantial of the group (UNDP 1994:105).[3] The UNDP report, therefore, concluded that 'over a long period of time, China has invested liberally in human development. So, despite its low per capita income, it falls in the medium HDI category. China also has the largest positive gap (+49) between its HDI rank and its GNP per capita rank, showing that it has made judicious use of its national income' (UNDP 1994:100).[4]

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[3] HDI in 1960 may have been somewhat lower than in the late 1950s as a result of the 1959-61 famine.

[4] The UNDP report also pointed to the existence of large regional disparities.

The support-led security in pre-reform China was sustained by institutional arrangements, government policies and the overall system of central planning. It was the result of the collective functioning of such major components as:

i) Income and social provisions were linked to employment. Since full employment was the official policy, government authorities at various levels including rural communes were primarily responsible for ensuring that jobs were available for the entire working population. Although employment never reached 100 per cent as there were so-called urban *daiye* people, i.e. those 'waiting for job assignments', unemployment was rare and the chances of losing one's job was extremely exceptional;

ii) Full employment was achieved through institutional framework. In the urban areas, people were provided (or eventually were to be provided) with life-long employment in the state and collectively owned enterprises and other entities whereas in the countryside, the communes (mainly its operating units, the production teams) were under obligation to allocate income-generating jobs to all able-bodied members;

iii) The absence of private property, the official low-wage policy of the government in urban areas (implemented since the late 1950s by a wage scheme with eight salary levels) and the income distribution system based on work-points in the rural communes worked in concert to set a limit on top earnings, and to prevent income polarization. Up until 1978, average annual wages, fluctuating between 500 and 600 yuan, had changed very little in the urban areas (Lin *et al.* 1994:33);

iv) To conform to the limited earnings, the state implemented low-price policies on various necessary daily articles and services, including food, housing, utilities, medical care and education which thus became affordable to the vast majority of the population;

v) The coverage of social welfare provisions was far from universal. Considerable differences existed between the urban and rural areas. Rural citizens were basically dependent on the collectives for the provision of public service and support;

vi) In practice, it was the work units[5] which assumed major responsibility for executing government policies and for fulfilling the task of welfare provision;

vii) Mechanisms for basic provision included the distribution of food to all urban residents through a rationing system at very low prices and an allocation of basic grain ration within each rural collective to all rural people regardless of their earning ability. The state stepped in with relief measures only if the grain ration fell below the survival level;

viii) Health services for urban employees were provided at low cost by medical institutions and facilities financed by the state. Medical expenses for urban

[5] The work unit, *danwei* in Chinese, corresponds in the formal sense to the Western term 'employer' which identifies the place where people are employed and receive payment for their work, whether government agencies, enterprises or rural collectives.

employees as well as a part of the expenses for their family members were covered by the work units. China dealt with the extremely difficult problem of providing health services in the vast rural areas by introducing a cooperative health care system which was an important component of the communes.

ix) Education, from primary schools to universities, was publicly financed and free of charge. The setting up of a primary and secondary school system in the vast rural regions ensured wider access to education for the children in the countryside.

x) A system of 'street offices' and 'residents' committees' was established in urban areas to take responsibility for those individuals who were not linked to formal work units that would look after their welfare. These included people 'waiting for jobs', the self-employed, some retirees, the handicapped, and so on.

These measures collectively formed an extensive support system for the entire population of China. It is obvious that the Chinese system was vastly different from the welfare schemes of western countries (Esping-Andersen 1990). China's system was designed to ensure accessibility of the population to the basic provision of goods and services by focusing on the collective consumption and public sharing of whatever resources were available. China's social development during the pre-reform period had been achieved through enormous organizational effort which mobilized both human and natural resources and distributed them to cover, to various degrees, the entire country. The past experiences suggest that to reach a certain degree of well-being is not entirely reliant on the nation's income level. Equally crucial is the manner in which resources are allocated. Prior to economic reforms, the Chinese people had been generally poor and living standards relatively low. But China has had neither the millionaires nor the utterly destitute, a phenomenon so common in many poor developing countries.

When the economic reforms started in the late 1970s, economic growth became the first priority on the government agenda. Deng Xiaoping, the 'designer of the reforms' repeatedly emphasized that economic development is the ultimate challenge for China, and he frequently warned officials that economy should remain the centre of government attention. To accelerate economic growth, reforms were implemented to modify the existing socio-economic systems in order to improve efficiency and growth. Increasing market forces were eventually introduced in places where governmental planning had had the central role. As social provisions had been closely linked to the system of central planning in the pre-reform period, radical changes in this system resulted in the need to restructure the social support mechanisms. In particular, the dismantling of the commune system in the countryside fundamentally weakened the collectively provided safety nets and caused their total disappearance in some places. In efforts to justify the institutional changes made in order to promote economic efficiency, the equity-oriented social provision system was criticized for its lack of work incentives. It was argued that the equalitarian tendency – everyone 'eating from one big pot' – did not recognize individual contribution and personal reward. Government policy has been advocating for some 'to get rich first', believing that economic prosperity would eventually embrace all citizens and lead to higher living standards for all. The prospects of reaching that ideal were considered to be determined almost entirely by economic growth.

Are the Chinese people better off as a result of the economic reforms? This question increasingly demands an answer. In a broad sense, the ongoing economic reforms in China, as well as the current socio-economic transition elsewhere in the former socialist countries, must be judged according to the ultimate results, i.e. success or failure in terms of improvement in the welfare of the population. After all, it was under the banner of better economic performance that government reform programmes to change the central planning system have been implemented, and it was on the grounds of improving the livelihood of the population that popular support has been mobilized for this transformation.

Up to the mid-1990s, China's reforms were widely considered to be a success story. This is not without good reason. Rapid economic growth, which increased at an average annual rate of nearly 10 per cent, ranked China among the most dynamic and fastest expanding economies in the world. Development, to be sure, was not uniform for all the years and China experienced several 'stop and go' cycles during which an overheated economy had to be reined in only to prepare for the next round of overheating. However, growth remained strong. China's general development pattern during the reforms is in sharp contrast to that of the former socialist countries of Europe and Central Asia in the fact that during this entire period, China's economy expanded without experiencing serious recession.

This study is to examine the welfare changes in China during the large-scale socio-economic transformation under rapid economic growth. The word 'welfare' used here refers to the level of living standards in a broad sense. Changes in economic welfare such as the growth of national product provided an important foundation for the improvement in living standards. But, as Sen and others have long argued, analysis of living standards cannot be reduced to the simple possession of commodities (Sen 1982, 1987 and 1992). It is necessary to look at various social indicators, the factors which give meaning to the levels of economic opulence.

Therefore, in addition to income and consumption indictors, this study will consider social indicators concerning physical well-being such as life expectancy, nutrition, education, mortality, health conditions, etc. as well as those concerning human ecology such as the natural and social surroundings where people work and live their daily lives. Demographic-based indicators such as marriage, divorce and fertility which reflect general expectations of future welfare changes as has been demonstrated by studies on Central and Eastern European countries (for example by UNICEF) are also briefly evaluated for their relevance to China. Collectively, these indicators constitute the functionings or general living conditions that enable people to lead a life with certain standards. This makes up the second part of the study.

The third part of the report discusses social stratification which is taken to be an important aspect of the general welfare change. This makes it possible to evaluate the degree of nation-wide benefits as well as the actual life situation which the aggregate and average figures are often not able to reveal.

Major processes and factors underlying changes in welfare are discussed in the third part. While taking into account that economic policies have had important implications on welfare changes, for example, by exerting direct impact on employment structure, prices, wages and incomes, discussions here in part three focus on social policies and institutional changes relating to the provision of health care, education, housing and social security. An attempt is made to explore the relationship between changes in welfare and the evolution of the overall social support system.

The fourth and last part of the report provides an overall evaluation of welfare changes which occurred during the reforms. The discussion is based on the assumption that statistical results may not support the perceptions of the public regarding changes. If further amendments are to have continuing popular support, future economic and social policies have to accommodate public sentiment. In the light of the observed welfare changes, alternative views regarding the road to social betterment is also discussed.

The study is based on data from various published sources, from the official Chinese statistics, to information provided by international bodies and various other forms of literature. China is a continent-sized country with vast regional differences. Therefore, while analysing aggregate and average data at the national level, efforts have been made to recognize regional diversities to avoid 'aggregation biases'.

II CHANGES IN WELFARE CONDITIONS OF THE POPULATION

2.1 Opulence indicators

Economic opulence, i.e. abundant commodity possession, has a great affect on enhancing the standard of living. Per capita GNP or GDP is commonly used to indicate a specific country's opulence. It goes without saying that the larger the margin of economic growth over that of the population, the faster the increase of per capita income.

In international statistics, an important indicator of income change is the per capita income which is usually expressed in US dollars. But this indicator alone is not sufficient to show actual income changes. Due to purchasing power parity, a wide gap exists between dollar-expressed income and the actual possession of commodities in different countries. Exchange rate and price changes within a country can also result in a different basket of such essential commodities as food, housing and other goods and services. Therefore, to demonstrate the changes in the population's economic well-being, additional aspects of material life need to be reviewed.

2.1.1 Per capita income

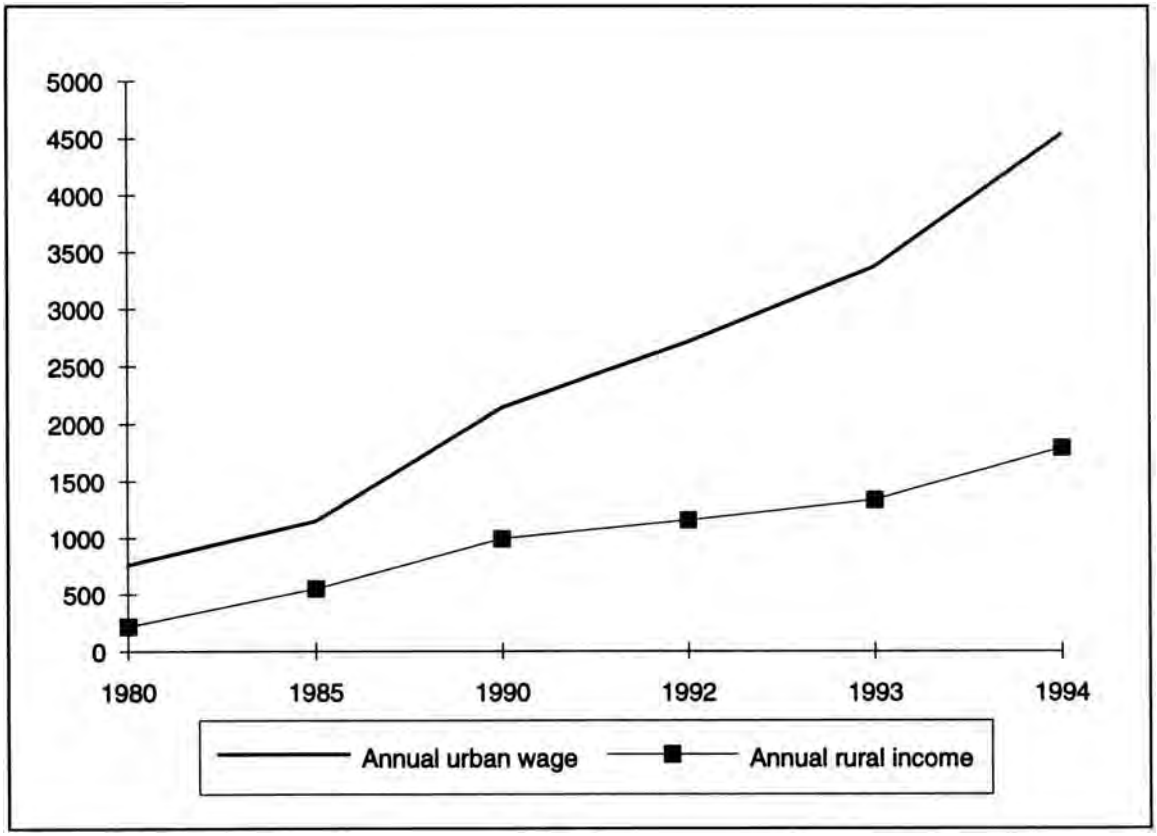
During the period 1978-95, China's economy had in general maintained a strong growth momentum. Annual growth rates have fluctuated during boom and bust cycles, varying from a low of 3.6 per cent in 1989 and 3.3 per cent in 1990 to a high of 15.4 per cent in 1992 (CSY various issues). But growth rate averaged approximately 9 per cent annually for the entire period, putting China among the fastest growing economies in the world. At the same time, population growth was maintained below the 1.6 per cent level for most years. After 1978 there have been five years during which the natural growth rate of the population dipped below 1.2 per cent (CSY 1995:59). Consequently, as the aggregate economic size of the nation increased, so did the average per capita income. According to the World Bank Tables (1995:2-5), China's per capita GNP in 1993 was 175 per cent of what it had been in 1980, signalling an increase of 75 per cent.

Chinese sources revealed that during 1978 to 1994, average per capita net income for rural citizens, measured in domestic currency, increased from 124 yuan to 1220 yuan and correspondingly for urban residents from 316 yuan to 3150 yuan. Adjusted for prices, this represents a real annual growth rate in average per capita net income of 8.3 per cent for rural and 6.4 per cent for urban residents (Expert Group 1995:14; also cf. Knight and Li 1996)

As Chinese statistics show, real GDP per capita growth is very uneven, ranging from 1.8 per cent in 1990 and 2.0 per cent in 1989 to 14.0 per cent in 1992. The annual growth rate of real GDP per capita between 1980 and 1993 was on the average 7.1 per cent, slightly lower than that of GDP (CSY 1992 and 1994).

Chart 2.1 indicates changes in the annual wages of urban employees and the per capita income of the rural population at current prices. In nominal terms, over the period of 1980-94, the income of both groups increased, with the rural income increasing 7 times versus 5 times for urban wages. But rural income continued to trail far behind urban wages. Today, the rural-urban income difference continues to be an imposing feature of China's development pattern.

CHART 2.1
CHANGE IN URBAN WAGE AND RURAL INCOME



Source: *China Statistical Yearbook* (1995:223 and 278). Figures for rural income derived from rural household sample surveys (not adjusted for prices).

In the midst of general income growth, some regions are doing far better than others. The provincial differences are given in Table 2.1 which indicates that during 1980-94 rural income in Zhejiang province grew at the speed twice that of some other provinces such as Guizhou, Gansu and Xinjiang. Even with the exclusion of the rural suburban areas of Beijing, Shanghai and Tianjin (which had far higher rural income due to their proximity to these metropolitan centres), the differences in rural income among the provinces remained huge. By 1994, the richest provinces enjoyed nearly three times the rural per capita income of the poorest territories.

TABLE 2.1
PROVINCIAL DIFFERENCE OF RURAL PER CAPITA INCOME, 1980-94
(in yuan)

	1980	1984	1989	1994	% increase 1980-94	rural Gini 1989
National average	191.3	355.3	601.5	1221.0	538.3	0.31
North						
Beijing	290.5	664.1	1230.6	2400.7	726.4	0.224
Tianjin	277.9	504.6	1020.3	1835.7	560.6	0.24
Hebei	175.8	345.0	589.4	1107.3	529.9	0.312
Henan	160.8	301.3	457.1	909.8	465.8	0.272
Shandong	194.3	404.2	630.6	1319.7	579.2	0.279
Northeast						
Liaoning	273.0	477.4	740.2	1423.5	421.4	0.313
Jilin	236.3	486.8	624.0	1271.6	438.1	0.321
Heilongjiang	205.4	443.2	535.2	1393.6	578.5	0.332
Northwest						
Inner Mongolia	181.3	336.1	477.5	969.9	435.0	0.332
Shanxi	155.8	350.5	513.9	884.2	467.5	0.313
Shaanxi	142.5	262.5	433.7	804.8	464.8	0.281
Ningxia	178.1	313.2	521.9	867.0	386.8	0.319
Gansu	153.3	221.1	365.9	723.7	372.1	0.272
Qinghai		264.2	457.5	869.3		0.328
Xinjiang	198.0	362.7	545.6	946.8	378.2	0.356
Yangtze River						
Shanghai	397.4	785.1	1380.0	3436.6	764.8	0.209
Jiangsu	217.9	447.9	875.7	1831.5	740.5	0.302
Zhejiang	219.2	446.4	1010.7	2224.6	914.9	0.278
Anhui	184.8	323.0	515.8	973.2	426.6	0.227
Jiangxi	180.9	334.4	558.6	1218.2	573.4	0.226
Hubei	169.9	392.3	571.8	1172.7	590.2	0.245
Hunan	219.7	348.2	558.3	1155.0	425.7	0.235
South						
Fujian	171.7	344.9	697.3	1577.7	818.9	0.231
Guangdong	274.4	425.3	955.0	2181.5	695.0	0.274
Hainan			674.3	1304.5		0.273
Southwest						
Guangxi	173.7	267.2	483.0	1107.0	537.3	0.283
Sichuan	187.9	286.8	494.1	946.3	403.6	0.235
Guizhou	161.5	260.7	430.3	786.8	387.2	0.257
Yunnan	150.1	310.4	477.9	803.0	435.0	0.302
Xizang			397.3	976.0		0.309

Source: State Statistical Bureau. *China Statistical Yearbook.* 1991 and 1995; World Bank. 1992. *China: Strategies of Reducing Poverty in the 1990s.*

2.1.2 Possession of durable goods

Does more cash income allow people to possess more commodities? In most cases it does. To analyse the extent of the changes and to determine how the material well-being of the population has been improved, it is necessary to review the quantity of durable goods owned.

The most expensive durable goods in China are popularly referred to as the 'big items' and the less expensive ones are the 'small items'. In the 1970s, the three most popular big items were wristwatches, bicycles and sewing machines, each costing approximately 100 yuan. In the 1980s, especially in the latter part of the decade, television sets, refrigerators and washing machines valued at approximately 1000 yuan each, quickly dominated the big item market. As the new durable goods became major priority articles, the big items of the 1970s fell into the small item category. Rapid expansion in the ownership of the current big items has been apparent in both urban and rural areas, but at the same time, an obvious gap still exists between the two in terms of the quantity and models of the durable goods.

TABLE 2.2
OWNERSHIP OF MAJOR DURABLE GOODS
(per 100 households)

Urban areas	1985	1990	1991	1992	1993	1994
Bicycles	152.27	188.59	158.51	190.48	197.16	192.0
Cameras	8.52	19.22	21.32	24.32	26.48	29.83
Electric fans	73.91	135.5	143.48	146.03	151.64	153.79
Recorders, standard	22.28	34.24	34.7	39.69	41.5	44.31
Recorders, stereo	18.88	35.51	35.64	33.9	34.03	28.65
Refrigerators	6.58	42.33	48.7	52.6	56.68	62.1
Sewing machines	70.82	70.14	66.43	65.92	66.58	64.38
TV sets, black and white	66.86	52.36	43.93	37.71	35.92	30.47
TV sets, colour	17.21	59.04	68.41	74.87	79.46	86.21
Washing machines	48.29	78.41	80.58	83.41	86.36	87.29

Rural areas	1978	1980	1985	1990	1992	1993	1994
Cameras				0.7	1.0	0.99	1.16
Electric fans			9.66	41.36	60.08	71.79	80.91
Motorcycles				0.89	1.42	2.14	3.19
Radio sets	17.44	33.54	54.19	45.15	31.95	32.22	31.19
Recorders, standard			4.33	17.83	20.95	24.24	26.08
Refrigerators			0.06	1.22	2.17	3.05	4.0
TV sets, black and white			10.94	39.72	52.44	58.3	61.77
TV sets, colour		0.39	0.8	4.72	8.08	10.86	13.52
Washing machines			1.9	9.12	12.23	13.82	15.3

Source: *China Statistical Year* (1995:263 and 287).

Entering the 1990s, other more expensive durable goods such as air conditioners, telephones, camcorders, hi-fis and VCRs, each worth 5000 yuan began to appear on the

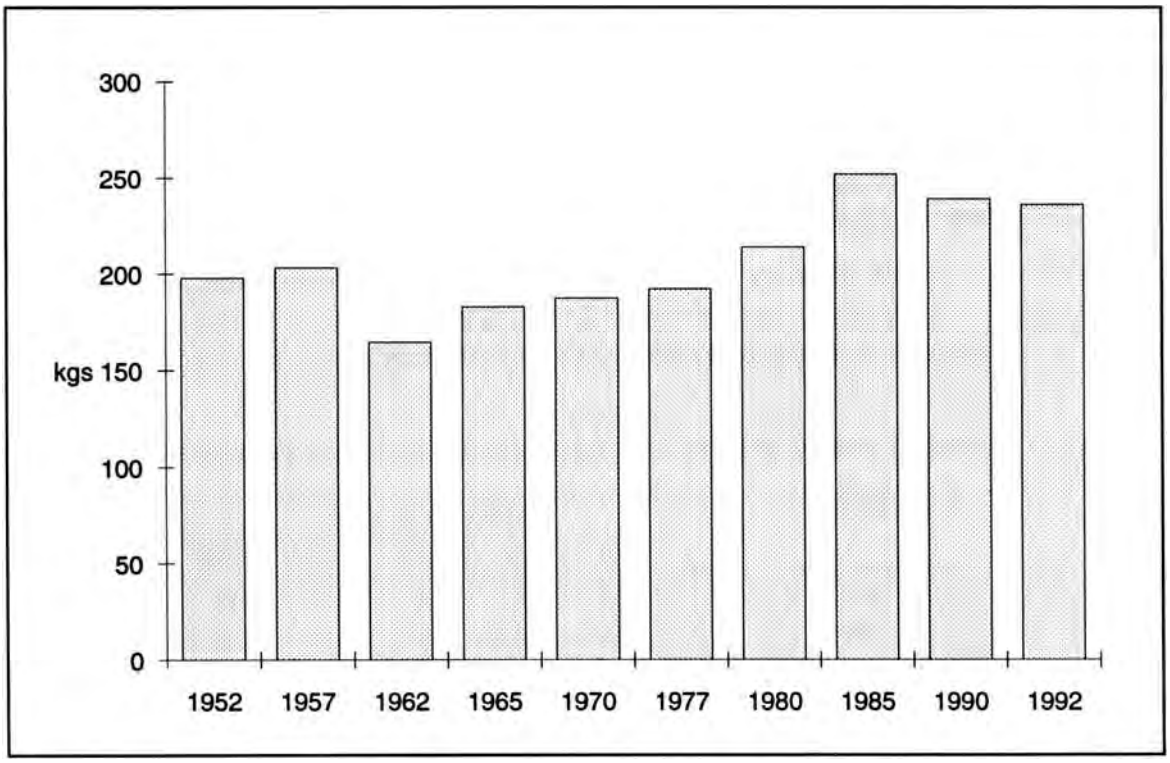
shopping lists of the more affluent families. But up until the mid-1990s, these more costly goods represented a major investment for most Chinese families. Private cars and urban houses (particularly those on sale on the housing market) also became available, but remained beyond the reach of ordinary families.

2.1.3 Food consumption

Improvement in food consumption is an important component of the general advancement in living standards. As incomes increase, the first noticeable change is that people eat better, moving up the food chain from starchy staples to more costly products. For a low-income country like China, an increase in the consumption of meat/poultry is in particular 'a key measure of progress' (Brown 1995:44).

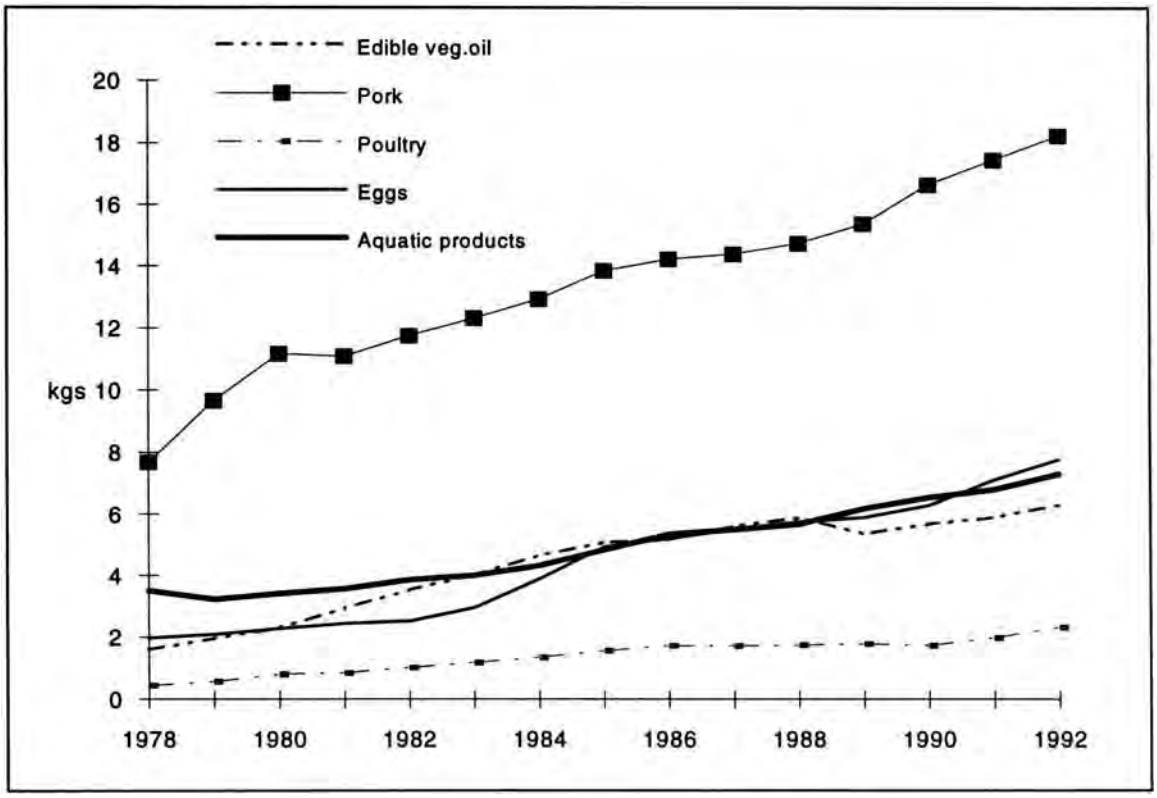
In the past, because of the scarcity of meat in the daily diet, the number of times that meat had been consumed during the year was considered a measure of the quality of diets. Consumption of all non-starchy food, including pork, poultry and eggs, increased considerably as a result of the rapid economic expansion during the reform period.

CHART 2.2
PER CAPITA CONSUMPTION OF GRAIN



Source: *China Statistical Yearbook* (1993:250).
Note: Grain refers to trade grain.

CHART 2.3
PER CAPITA CONSUMPTION OF SELECTED FOOD ITEMS



Source: China Statistical Yearbook (1993:250).
Note: Edible vegetable oil includes oil-bearing crops converted to oil.

Compared with certain developed countries, meat consumption in China, in spite its rapid increase, has remained low. In principle the dietary pattern is determined by the income level, although tradition and culture can also affect changes in eating habits.

TABLE 2.3
ANNUAL PER CAPITA GRAIN USE AND CONSUMPTION OF LIVESTOCK PRODUCTS, 1990

	Grain use (kg)[1]	Consumption of (kg):					
		beef	pork	poultry	mutton	milk[2]	eggs
USA	800	42	28	44	1	271	16
Italy	400	16	20	19	1	182	12
China	300	1	21	3	1	4	7
India	200	-	0.4	0.4	0.2	31	13

Source: FAO: *Food Production Yearbook 1993*. Rome: 1994 (cited in Brown 1995: 45).

Notes: [1] Rounded to nearest 100 kg since the countries are selected to show the range of consumption categories;

[2] Total consumption, including that used to produce butter, cheese, yoghurt, and ice cream.

As L. Brown pointed out in his book (1995:46-7), never before have so many people moved up the food chain so fast. According to his figures, meat consumption in China

in 1977 was 7.7 million tons. By 1994, it had climbed to 40 million tons, constituting a fivefold increase in 16 years. Per capita meat consumption rose from 8 kg to more than 32 kg during the same period. Poultry consumption, although expanding more rapidly, remained much lower than red meat consumption.

2.1.4 Average savings

The increase in per capita income seems to result not only in more money spent, as is evident from the growing value of durable consumer goods owned and dietary improvements, but also in extra savings as indicated by the increasing volume of bank deposits. In 1978, the savings deposit balance of rural and urban residents totalled 2.1 billion yuan. By 1994, at 215.2 billion yuan, it was more than 100 times larger, representing an annual growth rate of 33.5 per cent (CSY 1995:257). Per capita savings deposit balance in 1992 was 985 yuan, equivalent to 58 per cent of per capita national income of the year, whereas in 1978 the ratio was 7 per cent. In addition, personal foreign currency deposits in the bank increased from almost nil to over US $10 billion in 1994 (Expert Group 1995:14; CSY 1995:259).

Owing to price changes, neither the total amount of savings nor the per capita deposit balance can accurately reflect the magnitude of change in people's actual purchasing power. Over the period of 1985-95, consumer prices hiked up nearly 20 per cent and 25 per cent respectively in 1988 and 1994. But overall prices in the same ten year period rose by more than 15 per cent only during five separate years and by less than 10 per cent during the remainder (*Economist* 1996:116). Price increases reduce the value of the currency, thereby affecting the purchasing power of savings. However as the increase in savings is many times larger and faster than the increase in prices, the growth in total and average savings even adjusted for prices still remains substantial.

The relative size of cash accumulations can also be shown by the purchasing power of average savings. In 1978, average savings had to be accumulated for 5-6 years in order to buy one of the 'big item' valued at 100 yuan such as a wristwatch or a radio. In the mid-1990s, one year of average savings was more than adequate to afford a television set, a refrigerator or a washing machine, one of 'big items' in the current list of durable goods worth 1000 yuan. There is no doubt that the purchasing power of the average savings in the mid-1990s is many times greater than what it was in the late 1970s.

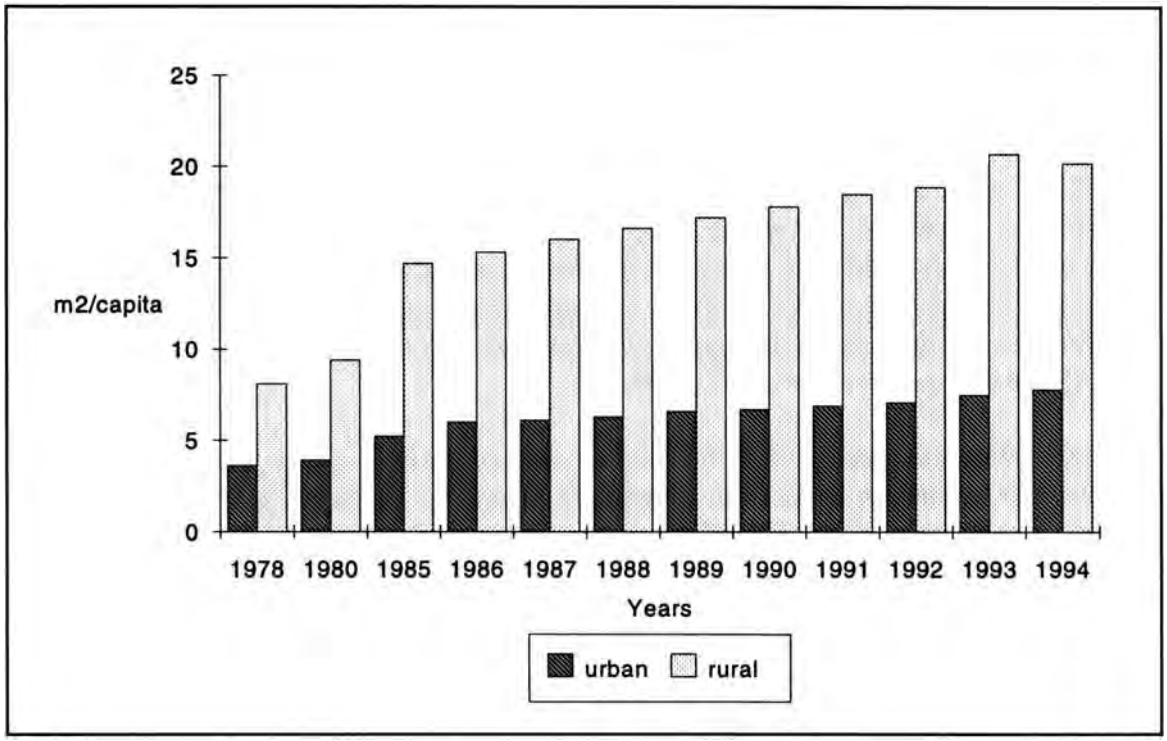
The sharp increase in average savings does not mean, however, that all Chinese people have become cash rich. Some have but others have not. Identification of the individuals who have been able to accumulate substantial amounts of cash and by what means will be discussed later.

2.1.5 Housing

In the pre-reform period, China's housing system enabled the country to successfully eliminate the phenomenon of homelessness and urban slums. This much said, housing shortages nevertheless have always existed and have become an increasingly serious problem. By the late 1970s, a large proportion of the population, mainly urban residents, lived in overcrowded dwellings where the average living space was less than 3.6 m^2 per

person. About 36 per cent of total urban families were faced with extreme housing difficulties, ranging from less than 2 m^2 as the average living space, several families sharing an apartment, to families having no housing at all (Yang and Wang 1992:2).[6]

CHART 2.4
PER CAPITA LIVING SPACE, 1978-94



Source: Figures for living space per capita in urban areas provided by the Ministry of Construction; figures for living space per capita in rural areas obtained from the rural household sample surveys. Also data from *China Statistical Yearbook* (1995:290).

Economic reforms have introduced a boom in housing construction in both urban and rural areas. By 1994, the per capita living space doubled, reaching nearly 8 m^2 in the cities and expanding from 8 to 20 m^2 in the countryside. The quality of houses has improved as well. In the mid-1990s, over 90 per cent of urban households had access to tap water and over half of these families used gas instead of coal for cooking. More and more urban apartments are equipped with separate kitchens and bathrooms. Although rural residents during the pre-reform period had larger living space, the quality of their housing was lower than in the cities. This in general remains true after the reforms. As incomes improved, one of the first priorities for the farmers was to build houses and consequently the quality of rural dwellings has substantially improved. Brick and concrete are replacing the old construction materials of mud and straw and in the

[6] The so-called *wu fang hu* phenomenon in urban areas, i.e. families without housing, was not the same as homeless people who ended up in the street. While waiting for housing allocation, they were likely to have some dwelling arrangement, for example, sharing living quarters with relatives, friends, etc. It was not very unusual for work units in extreme cases to squeeze out some office space to house their employees temporarily.

economically more prosperous rural areas, modern houses are changing the countryside landscape.

In twelve years from 1979 to 1990, 1.5 billion square metres of urban housing had been built at an investment of 280 billion yuan. This represented 74 per cent of total urban housing construction and 88 per cent of total urban housing investments made during the 40 year period from 1950 to 1990 (Yang and Wang 1992). Rapid housing construction has eased the shortage of living space, but the housing problem in China is far from resolved. In the mid-1990s, over 10 per cent of urban families were still classified as lacking the minimum living space or were totally without accommodations. Each year a few million newly established families need to be provided with homes. Housing problems, however, were not caused entirely by insufficient supply. Unfair allocation has been an important contributing factor as well.

At the same time, a new situation has occurred: on the one hand, urban housing expands at astonishing speed, resulting in an unprecedented increase in total housing space. On the other hand, the 'homeless' population, composed mainly of rural migrants, has emerged. Urban slums as some sort of a solution have begun to appear on the outskirts of metropolitan centres. The increasing number of people without shelter or living in very poor conditions has posed a serious challenge to the existing system of housing provision. This problem cannot be solved by increasing living space alone and the possible perpetuation of homelessness can only tarnish the impressive achievements in housing construction made during the reforms.

2.1.6 Poverty indicators

One of the greatest achievements of the economic reforms was the large-scale and dramatic reduction in poverty which had been concentrated overwhelmingly in the rural areas of China. According to a World Bank study (1992b), 260 million peasants, or one-third of the total rural population in 1978 were living below the poverty line. Figures for urban poor for the same year are not available but in 1981, it was said to be about 1.9 million. By 1988, the impoverished had been reduced to 86 million, or 7.8 per cent of the total population. However, the trend of consecutively sharp poverty reductions has come to a standstill since the mid-1980s. In 1989 rural poverty incidence climbed to 103 million, or 9.2 per cent of the total rural population. Various Chinese sources have estimated that in the subsequent years, total poverty population had stabilized at around 80 million during 1991-93, declining slightly to 70 million in 1994 and to 65 million in 1995.

It is very difficult, if not altogether impossible, to obtain accurate data on poverty incidence in China. In addition to the usual difficulties of establishing a national poverty line which would require almost constant adjustment to reflect the fast economic changes, the analysis is further complicated by factors such as the size of the country with its enormous regional diversity, the dual structure of the economy, and the still fragmented domestic market. Also, different data sources which may have been based on different measurement schemes have also affected the figures for poverty. The data

presented in this study are intended mainly to indicate the general tendency of poverty alleviation during the reform period.

TABLE 2.4
ESTIMATED INCIDENCE OF ABSOLUTE POVERTY, 1978-96

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Registered urban (mil.)				4	2	1	1	1	1	1	1	1	1
(% of urban population)				1.9	0.9	0.6	0.3	0.4	0.2	0.2	0.2	0.3	0.4
Rural (mil).	260		218	194	140	123	89	96	97	91	86	103	97
(% of rural population)	33		27.6	24.3	17.4	15.2	11	11.9	11.9	11.1	10.4	12.3	11.5
Total (mil.)				198	142	125	90	97	97	91	86	103	98
(% of total population)				19.8	13.9	12	8.6	9.2	9	8.3	7.8	9.2	8.6

Source: World Bank (1992b:4).

As the above data show, there has been a tremendous reduction in absolute poverty in the reform era during which about 200 million people were lifted from poverty. The progress, however, was not linear. The most dramatic poverty eradication occurred between 1978-84, a period which coincided with strong agricultural growth, largely as the result of institutional reforms in the countryside. Since the mid-1980s, however, even though national economy in general has been maintained on the speed track for growth, poverty alleviation has slowed down considerably and the subsequent years until quite recently have been marked by retarded progress, stagnation, and even revived increase in poverty incidence. Compared with the situation in the early 1980s, several unique aspects in the subsequent period have become evident among the poverty-stricken population. As before, poverty was concentrated in the rural areas, while it was very uncommon among the registered urban population. But unlike before, the resource-poor remote uplands, known as 'deep mountain areas, stony mountain areas, and cold mountain areas' had the heaviest concentration of poverty population.[7] Poverty alleviation in these areas has been more difficult because of the natural resource constraint. Of the total poverty population, those in poor health and/or of minority population constitute a disproportionately higher share. In the mid-1990s, Yunnan province in the south which is home to less than 3.3 per cent of the nation's inhabitants, had nearly 10 per cent of the nation's total poverty population. More than 70 per cent of the poor in the province were minority people, far higher than their share of one third of the total population of the province. Moreover, according to local estimation, one-quarter of those in absolute poverty were the disabled either from old age, illnesses, birth defects, or other health problems (Zhu 1996). Nation-wide, poverty incidence was heavily concentrated in the interior provinces of north, north-west and south-west of China.

[7] While poor conditions for agricultural production are common in the remote upland areas, the lack of transportation and water supply, insufficient surface soil, and extremely low temperatures are the major drawbacks in each topographic mountain area, making successful farming and therefore food security very difficult. See Zhu (1996).

TABLE 2.5
PROVINCIAL INCIDENCE OF RURAL POVERTY, 1989

	Share of provincial households (%)	Share of total poor population (%)
National average	11.4	100.0
North		
Beijing	0.2	0
Tianjin	0.4	0
Hebei	13.0	7.1
Henan	16.5	12.7
Shandong	6.8	5.0
Northeast		
Liaoning	8.0	1.9
Jilin	12.2	1.9
Heilongjiang	18.3	3.6
Northwest		
Inner Mongolia	23.5	3.6
Shanxi	17.4	4.1
Shaanxi	20.3	5.8
Ningxia	18.9	0.7
Gansu	34.2	6.7
Qinghai	23.7	0.8
Xinjiang	18.7	1.6
Yangtze River		
Shanghai	0	0
Jiangsu	3.4	1.9
Zhejiang	2.0	0.8
Anhui	7.7	3.8
Jiangxi	5.0	1.6
Hubei	6.0	2.6
Hunan	6.2	3.5
South		
Fujian	1.8	0.5
Guangdong	0.9	0.5
Hainan	3.3	0.2
Southwest		
Guangxi	15.4	6.1
Sichuan	11.2	11.2
Guizhou	17.8	5.4
Yunnan	19.0	6.5
Xizang		

Source: World Bank (1992a:4).

An analysis based on opulence indicators would indicate that the changes emanating from the economic reforms are obviously very positive. On the average, the Chinese people today have far higher incomes, allowing them to eat better, dress better, live in less crowded houses, and enjoy better access to a greater variety of consumer goods and

services than ever before. It goes without saying that the precondition for the improvement in material well-being of the nation was the sustained and rapid economic growth that China had successfully maintained for the last decade and a half.

2.2 Capability-based indicators

2.2.1 Life expectancy and mortality

The change in life expectancy during the period of economic reforms has in general been positive. Although relevant statistics from different sources vary, the following provides a view of the general trend.

TABLE 2.6
LIFE EXPECTANCY

	World Bank estimates, as given in various WB sources:		
Year	World Development Report (various issues)	World Tables 1995	Social Indicators of Development
1977	64		
1978	70		
1979	64		
1980	64		
1981	67		
1982	67	67.8	
1983	67		68
1984	69		
1985	69		
1986	69		
1987	70	68.7	
1988	70		
1989	70		
1990	70		69
1991	69		
1992	69	69.1	
1993	69		

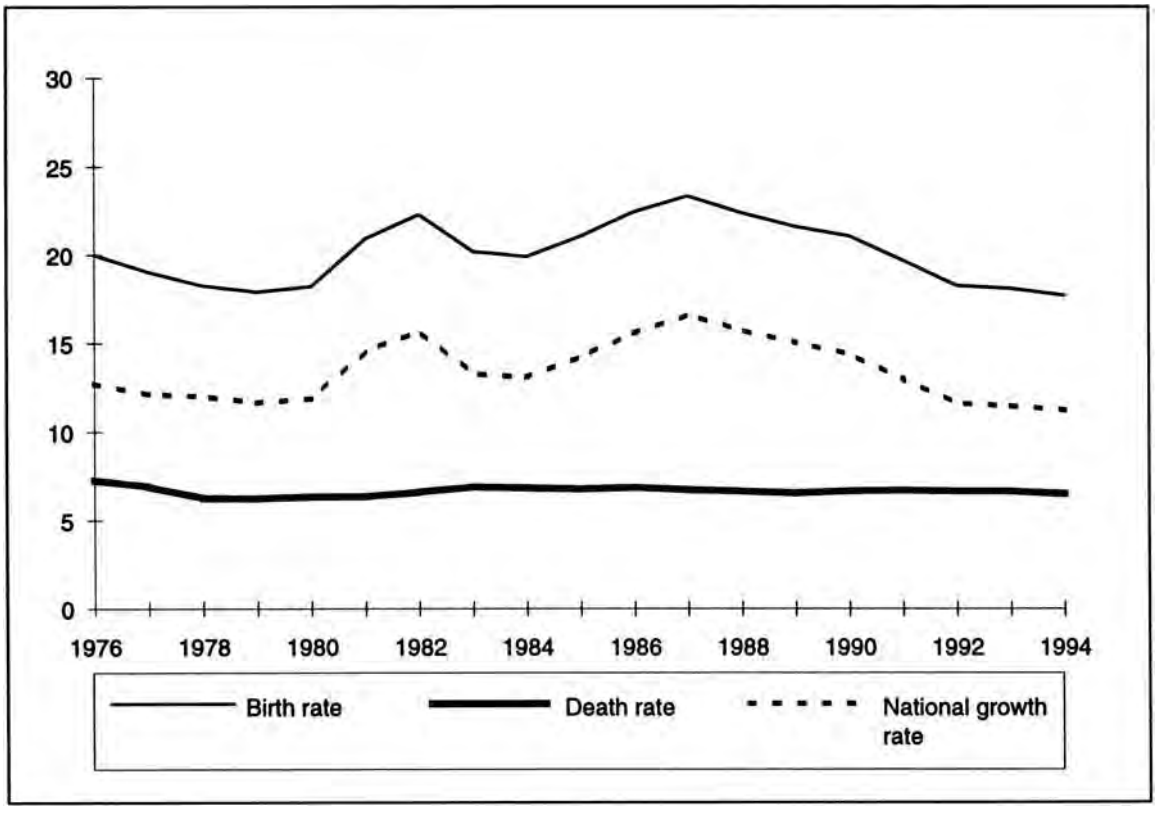
Source: World Bank (various sources).

Complete time series figures for life expectancy are not always available and the ones used here are apparently very rough estimations. Some obviously are incorrect; for example, data indicating changes during the three year span 1977-79, which jump in one year from 64 to 70 years and drop again the next year to 64, are simply not possible short of magic. However, available figures do indicate that life expectancy during the reform years continued to rise. In terms of longevity, China was in the upper-middle rank of the world by the first half of the 1990s.

According to *China Statistical Yearbook* (1995:59), mortality declined from 20 per thousand in 1949 to 6.25 per thousand in 1978. With the exception of the famine years 1959-61 and 1972, mortality decline had been relatively steady. Overall, China achieved a very low mortality rate in the pre-reform years. But after the initial phase of the reform period, however, no further progress in reducing mortality rate seemed to have been made. Strictly speaking, crude death rate has shown a marginal increase from the late 1970s to the mid-1980s, followed by a moderate decline thereafter. Crude death rate in 1994 was at 6.49 per thousand, slightly higher than in 1978.

Certain studies, as by Banister (1987), have suggested that life expectancy has consistently fallen since the start of the reforms until 1984, an estimate contrary to data from some other sources. While reluctant to speculate on various estimations,[8] Drèze and Sen nevertheless seem to believe that during economic reforms there was a slowdown or even a possible reversal in the steadily improving survival chances of the Chinese (1989:215-8). Given Banister's figures, this might have indeed been the case during the first half of the 1980s but several factors suggest prudence in drawing the conclusion.

CHART 2.5
BIRTH, DEATH AND NATURAL GROWTH RATE OF POPULATION, 1976-94



Source: *China Statistical Yearbook* (1995:59). Figures for 1976-77; 1979; 1981-83 from *China Population Statistical Yearbook* (1991:369). Figures for 1982-83 from sample surveys.

[8] Banister's estimation of death rate was higher than the official Chinese figure.

There are conflicting evidences on the fluctuations in life expectancy during the reforms. The belief that life expectancy during the first half of the 1980s declined somewhat seemed to be supported by data on mortality change which indeed showed certain stagnation and moderate increase. But it is difficult to determine the ultimate causes of the phenomenon without an analysis of age-specific data. After examining various data sources, Hussain and Stern (1990) pointed out that the yearly fluctuations in the crude death rates are likely to be the result of alternative data sources and methods of calculation. And, if mortality rates did indeed show a moderate upward swing after the reforms, Hussain and Stern conceded that the increase until the mid-1980s can largely be explained by an increase in the percentage of the population aged over 64 years and to some extent by other age-specific mortality changes such as the slight rise in infant mortality rates. Ageing of the population was considered also by Peng (1994) to be the main cause for the slight increase in the crude death rates.

Data show that life expectancy continued to increase during the reform period, and despite the slightly higher crude death rate,[9] was higher in the mid-1990s than in the late 1970s. This supports the assumption that changes in mortality rates during the reforms do not necessarily indicate an overall deterioration in matters of life and death. However, the controversy may serve to highlight some of the difficulties of further improvement of human life even when considerable material gains are achieved as the result of rapid economic growth.

Crude death rates in rural areas continue to be higher than in urban areas, by more than 0.1 percentage points in 1994 (CYS 1995:59).

As far as infant mortality is concerned, available sources are not adequate to provide a comprehensive and conclusive picture.[10] Banister compiled some data which indicate a substantial rise in the infant mortality rate up to the mid-1980s.

TABLE 2.7
INFANT MORTALITY RATES

Year		Year	
1978	37.2	1982	45.9
1979	39.4	1983	48.0
1980	41.6	1984	50.1
1981	43.7 (38.8 in Chinese census)		

Source: Banister (1987:116).

[9] According to the official Chinese data, there was a 0.024 percentage difference between 1994 and 1978.

[10] Hussain and Stern pointed out that 'the Chinese authorities have been very economical in revealing data on infant mortality and abortions. For example, they published the detailed returns from the 1982 fertility survey with the exception of the infant mortality rate and the number of abortions. Reported data from the 1984-86 sample surveys make it possible to calculate the mortality rate only for the age groups 0-4 (Hussain and Stern 1990:21). For information on infant mortality rate, see also Yu (1992).

Official Chinese statistics, on the other hand, show that infant mortality rates declined from 1975 to 1990, but there seems to be a slight increase, particularly for female infants after the late 1970s to the mid-1980s (*Women and Men in China* 1995:68).[11]

The 1990 population census placed the infant mortality figure at 35 per thousand, compared to nearly 50 per thousand in 1975. However, when adjusted for errors, actual figure could be around 40 per thousand. Moreover, a 1992 national sample survey revealed a higher mortality rate in under-5 years group for girls than for boys (*Women and Men in China* 1995:68).[12]

The following table shows infant mortality rates as given in other literature sources:

TABLE 2.8
INFANT MORTALITY RATES
(per thousand)

Estimates by Asian Development Bank			Estimates by World Bank	
Year	Males	Females	Year	Males and females
circa 1970	52.6	48.4	1975	48.0
circa 1980	46.9	45.6	1985	37.0
early 1990s	33.0	31.0	1993	30.5

Sources: Asian Development Bank (1993:216) and World Bank (1995:72).

A joint social survey conducted by the Chinese government and UNICEF had calculated infant mortality in 1991 at 31.4 per thousand (*New Star Publishers* 1994a:3), while another Chinese source gave a much higher rate, i.e. 38 per thousand in 1993-94 (*New Star Publishers* 1994b:42). If there is a common denominator for these figures, it is the long-term tendency of continual decline in infant mortality, including over the reform years. However, this trend does not rule out that the situation had deteriorated during the early 1980s and in some locations. A recent World Bank study concluded that due to the slight increase in mortality rates for children under age five in the early 1980s and its pale improvement even thereafter, China, by the late 1980s, had actually fallen behind countries at similar income levels (World Bank 1996:127). Of all age groups, mortality in infant and under-5 year groups was, as a rule, significantly higher in the countryside than in the cities (cf. Tu 1990; Gao *et al.* 1994).

Child malnutrition has also caused some concern. The occurrence of child malnutrition has been estimated at 21.3 per thousand in 1987, 25 in 1990 and 24 in 1993 (World Bank: World Tables 1995). The increase of child malnutrition in the midst of a general improvement in diets can be explained in the light of changes in the social structure. It

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[11] For discussions of gender bias in nutrition, health care and especially the so-called 'missing girls' phenomenon, see Hull (1990); Johansson and Nygren (1991); Sen (1993); Zeng *et al.* (1993), among others.

[12] A sample survey of ten cities and counties in Henan province in 1991 revealed that mortality rates for female infants and those under 5-years were higher than for males with a gender ratio of one male to 1.3 females (Gao *et al.* 1994).

has been reported that while there is an increasing number of undernourished children, 5-8 per cent of the youngsters suffer from obesity, presumably the result of rich foods provided by affluent parents (Weil 1995:20).

According to Chinese statistics, the maternal mortality rate in the early 1990s was 5 per 10,000. But UNICEF placed the figure at 9.5, which still ranked China the lowest among ten most populous developing countries (Tan 1995:332). Infant and maternal mortality rates, however, remain 50 to 100 per cent higher than national average in rural areas (World Bank 1996:127).

It is probably fair to say that relative to its income level, there has been a downturn in China's health performance. In general, the mixed picture of development in life, death and health trends since the start of the economic reforms seems to be largely a consequence of the reform orientations and processes.

2.2.2 Education and literacy

As a general trend, education attainment has improved since the reforms. Table 2.9 summarizes the education levels of the Chinese people as reported in the population census of 1982 and 1990.[13]

TABLE 2.9
POPULATION AGED 15 YEARS AND OVER BY EDUCATIONAL LEVEL, 1982 AND 1990

	1982		1990	
	Women	Men	Women	Men
Illiteracy	49	21	32	13
Primary education	25	36	34	35
Junior middle level education	18	30	24	36
Senior middle level education			7	11
Technical secondary level	8	12	2	2
College			1	2
University		1		1
Total	100	100	100	100
Number (million)	325	341	399	419

Source: 1982 and 1990 Population Census, cited in *Women and Men in China* (1995:54).

As the result of the increasing school enrolment, the census years of 1982 and 1990 indicated a decline in illiteracy rates, from 49 per cent to 32 per cent for women and from 32 per cent to 13 per cent for men. According to a recent report by the Chinese State Statistics Bureau, there has been a 4 per cent drop in illiteracy since 1990. In 1995, 12 per cent of the total population, or 145 million people, were illiterate or functionally illiterate.

[13] Since 1949 China has carried out four national population census, respectively in 1953, 1964, 1982 and 1990.

TABLE 2.10
ENROLMENT RATE FOR SCHOOL-AGED CHILDREN, 1965-94

Year	Per cent	Year	Per cent
1965	84.7	1985	96.0
1975	96.8	1986	96.4
1976	97.1	1987	97.2
1977	96.5	1988	97.2
1978	95.5	1989	97.4
1979	94.0	1990	97.8
1980	93.9	1991	97.8
1981	93.0	1992	97.2
1982	93.2	1993	
1983	94.0	1994	98.4
1984	95.3	1995	

Source: *China Statistical Yearbook* (1993:655 and 1995:257).

The enrolment of school-aged children dropped in the first 5-6 years after the onset of the reforms, as indicated by the 2 percentage point decline in 1981. It was not until the mid-1980s that enrolment had returned to the pre-reform level. After enrolment rate had reached 97 per cent in 1987, it did not surpass the 98 per cent level until 1993. The government faces serious difficulties in attempts to close the gap. During the initial stages of the reforms, a large number of student dropouts in the rural areas caused the overall decline in enrolment rates. Although primary school education is compulsory and should therefore be free, schools commonly charge for incidentals and other arbitrarily levied expenditures, causing financial difficulties for poor families. During the 1991-92 school year, an estimated 2.1 per cent of primary school children and 5.8 per cent of the students in junior middle schools dropped out because their families could not afford the mounting costs. More than seventy per cent of the dropouts were girls (Weil 1995:20; Tan 1995:334). This development does not help to bridge the gender gap in literacy. The ratio of women in total illiteracy increased slightly from 69 per cent in 1982 to 70 per cent in 1990 (*Women and Men in China* 1995:54).

2.3 Demographic-based indicators

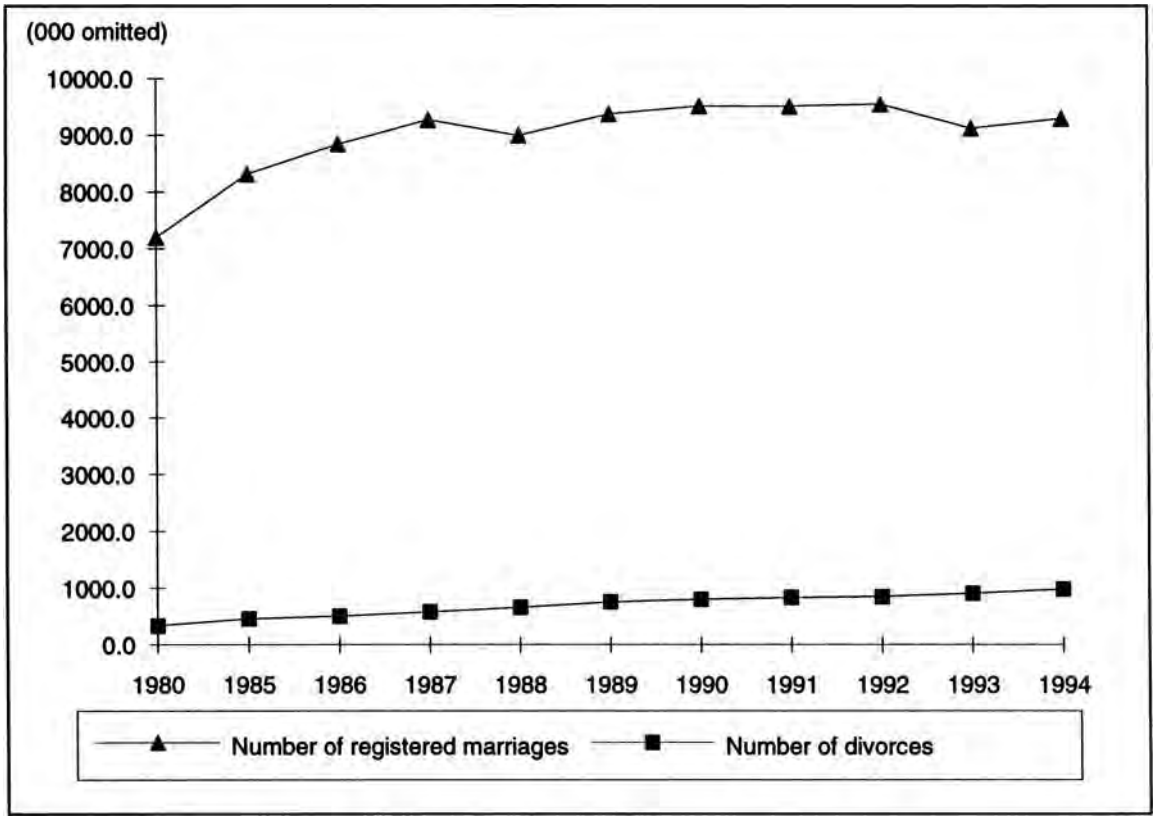
It has been observed in Russia and in most of Central and Eastern European countries that marriage and birth rates declined during the first years of economic transition. It is believed that changes in marriage, divorce and fertility trends in these countries can provide information on the perception of welfare change because expectations for the future can influence marital or family-planning decisions (UNICEF 1993 and 1994).

In the case of China, it can be argued that since 1949 marital or fertility patterns have been affected more by government policies, by political situation and by traditional culture than by expectations of future economic prosperity. This argument is particularly true in the case of birth rates. Total fertility rate in China dropped from 5.8 in 1970 to

2.2 in 1980 where it has stabilized throughout the subsequent years. This was mainly the result of the state family planning policy which promotes one child per family (ADB 1993:215). With the strict population control policies in effect, changes in fertility rates in China have little to do with people's expectation for future economic change.

There are, to be sure, alternative ways to gauge the relationship between total fertility rate and child-bearing hopes of the population; for instance, by the number of children a woman would desire. According to *The Report on China's In-Depth Fertility Survey 1987*, while one child per family is not considered as ideal anywhere in China, including major cities such as Beijing where smaller families are generally preferred, the desired family size varies considerably in different areas and among different age groups. But it is not clear whether economic development plays a role in the preference for a particular sized family. Provinces with high per capita income do not necessarily want smaller families. What is interesting is the fact that the desire for more children increased as the women's marriages matured in years. Overall, the number of children wanted ranged from 1.5 to over 2.5 for those who had been married for 1-5 years and from 2 to 4 for women with marriages lasting over 25 years (Population and Development in China 1994:20). In China, because years of marriage and age are closely correlated, the desire for more children can also be positively related to age.

CHART 2.6
MARRIAGE AND DIVORCE RATES



Source: *China Statistical Yearbook* (1995:679).

Marriage in China is largely governed by social norms which in turn are shaped by history and traditions. People in general are expected to marry. Cohabitation remains far from becoming a socially accepted alternative to marriage even in metropolitan areas. The above chart indicates that marriage rates, after rising in the first half of the 1980s, have not shown any noticeable fluctuations since 1987.[14] In general, marriage rates seem to correspond to the population age structure. To be sure, certain factors associated with the availability of goods do influence the decision to marry. For instance, the lack of housing was often cited in China as one of the major reasons for postponing a marriage.

Divorce has slowly but steadily and unmistakably increased since the late 1970s. Between 1978 and 1994 divorce rate in China has more than doubled, from 0.66 to 1.6 per thousand (CSY 1995:679; Wang 1995:61). Divorce rates are higher in urban areas than in the countryside, with the big metropolitan centres having the highest figures,[15] a tendency corresponding to observations in other parts of the world. An estimated 60-70 per cent of the divorces in China were initiated by women.[16]

It seems that China has been moving toward demographic changes which correspond to the general trend expected in the wake of socio-economic development. In addition, government policies continue to play a decisive role in the overall fertility rate.

2.4 Human ecology indicators

2.4.1 Natural environment

The state of the natural environment is an important measurement of the living standards in an industrial era. China's industrialization in the pre-reform period and in particular, its rapid economic growth since the reforms have had great effect on the environment. Without a doubt, economic growth has produced certain positive results, and the increasing availability of safe water is one example. According to a World Bank report, more than 70 per cent of the population in China – and nearly 68 per cent in the rural areas – had access to safe water in the early 1990s (1995:72). From 1978 to 1992, urban households with tap water grew from 81 per cent to 93 per cent and those with access to gas increased from 14 per cent to 52 per cent (CSY 1993:627). Progress has also been made in urban sewage systems, garbage disposal schemes, increased green

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[14] There was an exceptionally sharp increase in marriage rates in the early 1980s, particularly in 1981. This was largely policy induced. During the Cultural Revolution (1966-76), the officially sanctioned marriage age was 27 years for men and 25 years for women. In 1980, a new marriage law was introduced which reduced marriageable age to 22 years for men and 20 years for women. This was largely responsible for the 'marriage boom' in 1981. Since 1986, between 8.8 to 9.5 million couples have married each year.

[15] In 1990, the divorce rate was 2.61 per thousand in Beijing, 2.41 in Shanghai, and 3.19 in Pudong (the special economic zone of Shanghai).

[16] For example, 62 per cent of the 709 divorce cases handled in the Chongqing court in nine months of 1994 had been initiated by women (*Guangming Daily* 7 Feb.1995).

areas, etc. These have helped to safeguard urban living environment from further degradation, a common occurrence after rapid urbanization.

But the general condition of the natural environment seems to have deteriorated as a result of China's economic success since the reforms. One of the major problems is the diminishing farm land caused by rapid industrial encroachment and urbanization,[17] which has also put increasing pressure on the water supply and other natural resources. In addition, pollution released by increasing industrial operations has proven to be especially damaging to air, water and soil, the essentials of the environment.

Industrial pollution has become severe for surface water. Of 131 rivers surveyed, 65 were polluted. Large ongoing discharges of sewage and other industrial waste residue continue to deplete fish resources and a large portion of the total river mileage (i.e. about five thousand kilometres) is no longer suitable for fisheries. In 1993, there had been 2761 industrial pollution accidents, up by 94 cases from the pervious year. Meanwhile, accidental pollution discharges involving fisheries have increased by 30 per cent (Liu 1995:283).

It has been noted that up until the mid-1990s, there had been some positive improvements in the environment in certain aspects but serious degeneration in general. In urban areas, factors such as industrial emissions, increasing number of vehicles, and garbage disposal problems have added to the acceleration of air and noise pollution. According to the World Bank, half of the world's ten most polluted cities are located in China.

In addition, industrial pollution is no longer just an urban problem. With the relocation of highly polluting industries, the fast expansion of rural enterprises and increasing utilization of agricultural chemicals, the problem has been fast overtaking the rural areas. The intensifying use of coal as the major source of energy in the countryside has been one of the main causes of acid rain. Environmental degradation is a particularly serious problem in the countryside because it is home to more than 70 per cent of the nation's population. The impact of the environmental problem on the health of rural population can at least partly be verified in the much higher morbidity rate from respiratory disease, the number one cause of death for both rural men and women.[18]

To be sure, the government has become increasingly aware of the problems and legislations on environmental protection have been accelerated particularly since the early 1990s. At the present time, investments in environmental protection account for 0.7 per cent of GNP which compares favourably to developing countries standards. However, allocation of funds for environmental protection does not come automatically

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[17] China has one of the smallest per capita cropland in the world. In 1994, total farm land was 1.4 billion *mu*, or 1.19 *mu* per capita (1 *mu* = 0.1647 acre). According to satellite surveys, the actual farmland size may be 1.9 billion *mu*, i.e. one-third larger than statistical figures would indicate. But even this does not change the very low per capita land level. During the reform period, grain areas have been reduced continuously. Brown puts the decline in grain areas between 1990s and 1994 at 5.6 per cent (Brown 1995:54).

[18] In the urban areas, it is the third highest cause.

following economic advancement. For example, Jiangsu, Zhejiang and Fujian are among the most economically developed provinces in China, but their environmental investments, at 0.35 per cent, 0.3 per cent and 0.6 per cent of GNP respectively, remained lower than the national average (Liu 1995:291). As the Chinese economy continues to expand at high speed, pressure on environment protection can only become more severe. Unless extraordinary efforts are forthcoming, it is unlikely that the deteriorating ecology can be reversed before the end of this century.

2.4.2 Crime and personal security

Increasingly in our thinking, human welfare is closely related to human security. To cite a UNDP study, human security can be defined by two main aspects: 'It means, first, safety from such chronic threats as hunger, disease and repression. And second, it means protection from sudden and hurtful disruptions in the patterns of daily life – whether in homes, in jobs or in communities' (UNDP 1994:23). Safety from hunger and disease can roughly be defined by the changing level of income and the pattern of income distribution. But a sense of security cannot be ensured by rising income or even improvement in the general material welfare when daily lives are punctured with sudden and hurtful disruptions.

In the absence of wars and large-scale social unrest, rising crime in the daily lives of the Chinese today has become the greatest threat to personal security and therefore adversely affects the well-being of the population.

The trend is clear: crime is on the rise and increased most sharply in 1988-89. Beginning in the 1990s, the government has taken numerous law enforcement measures which have produced some results, and the run-away criminal activities seems to have been slowed down. But it is not clear whether the tendency of growing criminal activities has actually been stopped. The decline in criminal cases in 1992 was related to changes in statistical procedure and to the more restricted criteria for bringing reported cases under investigation. This may have contributed to a decline of approximately 30 per cent during January-September 1992 compared to the same period of the previous year. But the number of cases tried in courts during the same period was reported to have actually increased by 1.5 per cent. Moreover, of these cases, major crimes grew by 8.3 per cent, including a 5.8 per cent increase in murder cases, 1.9 per cent in rape, 18.3 per cent in robberies, 7.8 per cent in sabotage with detonating devices, 28 per cent in vehicle thefts, and 17.8 per cent in drug trafficking. A similar situation was observed for 1993-94. Despite the slowdown of the increase in overall crimes, major felonies increased rapidly. During January-September 1994 while general public offences increased by 3.1 per cent, capital crimes grew by 16.4 per cent, of which murder cases increased by 5.5 per cent, major robberies by 17.1 per cent, vehicle hijacking and vehicle robbery by 51.2 per cent, and big theft cases by 17.7 per cent. Manslaughter, robbery and rape together increased by 27.8 per cent (Chen *et al.* 1993:123; Chen and Tang 1995:230).

TABLE 2.11
CRIME CASES IN CHINA

	No. of criminal cases (in millions)	Rate per ten thousand	Changes in %
1988	0. 82	7.7	
1989	1.97	18.15	140.2
1990	2.21	19.57	12.2
1991	2.36	20.09	6.8
1991 (January-September)	1.60		
1992 (January-September)	1.10	9.9	-30.1
1993	1.60		
1993 (January-September)	1.13		
1994 (January-September)	1.16		3.1

Source: Chen *et al.* (1993:119-31) and Chen and Tang (1995:226-34).

Note: Criminal cases in 1988-92 (January-September) refer to those under investigation and figures for 1993 and 1994 refer to reported cases.

Crime in general induces an unsafe social environment, and major criminal actions pose a serious threat to the lives and property of individuals. Concern for personal safety at home is well reflected in the fact that anti-theft doors (or security doors) were unknown items in China in the early 1980s. Today they have been installed in most urban apartments.

Two tendencies have been especially conspicuous in the rising crime wave: first, organized crime involved in a wide range of activities is surfacing. And second, there has been a revival of such criminal and degrading activities as drug abuse and trafficking, prostitution, abduction and selling of women and children, smuggling people across borders and illegal possession of weapons. In terms of geographical location, rising crime appears to be a more serious problem in coastal and border areas, where economic and social transformation has proceeded most vigorously.

The Chinese today, compared to people living in many other countries, are not at high risk from crime and violence. During January-September 1994, about twenty thousand murders were committed In China which statistically means 16.6 persons per million. Figures for intentional homicide by males in the crime-prone US in 1992 were 120 per million males, the highest among industrial countries (UNDP 1994:30). In Russia during the transition, murder rates doubled in the period 1990-94 from about 100 to 220 per million (Popov 1995:22). Nevertheless, violence and other crimes in China have been on the rise, becoming an ugly and increasingly familiar aspect of life in the age of reforms.

2.4.3 Corruption

According to a survey by a Hong Kong firm of expatriate managers mainly from Europe and America, China, together with India and Indonesia, are reported to be the most corrupt countries in Asia (*The Economist* 1995a:71). Transparency International and

Göttingen University recently published their second annual corruption index which placed China as the top fifth in its corruption ranking of fifty-four developing and developed countries. The findings were based on the perceptions of international business people from industrialized countries who had regular dealings with foreign companies and governments.[19] One may question the criteria, method, and accuracy of the rankings or dismiss the entire international comparison of corruption, but the fact that China appears repeatedly at the top of the list is perhaps no accident. As the economic reforms have proceeded, corruption has reached such a level that it affects the daily life and conduct of citizens. Corruption in China plays a role in the redistribution of wealth, causing social discontent and contributing to moral decay.

During the reform period, the most common form of corruption has been the exchange of power for material gains. In the process of marketization, the temptation and opportunities of illicit wealth are enormous for the low-paid government officials in control over scarce resources. Chances of not being caught are high because the process of institutional change has left many legal, administrative and law enforcement loopholes which in turn create a favourable environment for the misappropriation of public funds, embezzlement, bribes and kickbacks.

From 1988 to 1992, nearly a quarter of a million cases of the so-called criminal corruption were indicted and these involved 4,600 government officials at above the county level. Since the second half of 1993, the central government has made greater efforts to purge bribery, leading to an unprecedentedly large number of arraignments. In the first eleven months of 1994, there were 1.36 million corruption cases reported to the central government and nearly twenty-five thousand cases involving economic crimes were investigated, representing a 35.4 per cent increase over the previous period. These cases resulted in the conviction of 1833 government officials at or above the county level, a 86.3 per cent increase. Another source revealed that during 1993 and the first half of 1994, one hundred and forty-three thousand party members and government officials were penalized for bribe-related economic crimes. According to an annual report by the Supreme People's Court, over twenty thousand people were jailed in 1994 for corruption. Cases against grafters totalled thirty thousand, up almost 70 per cent from 1993 (Wen 1995:136-51; Transition Economic Division World Bank 1995a:3).

Admittedly, it is difficult anywhere in the world to bring dishonest dealings, particularly at a high level, into the open and even more problematic to have them tried in court, largely because of the nature of the act. Corruption is the misuse of public trust in the interest of private gain and its necessary prerequisite is political position or public role. In the case of China, a number of factors during the economic reforms have made the struggle against corruption difficult. These include:

i) the lack of an independent 'watchdog' to fight corruption;

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[19] According to the index, the top ten most corrupt nations are Nigeria, Pakistan, Kenya, Bangladesh, China, Cameroon, Venezuela, Russia, India and Indonesia (*International Herald Tribune* 4 June 1996:10).

ii) the relatively weak power of the judicial systems to deal with corruption in government organs;

iii) strong local protection based on an extensive web of connections among local government officials;

iv) financial difficulties and insufficient means for judicial system to operate effectively;

v) the lack of governmental commitment at various levels.

It should not be a surprise that corruption cases brought to court are likely to be only the tip of the iceberg, and the full extent of the problem is far more significant than current exposures have revealed. Although impossible to measure the extent of corruption accurately, it is a common sentiment among the Chinese public that the number of responsible government functionaries who have not become entangled in bribery and corruption in one form or another are perhaps in the minority.

As the role of market function increases, opportunities develop for those in key positions to exchange whatever power they command for direct or indirect personal gains. According to surveys (Wen 1995:144), the major body of corrupt personnel is composes of:

i) government administrative officials and personnel in charge of or responsible for handling the allocation of human resource, funds, and materials;

ii) those in charge of or working in judicial, law enforcement and discipline enforcement organs;

iii) managerial and general personnel in finance, stock exchange and other organizations concerning monetary transactions;

iv) managerial, financial, and marketing personnel of enterprises and other public entities;

v) responsible and managerial personnel of public utility organizations; and

vi) leaders, managerial and operational staff of foreign and domestic trade, production, and service organizations.

It is also widely believed that corruption by the offspring of government officials who use the political connections of their parents to facilitate their business interests is widespread but rarely exposed.

Corruption causes the unfair distribution of wealth to favour those who have power and money. Unlike violent crimes, fraudulence does not threat the lives or daily security of the people and for this reason, it is easy to overlook corruption as a factor which directly affects the welfare of the population. But it should be recognized that corruption itself creates a fertile environment for crime, particularly organized crime. A simple fact is that when an increasing number of people 'in judicial, law enforcement and discipline enforcement organs' are involved in corruption, it reduces the effectiveness of crime

fighting measures. In a broader sense, corruption not only affects economic and political life of the society, but also the psychological and philosophical status of the population. Continually increasing venality leads to negligence in various administrative functions, thus affecting public services. As innumerable forms of injustice induced by corruption become wide-spread, the sense of deprivation grows. To a large extent, it was this popular resentment that drew a large number of people to the streets of Beijing in 1989 to join the mass demonstrations, which ended in the bloodiest confrontation with the government since the founding of the People's Republic of China in 1949.

III THE HAVES AND THE HAVE-NOTS: SOCIAL STRATIFICATION

Despite some negative consequences, the reforms have nevertheless produced significant improvements in the living standards and material well-being of the Chinese population. However, what exists in real life is not 'population' but people, who are grouped not only by physical characteristics such as race, gender, age, etc. but also by social standing such as occupation, position in political hierarchy, location of being, and access to various resources. This diversity leads inevitably to the issue of equality. Currently the ideal of equality has been widely accepted as an important manifestation of social progress. Can welfare progress be reviewed without considering the question of equality? The answer has to be no.

Equality is to be defined by relations among more than one subject, therefore it can only be viewed in the light of social differentiation. Talking about the standard of living, Amartya Sen asks, 'Can the living standard of a person be high if the life he or she leads is full of deprivation?' (1987:8). Of course, one cannot be deprived of the material wealth that is not available to others. In this sense, the *possibility* of deprivation is actually increased – not decreased – in the process of economic growth with its ensuing additional goods and services. This section discusses social stratification, a factor that affects the level of deprivation of certain social groups and thus constitutes a crucial factor contributing to the welfare changes.

To be sure, China was not a class-free society under central planning. On geo-social terms, the Chinese were divided into two basic social groups, i.e. urban and rural residents. Urban residents were better off economically, better cared for socially, and better represented politically than their rural counterparts. The socio-economic framework established after 1949 and the long standing state policies failed, to say the least, to eliminate the urban-rural divide. In addition, a small group of the elite has always existed, consisting mainly of those having access to power, who enjoyed political privilege and in general were also better off economically.

But it should be remembered that largely as a result of the absence of private property, the social structure in pre-reform China had certain distinctive features. In the three decades prior to the reforms, China was moving towards a society of proletariats without a bourgeois class. Some were poorer than others,[20] but the differences were rather small, which can be exemplified by a fact that the per capita income of the rural poor was 73 per cent of the rural average. In addition, differentiation in rural income and living standards within one's immediate surroundings in the home village was minimal. There was a notable absence of urban poverty and the living standards of urban employees did not vary significantly. There were no distinctively rich in either the rural or urban areas

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[20] For example, on the eve of the economic reforms, a third of the rural population lived in poverty and were no doubt more destitute than the majority.

to highlight the misery of the poor. Theoretically and almost practically, there was no deprivation of jobs and therefore no deprivation in the source of income.

It was against the background of such a social structure that fundamental changes in the wake of economic reforms have taken place. One of the clearly visible developments has been social stratification and the decade-and-a-half since 1978 has seen the gradual formation of new social groups which are increasingly redefining the nature of the society.

3.1 The rich and the poor

An important component of the reform ideology has been the notion that 'to become rich is glorious'.[21] The reform process has indeed opened up better opportunities for individuals to make profits than had been possible under the previous planning system. Private business and other forms of economic activities outside the state sector have been encouraged. Government control over wage levels, rewards for managerial staff, and other benefits such as bonuses in the state sector has been relaxed, while state-owned enterprises began to gain greater operational autonomy. Capital goods, financial and labour markets have developed as profits are being made in these sectors. Market economy produces both winners and losers and this is what has happened in China during the process of economic reforms. At the same time, the tempo, scale and characteristics of the process in China have unique features, reflecting the initial conditions, state policies, economic structure and, in particular, the emerging pattern of property relations.

The first indication of some 'becoming rich' before others was the emergence in the early 1980s of the so-called *wanyuanhu*, meaning households with incomes exceeding ten thousand yuan. *Wanyuanhu* was almost entirely a rural phenomenon, resulting from reforms which allowed rural households to resume responsibility for rural production. Certain advantages of rural households such as a larger number of able-bodied family members, particular skills or expertise, market information, business know-how, favourable selection of crops, political and social connections, etc. enabled some to advance faster than others. Between 1980 and 1985, the per capita rural income was about 200-400 yuan. Taking five as the mean number of rural families at that time, the average rural household income would have amounted to approximately 1000 to 2000 yuans a year. This would indicate that the newly rich rural households, the *wanyuanhu*, had annual incomes five to ten times the rural average.

When the focus of the reform programmes began to shift to the cities after their initial success in the countryside, a new breed of urban rich began to emerge and the accumulated wealth quickly surpassed the high income levels of the *wanyuanhu*. As general income levels became higher, so did the standard for being considered rich. A

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[21] In the pre-reform period, the official position frowned on personal wealth. As exploitation was considered to be the main and only source of big money, to be rich was sinful and shameful. Striving for personal wealth in excess of the masses was condemned by the society because it contradicted the egalitarian ideology of the central planning regime.

popular saying describes the scale of wealth for the early 1990s: 'households with ten thousand yuan were in poverty; those with a hundred thousand yuan were just beginning to get rich: those with a million yuan were not rich yet; and those with ten million yuan could be considered rich.' The number of Chinese who actually managed to accumulate vast amounts of wealth may have remained small and the information on high income groups is mostly anecdotal. One source has contended that there are over five million people whose yearly income exceeds tens of thousands yuan or more (Zhu 1995:197).

The fact, however, remains that the body of the newly rich is growing. According to a survey conducted by the Commission of State Planning, the number of high-income earners increased by the early 1990s to the extent that they began to form a distinctive layer of society. Members of this group include profiteers in the stock market, individual industrial and business people, private entrepreneurs, stars in show business, personnel in managerial positions in the newly set-up companies, contractors and managers of state or collective enterprises, managerial staff in joint ventures, certain professionals in high-demand occupations, scientific researchers associated with the materialization of research results, taxi drivers, banking staff, workers and staff of profitable enterprises, individuals with lucrative second jobs and re-employed retirees (Ge 1995:104). In general, the so-called 'high income group' appears to have been composed of very diverse professions. But, as observation and some popular anecdotal reports indicate, a small portion in the high income group has become ultra-rich.

In the first part of this study, the sharp increase in aggregate and average bank deposits was noted. This positive trend, of course, does not mean that all people in China have surplus cash available for bank deposits. In fact, bank deposits are highly concentrated. According to an estimation based on data collected for eleven million private entrepreneurs, the average savings of this group in 1993 was 37,000 yuan which is nearly 30 times higher than the national average (Ge 1995:257). Information provided by banks showed that in 1991, private entrepreneurs accounted for 6 per cent of the total bank depositors but 27 per cent of the total increased value of bank deposits (Dept. of Income Distribution 1993:37). In the wake of a sharp increase in the number of bank accounts, a large portion of the population remains without any savings. In 1992 in Sichuan, the most populous province in China, 37.6 per cent of all urban workers, up from 23.3 per cent in the previous year, had no bank deposits at all (Ge and Yue 1993:278).

Usually estimated at less than 3 per cent, the actual number of the newly rich is small in proportion to the total population but the ever widening income gap between the rich and the poor is becoming unmistakable. General resentment towards the nouveau riche is apparent, especially against those who have acquired vast fortunes through corruption, misappropriation of public funds, intensive exploitation, smuggling, pirating or other illegal and immoral means.

The poorest at the other end of the social spectrum are beginning to form another layer of society, i.e. those who live in absolute poverty. As mentioned earlier, the overall rapid economic growth has reduced the number of people below the poverty line by nearly two hundred million between 1978 and the early 1990s. However, the persistence

of poverty continues to remain an extraordinary problem in view of the fast economic development for more than a decade. One of the most revealing aspects of poverty alleviation, especially after the mid-1980s, is the fact that while some have managed to shed poverty, newly impoverished people continue to join the ranks of the destitute. According to sources from the Civil Affairs Ministry, two to three million households since the early 1990s were rescued each year from absolute poverty but the poor population has remained stabilized, because vast numbers of households have continued to fall into this group (Zhu 1993:83). Poverty in the rural areas can, among other factors, also be the result of ill health. Public health organization surveys have indicated that illness of a family member was the major cause in about a third of the cases for households falling below the poverty level. For 25 per cent of these households, medical treatment was not available because of difficulties to pay for the care, and 59 per cent of the sick could not remain in hospital for the necessary lengthy treatment because they could not afford a hospital bed. The lack of public assistance in health care has had a major role in the drop in living standards of rural families (Zhu 1995:199). The Chinese Civil Affairs Ministry acknowledges in its *Social Development Report* that there are 70 million residents in the rural areas and 10 million in the urban areas who need governmental relief or other forms of support to survive. Needless to say, the poverty population constitutes the majority of the low-income strata of the society.

Official sources have formally identified the low-income group as consisting mainly of the poor rural population concentrated particularly in the central and western regions of China. But poverty is also an urban phenomenon and the emergence of the urban poor has become increasingly apparent. A large segment of the urban poor is made up of the current and retired employees of unprofitable state and collective enterprises and their families. In 1989, a study of the living conditions of workers conducted by the National Trade Union in twelve provinces and cities revealed that 6.7 per cent of the total work force in the regions surveyed were living in poverty.[22] In 1994, eighty million rural dwellers were facing difficulties in feeding and clothing themselves. In the first half of 1994, urban residents whose monthly per capita income was less than 103 yuan, i.e. the level considered necessary to maintain minimum needs, totalled twenty million (Ge 1995:104-5).

Domestic surveys in the urban areas by the State Statistical Bureau indicate that income differences between the top 20 per cent and the low 20 per cent of households have been rising, from 1.8 times in 1978 to 2.9 times in 1993 and to 3 times in 1994. In rural areas, the gap has widened from 2.9 times in 1978 to 6.6 times in 1994. In comparing the top 20 per cent of high-income urban households with the lowest 20 per cent of the rural income groups, the gap had escalated to 13 times (Zhu 1995:197). Income discrepancy becomes more pronounced when a smaller percentage at each pole is considered. For example, of all households in 1993, two per cent had an annual income exceeding 30,000 yuan or per capita income of 7500 yuan, while 2.7 per cent had to survive with

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[22] There is no nation-wide poverty line for the cities. Eligibility for state subsidy and relief, a quasi-poverty line, was calculated according to price changes. In 1988, the cut-off point for state subsidy was a per capita income of less than 50 yuan in mega-cities; below 45 yuan in large and medium sized cities; and below 40 yuan in small cities and townships (cf. Li 1993:378).

an annual per capita income of less than 200 yuan, a difference of nearly 40 times. Numerous studies have confirmed that regardless of the method or measurement used, income inequality has increased since the mid-1980s (Zhu 1993:38).[23]

Income differentiation measured by Gini coefficient in both cities and the countryside confirms the observed polarizing tendency of income distribution. Actual figures differ, even widely at times, depending on the calculation and data but they attest to the adverse development.[24]

TABLE 3.1
GINI COEFFICIENT, 1952-93

	Urban	Rural
1952	0.16	
1964	0.18	
1978	0.16	0.27
1979		0.28
1980	0.16	0.27
1981	0.15	0.26
1982	0.15	0.25
1983	0.15	0.24
1984	0.16	0.22
1985	0.19	0.27
1986	0.19	0.30
1987	0.20	0.32
1988	0.23	0.33
1989	0.23	0.33
1990	0.23	0.31
1991		0.32
1992		0.32
1993		0.31

Source: Urban Gini was from Department of Income Distribution (1993:25-6).
Rural Gini from Ying (1996:22).

A study on urban income in 1990 concluded that the income distribution has been developing in pyramid-form where 62 per cent of the urban families were located in the low and low-middle income layer; about 3 per cent formed the top income layer, and the middle-income layer appeared to be rather thin (Li 1993:398). The emerging income structure deviates sharply from the relative egalitarianism of the pre-reform period.

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[23] Cf. also Ahmad and Wang (1991) and Griffin and Zhao (1993) among others.

[24] For example, according to Chinese sources, Gini coefficient or rural income was 0.2324 in 1978, and of urban income was 0.16 in 1984. In 1988, according to the results produced by the Economic Institute of Chinese Academy of Social Sciences based on surveys of over 30,000 urban households in ten provinces, Gini coefficient increased to 0.24. SSB's data and calculation showed that Gini coefficient of rural income increased to 0.3014. The upward swing of Gini coefficient continued well into the 1990s (Ge and Yue 1993:278).

However, the current level of income differentiation in China today remains moderate by international standards. China's Gini coefficient in rural areas in the 1990s did not deviate much from other densely populated countries in Asia, while in the urban areas, it was remarkably low. The Gini coefficient for China as a whole was higher than that for rural income, mainly because of the enormous difference in average incomes between the urban and rural population.

Two tendencies – egalitarianism and polarization – have been developing concurrently, both of which have contributed to the emerging pattern of income distribution. These two tendencies are found to be highly consequential to the emerging mixed economy during the reforms. Income polarization remains higher in the private sector, whereas the continuing function of the state sector contributes to the egalitarianism tendency. Wages were found to be the most equalizing factor in income distribution in the state sector while in the market sector, income disbursement was far more irregular and polarization more apparent (Zhao 1993:75-94).

In the state sector, cash income, including wages, became even more evenly distributed after wage differentials on the salary scale were minimized and fringe benefits such as bonuses, subsidies, etc. were more equally distributed. Manual workers in the state sector in general earned similar wages to white-collar workers and professional staff. In fact, it was common for professionals to earn less than manual blue-collar workers. For instance, in 1978, white-collar employees and professionals earned on the average 8.3 per cent less than blue-collar workers. The difference was reduced in 1988 to 3.9 per cent, but increased again to 7.6 per cent in 1991. Education did not make any significant impact on the earning power in the state sector. According to a 1992 survey of ten thousand workers and staff members in a hundred different enterprises, the difference in per capita annual income between employees with high education and those with only primary schooling in the state-owned companies was 215 yuan while in joint ventures and foreign funded businesses, the difference was about 900 yuan (Zhu 1993:84).

One factor which has accelerated inequality has been the increasing proportion of non-wage benefits in urban salaries and the increasing share of non-labour-related rewards such as profits, rent, dividends from stocks and bonds in both rural and urban income. Wages from a second job also added to the increasing proportion of irregular earnings which supplemented the total income. These extra income sources are closely associated with market functions and have substantially contributed to the warped income differentiation.

Compared to other former socialist countries in transition such as Russia, the nouveau riche in China have emerged relatively slowly and on a modest scale. For example, in the five year period 1989-94, the Gini coefficient of net per capita household income in Russia increased from 0.26 to 0.41 (UNICEF 1995:139). The accumulation of personal wealth in Russia has been progressing at a stunning speed, as has been widely observed.[25]

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[25] The criminal aspect of the process was well captured by the following report in *Business Week*:

One crucial factor affecting the speed of income differentiation has been the reluctance of the Chinese government to privatize public property, which has remained under state control largely in the form of state enterprises. As long as the state continues to exercise effective control over large segments of social wealth and oversees its distribution, the opportunities for 'instant mega-cannibalization of assets' are limited.

Nevertheless, it is an ongoing process during which some are getting rich, others have become increasingly poor. China must decide how great a degree of social polarization, which was successfully kept in check under the central planning system, can be justified for the sake of economic growth and in the name of economic reforms.

3.2 Urban-rural divide

The income structure of urban employees has differed from that of the rural labour force. Wages have been and still are the single most important source of income for urban residents. The expanding market operations in production, commerce and finance as well as the relaxation of state control over the wage bill and particularly over non-wage benefits have diversified urban income sources. Wages, accounting for 80 per cent of the total urban income in 1994, continue to be the number one source of income. Rural income under the planning system came from two primary sources: i) labour rewards from the collectives, which usually constituted the major portion of rural income, and ii) income generated by the economic activities of the household. Earnings from these sources were not, as a general rule, paid in the form of wages. After the shift to the household farming system, rural labour in agricultural production is in a similar situation as the owner-cultivators whose income comes from household production which has little to do with wages. However, following the rapid expansion of rural industries, more and more of the rural labour force (estimated at 80 million in the mid-1990s) are employed in rural enterprises and have became wage earners. Many wage earners in the newly emerged rural industries continue to farm on a part-time basis. Statistically, rural income is composed of revenue or labour rewards from the remaining collective organizations and enterprises, household businesses, wages, transfer and property income.

Given the long-term existence of major differences in socio-economic conditions, the income gap between the rural and urban areas has been a problem in both the pre- as well as the post-reform periods. Life under the central planning system had witnessed an

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Russia's move to the market was undermined by a mind-boggling take-over of economic activity by criminals. Around the world, the lobbies of five-star hotels are now full of champagne-sipping Russian gangsters who gained control of state-owned assets. Yes, there are opportunities in Russia – enough to get many thousands of criminals instant wealth. But that wealth is created by corruption, theft, and violence on a scale probably unprecedented in history. The other side of this coin is mass poverty, because the state's social safety net has dropped. In Russia's transition, the long view is lost: instant mega-cannibalization of assets is the rule (*Business Week* 15 April 1996:7).

increasing rural-urban income gap[26] which has continued to widen after 1978. The general trend can roughly be captured from the following data.

TABLE 3.2
PER CAPITA INCOME OF RURAL AND URBAN HOUSEHOLDS, 1957-90

	Per capital income (yuan) Rural	Urban	Ratio of urban to rural incomes	Rural income as % of urban incomes
1957	73	254	3.48	29
1964	102	243	2.38	42
1978	134	316	2.36	42
1979	160	377	2.36	42
1980	191	439	2.30	44
1981	223	500	2.24	45
1982	270	535	1.98	50
1983	310	537	1.85	54
1984	355	660	1.86	54
1985	398	749	1.88	53
1986	424	910	2.15	47
1987	463	1,012	2.19	46
1988	545	1,192	2.19	46
1989	602	1,388	2.31	43
1990	630	1,523	2.42	41

Source: Zhao (1993:82).

Other sources provide different figures and calculations, but the tendency seems to be the same. For example, in 1979, the ratio of dispensable income (*sheng huo fei shou ru*) between cities and the countryside was 1: 0.42. It improved in favour of rural residents to 1: 0.52 in 1985 but fell to 1: 0.46 in 1988 and to 1: 0.43 in 1991 (Ge and Yue 1993:278). Although not verified by statistics, it is generally acknowledged that the income rift has continued to increase after 1991. In 1993, the rural-urban income ratio was 1: 2.5, an increase from 1: 2.3 in 1992 (Ge 1995:103). By other accounts, urban average per capita dispensable income was 2.4 times the rural per capita net income in 1978, 1.7 times in 1985, 2.0 times in 1986 and 1987, 2.2 times in 1990 and 1991, and 2.3 times in 1992 (Zhu 1993:81-2).

Regardless of the different sources, figures indicate that economic reforms have not solved the inherited problem of income inequality between the rural and urban population. Since the beginning of the reforms, the urban-rural income gap was narrowed up to the mid-1980s, but thereafter the trend became reversed. In 5-6 years, the gap quickly exceeded the highest pre-reform level, and, despite various government efforts to reduce the rift, continued to worsen year by year.

[26] Rural-urban income difference in the early 1950s was most likely lower than in 1957. It was said that when taking rural as 1, the ratio of rural and urban consumption level was 1: 2.4 in 1952, which increased to 1: 2.9 in 1980 (cf. Li 1993:112).

Rural population remains at a disadvantage vis-à-vis their urban counterpart in terms of income level. Table 3.3 based on a survey in 1988 clearly highlights this situation.

TABLE 3.3
DISTRIBUTION OF URBAN AND RURAL HOUSEHOLDS ACROSS DECILE INCOME GROUPS
(in per cent)

	Urban areas		Rural areas	
Decile	Households	Income	Households	Income
lowest	0.09	0.42	18.64	99.58
2nd	0.29	1.35	18.46	98.65
3rd	0.92	4.32	17.91	95.68
4th	2.62	12.29	16.42	87.71
5th	7.96	37.34	11.73	62.66
6th	14.21	66.67	6.23	33.33
7th	16.93	79.43	3.85	20.57
8th	18.40	86.35	2.55	13.65
9th	19.15	89.84	1.90	10.16
highest	19.44	88.12	2.30	11.88

Source: Zhao (1993:85).

The breakdown of the income structure for rural households was exactly the reverse of the composition for urban households: more than half of the urban population is listed in the three highest decile groups while half of the rural households are concentrated in the three low-income decile groups. In China today, perhaps just as easily as before, one can roughly estimate the income level of the 'average' citizen by simply identifying whether the person has rural or urban status. The rural-urban divide continues to stigmatize rural residents who also happen to be the largest segment of the total population.

Given the historically formed dual economy in China, income disparity between rural and urban areas before the reforms has been commonly explained as the consequence of state policies favouring urban development. In order to accelerate industrialization, the state extracted large amounts of rural surplus by keeping agricultural prices low and industrial prices high. Through a mechanism known as 'scissor prices', the state was able to accumulate from the rural population an estimated 600 billion yuan as the initial capital for rapid industrialization.[27] Moreover, the state tightly controlled migration from rural areas to the cities, making it therefore possible to keep urban incomes high without the disruptive urban influx of migrants.

Price differences, undoubtedly, continue to play an important role in determining relative rural income. In the first half of the 1980s, the increase in state purchasing

[27] Project of Comprehensive Issues, Institute of Development Studies, 1987: 'Nongmin, shichang he zhidu chuangxi' (Farmers, Market and Institutional Innovation) *Jingji yanjiu* No.1. This view has been challenged, for example, by Liu (1990), who has argued that the importance of price differences between agricultural and industrial goods has been exaggerated as the main factor contributing to rural-urban income inequality. This argument seems to gain support in the light of developments in the reform era.

prices for farm products was a positive factor advancing rural incomes in a situation that agricultural production also achieved healthy growth. Consequently, even without the rural-to-urban migration, income differentials between the two sectors were reduced. On the other hand, a considerable increase in the so-called scissor prices in 1989-91 resulted in the loss of rural income which contributed to its relative decline vis-à-vis urban income. But there seem to have been other factors since the mid-1980s which have offset the negative effect of price difference on rural income. In the first half of the 1990s the rural population in large numbers began to move to the cities to look for income-generating jobs. The remittance of earnings by these migrant workers to their home villages should have helped to balance rural incomes, although these apparently were not sufficient to prevent the rift in incomes from continually widening. Moreover, the increase in rural-urban income gap continued to exacerbate despite the extraordinary growth of rural industries. Revenues generated by these new industries in 1993 accounted for more than 60 per cent of the total increase in rural net income (Wang 1995:158). One explanation lies in the fact that rural industries are far less developed in economically backward regions which, unfortunately, continue to remain large.

To compound the problem, rural residents have been levied with various charges rarely borne by urban citizens. Illegal fees, various charges, frequent fines, demands for contributions' have all been common practice and some local authorities have even resorted to outright extortion. Since the mid-1980s, the central government has issued regulations concerning the reduction of these extra burdens on the farmers but to little avail. As acknowledged in an annual report (Lu and Zhang 1993), the financial load of the farmers has continued to increase and the pretext for the extractions has become even more numerous. Some regions have itemized 182 different needs to which farmers have been forced to contribute money. Total levies in most rural areas amounted to 10 per cent or more of rural net income, or double the amount farmers are officially expected to contribute. In some other areas these levies have reached as high as 20 per cent.

Explaining the rural-urban divide is a difficult task and one which is beyond the scope of this paper. What has become clear is the fact that if central planning system can be criticized for failing to eliminate the rural-urban divide, market forces have not been able to do the job any better. As rural people constitute the majority of the population, an overall improvement in the welfare of the entire nation depends largely on an improvement in the welfare of the people in the rural areas. With this objective in mind, in addition to strengthening the earning ability of rural residents, urbanization should be encouraged in order to reduce the overall size of the rural population.

3.3 Regional disparity

In the pre-Revolutionary period, the east coastal areas were more developed economically than the rest of the country and the planning system did not fundamentally alter the situation. During the years of reforms, the regional income gap has become more pronounced as a result of the highly uneven economic growth of the country.

Regional disparity has increasingly become the reason for unequal access to welfare provisions for the population living in different areas.

Depending on the purpose of the research, regions in China can be analysed according to different configurations, for example, coastal areas versus interior; south-to-north; or by ethnic division. However, in exploring the regional pattern of China's economic development, it is common to compare the east, west and central regions. Vast differences exist in natural endowments, population distribution and ethnic composition of the three regions. For example, the eastern region covers approximately 14 per cent of the country's territory, about one-third of the total farming land, and sustains nearly one half of the population of China.

Rapid growth in production and income has been a nation-wide phenomenon, but growth has been far more aggressive in the east coast areas than in central and west regions. In 1992, during the neck-breaking development frenzy, Shanghai and the four other eastern coastal provinces of Jiangsu, Zhejiang, Shandong and Guangdong accounted for 57 per cent of the total national increase in industrial output. While Jiangsu produced more than 33 per cent of industrial growth for the year, most provinces in the western region had a growth rate lower than the national average. Ningxia, for example, registered 10 per cent industrial growth, Gansu 9 per cent and Qinghai only a little more than 1 per cent (Yang and Zhang 1933:232).

Uneven economic development resulted in an income difference among regions, which has become pronounced particularly since the beginning of the 1990s. The ratio of average monthly dispensable income among the east, central and west areas increased from 1: 0.66: 0.71 in 1993 to 1: 0.64: 0.67 in 1994. In terms of urban per capita income, the ratio between the highest (Guangdong with 4275 yuan) and the lowest (Inner Mongolia with 1710 yuan) worsened from 1.72: 1 in 1987 to 2.15: 1 in 1991 and further to 2.50: 1 in 1993. Regional income differences within the provinces can also be substantial. For instance, per capita dispensable income in Shenzhen in the province of Guangdong was more than 65 per cent higher than the provincial average (Ge 1995:102).

Regional disparity in rural incomes has also become obvious. In 1993, Gansu province had the lowest average rural income, approximately one-fifth of that of Shanghai. The ratio of per capita net rural income among the east, central and west areas increased from 1: 0.69: 0.66 in 1992 to 1: 0.66: 054 (Ge 1995:103). Taking per capita net rural income in the west region as 1, changes in the ratio among the three regions over the years indicate the following:

1980	1.28: 1.06: 1
1984	1.51: 1.27: 1
1991	1.61: 1.10: 1

Not surprisingly, poverty population has been disproportionally concentrated in west and central regions. In 1990, ninety per cent or 27 of the nation's 30 poorest counties,

which had a per capita rural income below 200 yuan, were located in the west region (*Green Book* 1993:118).

Causes for the increasing regional disparity are multifarious and complicated. One of the problems is the economic structure. Industrial level in the east region, including the development of rural enterprises, has been much higher than in the other two regions. It is a well established fact in China that regions with less developed industries are likely to remain relatively poor, simply because industry offers higher returns. Thus regions which concentrate on farming are described as 'big when measured by agricultural output, small when measured by economic size, poor when measured by revenue, and impoverished when measured by income'.

The expanding market functions seem to have further complicated the situation. Under the planning system in an attempt to narrow regional disparity, the government implemented a differential wage system according to which the wages of workers and staff in the interior regions were higher than in the eastern coastal areas with the intention to encourage the westward flow of human resources. In 1978 wages were higher in Xinjiang than in Shanghai, and wage levels in Yunnan, Gansu and Guizhou also compared favourably. Since 1978, the combination of wage reforms, decentralization, and the increasing role of the market in resource allocation has reversed the wage balance. Nation-wide, the share of the basic wage in total wage income dropped from 86 per cent in 1978 to 56 per cent in 1991 (Ge Man 1993:141). Thus, an increasing portion of wage income for workers and staff is made up of payments outside that basic wage, which is usually larger in the more developed eastern coastal areas. By 1991, wage levels in Gansu, Xinjiang, and Ningxia in the west region had become 24-29 per cent lower than in Shanghai (Zhu 1993:84-5). According to market principles, these changes in wage levels may represent less 'distorted' prices, but the changes offer little help for reducing regional income disparity.

State policies have favoured coastal development. The so-called 'coastal area development strategy' is a way to promote the uneven development of the different regions. Indeed, coastal areas, having been granted greater autonomy under the government's preferential policies, have advanced far ahead of other areas. Studies (e.g. Hu 1996) have found that varying access to foreign direct investment and to trade has been an important factor in regional disparity. The government assumed that economic success in the coastal areas would eventually spill over into other regions. However, this expectation remains far from being realized and the reversal of the continually worsening trend in regional disparity seems to be extremely difficult.

The increasing regional disparity not only presents a problem for China's sustained and balanced economic development in the future, but poses a serious obstacle to the betterment of well-being of the people living in the backward regions. Those living in the areas of the interior have poorer access not only to goods and services but also to education, health care, and employment opportunities. The 1990 census revealed that the rate of illiteracy and semi-literacy in China was about 16 per cent of the total population, most of which was concentrated in the interior. In Tibet the illiteracy rate is 44 per cent and in Gansu 27 per cent. In the central region, 40 per cent of the population of the

impoverished mountain areas of Dabieshan and 30 per cent of the Gannan area of Jiangxi province are illiterate or semi-literate (Wang, Zhang and Tao 1995:176).

Inadequate medical care has been a more serious problem, contributing to higher infant and maternity mortality rates in the regions of the interior. Although general infant mortality rate in China in the early 1980s was far lower than the average for India, the provinces of Yunnan, Guizhuo and Xinjiang have rates similar to India (Howes 1992). The rates of death for women giving birth in some of the impoverished areas remained 3 to 4 times higher than for urban women. According to a survey of a mountainous county in Jiangxi province in the central region, because of the lack of access to hospitals, 95 per cent of women give birth at home with the help of midwives and resultant deaths accounted for 89 per cent of the total maternal mortality rate (Tan 1995:333). Moreover, tetanus remains the major cause of infant mortality in the backward and mountainous areas of the interior (Tan 1995), whereas suffocation was the primary cause at the national level for both urban and rural areas (*Women and Men in China* 1995: 69).

In China at present, life in the countryside implies a significant disadvantage, and to live in the rural communities of the interior and backward regions, one can expect the most adverse living conditions. The poor of these regions represent a large sector of the population who have been bypassed by the economic development of the country. The real danger lays in the fact that this development pattern may lead to the perpetuation of regional disparity, thus creating a permanent segment of underprivileged people.

3.4 Migrant workers

A new phenomenon emerging from the process of reforms is the large-scale movement of peasants who seek jobs beyond their native villages and who have become known as the 'floating population'. This floating population has been increasing in number and by the early 1990s, had reached the colossal estimated size of approximately 80 million. According to a study by the Ministry of Agriculture, which, incidentally is believed to be the first comprehensive survey of migrant labourers (FEER 1996a),[28] 42 per cent of all farmers who took to the roads stayed within the home county; 28 per cent roamed outside the local county but still within the home province, and 30 per cent travelled beyond the home province. This indicates that the majority of migrant farmers prefer to seek jobs within their own province and only one-third are willing to travel further. Major urban centres such as Shanghai, Beijing, Tianjin, and Guangzhou in the east coastal areas have attracted substantial numbers of job seekers, generally totalling a few million per city.

As in other countries, the single most forceful motivation behind the mass migration of rural labourers is to find wage-earning jobs and a better life. Given the substantial income gap between cities and the countryside as well as among various regions, and

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[28] No-one knows the exact size of the floating population. Figures given by statistics and guesstimations range from 50 to 70 million and even 100 million (cf. Hu 1995:132). If the trend continues to the year 2000, it has been said that this group may swell to 110 million and this astronomical figure does not include the 20 million who move within their home areas (FEER 1996a:14).

given the serious under-employment situation in agriculture based on extremely unfavourable land-labour ratio, it seems only natural that these workers are willing to move elsewhere to look for gainful employment. Institutional changes after the onset of the reforms such as the collapse of the rural commune system and the receding role of central planning in the economy have enabled rural people to move more freely to locations where jobs are available. Finding a job is the most crucial issue in the life of a migrant once he/she leaves the home village.

As the first villagers to venture out have succeeded in landing jobs, it is common for others to follow in their footsteps. Others are introduced or helped by friends, family and relatives; still others try their luck with intermediary organizations or middlemen who have become increasingly popular as sources of information of the job market. Given the fact that the urban labour force is not fully employed, as is indicated by the unemployment rate of about 3 per cent in the cities,[29] the job expectations of the migrants are not easily achieved. But, on the other hand, much like the situation in other countries, a niche in the job market in the urban areas does exist for migrant workers. Reforms which have promoted more than a decade of rapid economic growth, have opened up new opportunities and the situation is favourable for those entering the urban job market for the first time. Jobs such as construction, vendor services, repair services, sanitation, garbage collection and street cleaning, recycling jobs and other odd assignments that most urbanites shun are likely to be taken over by the floating population. Some migrants have also established their own businesses or services individually or collectively and have become self-employed as tailors, handy-men renovating apartments, retail or restaurant workers.

Contrary to popular assumption, the probability of a rural migrant finding a job is surprisingly high. According to the *Report on Transregional Migration* by the Ministry of Agriculture, 99 per cent of migrant labourers have managed to find employment at their final destination. And interestingly, once a migrant has a job, he/she is likely to stay on the assignment for longer than generally assumed, usually for two years or more or he/she will return to the same seasonal chore regularly. On the other hand, permanent employment seems to be rather irregular. Most migrant workers change jobs every two to three years and some change jobs more frequently. Of all rural migrants employed in urban areas, 28 per cent worked in industry, 23 per cent in construction, 15 per cent in food processing, 8 per cent in commerce, 5 per cent in transport, 5 per cent in agriculture plus miscellaneous unspecified jobs.

The migrant population has made an important economic contribution to their newly adopted place of residence. Most construction in major cities has been done largely by migrant workers and certain economic zones such as Shenzhen were virtually built by this group. The fact that virtually all migrants have managed to find jobs indicates that they provide a useful and necessary service. In addition, they are willing to work at every and any conceivable vocation.

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[29] This includes only those registered as jobless in the government employment offices. The actual urban unemployment rate is higher.

The original rural areas where migrant workers have their roots have also benefited from the floating population phenomenon. Migrants generally send considerable amounts of their wages back home and the money has become an important resource for the local economy. In Sichuan, the total number of workers outside the province has been estimated at around six million and the remittances by these ex-Sichuanese in 1995 have been calculated at 20 billion yuan (US$ 2.4 billion), or the equivalent of 7 per cent of the province's GDP. While some migrants stay on in their newly adopted locations, others, after working a few years, return home with money and/or newly acquired skills. It has been reported that in Sichuan province, some three hundred thousand returnees have started their own businesses which, in turn, have created thousands of new jobs locally (FEER 1996a).

Migrant workers form a special group of the society with certain common characteristics. Most notably, they are the least location-bound sector of the population; their living conditions are the most precarious; and their migrant status exposes them to the greatest uncertainty regarding opportunities or risks. Migrant workers fall from the reaches of the formal social safety nets at least temporarily after leaving their native villages and before being accepted into the mainstream of urban life. Needless to say, the longer the interval, the more vulnerable these people become. Largely because of these common characteristics, migrant workers collectively suffer from a negative image.

When in desperate need of jobs, migrant workers are vulnerable and can become involved in illegal activities. A large part of the urban informal sector functions with the help of migrant workers. About 20 per cent of all manufactured goods on the domestic market are made by 'unidentified' producers and are usually of inferior quality or outright junk. Most of these goods are believed to be produced in either 'underground' factories in the urban areas or shipped to the urban market. In both cases, the labour force involved is most likely the migrant workers (Hu 1995:133). The migrating population also often manages to evade the state regulations on family planning which has earned them the unflattering nickname of 'excess-birth guerrillas' and is the biggest threat to toppling China's population control objective.

Their precarious living conditions and general vulnerability make the migrant population very susceptible to being victimized and/or turning to crime themselves. Figures verify that urban lawlessness by migrants is disproportionally high and in almost every major city, they are responsible for a much larger share of crimes than their proportion of the population. Forty-three per cent of the crimes committed in Beijing in the early 1990s were by 'outsiders', meaning the non-official urban residents. Corresponding figure for Shanghai was 53 per cent; Guangzhuo 50 per cent; Shenzhen 97 per cent (Hu 1955:133). Many of the crimes take place in the areas with a concentration of the floating population and the migrants usually become victims as well. In 1995, while outsiders were responsible for 56 per cent of all crimes in Beijing, 70-80 per cent of these were committed in the migrant resident areas. The high crime rate threatens the lives and property of the general population but in particular the migrants and the businesses of this group as well. In Zhejiang village, one of the migrant districts of Beijing, one-third of the businesses in 1995 were reported to be operating at

a loss mainly because of safety problems (Yang *et al.* 1995:18). Young women migrants are a particularly vulnerable group and some fall victim to organized crime, abduction or prostitution.

These problems are not caused by the inclination of the rural migrants for crime or other demeaning behaviour. The grim social circumstances under which they work and live prepare the ground for these problems. As mentioned earlier, it is common for migrants to follow the example set by others from their home villages and newcomers often end up in the same destination and even in the same business in the cities. Living in an entirely new and alien urban environment, people from the same province sharing a common bond tend to settle together, forming migrant districts in the cities such as the famous Zhejiang village, the Henan village, the Xinjiang village and so on in Beijing. But these settlements are not officially registered and therefore are not included in the formal sector. Consequently, these migrant residents are not entitled to similar social welfare such as housing, health care or food subsidies enjoyed by the registered urban residents. Even police protection at times becomes a problem. As migrants are not formally acknowledged as urban residents, local authorities, including the police, often shrug their responsibility for this group. For their part, the questionable legal status of the migrant population which is frequently subject to policy change, makes the migrants themselves, because of their fear of eviction from the city, reluctant to appeal to the formal sector for help. This situation creates an administrative vacuum where crime and anti-social behaviour thrive. Migrant districts in the city are like the wild west where jungle law prevails.

In such an environment, personal security becomes the first priority for the migrants themselves and the best means of protection is money. One extreme example has been the precautions taken by the Zhejiang village of Beijing, where a huge compound was built to house over five thousand people and their business facilities. Most of them were from Zhejiang province and were engaged in the garment business. The managing body of the property erected a wall around the compound and hired ten guards for duty day and night to secure safety. During six months since the establishment of the compound, the area has been crime free (Yang *et al.* 1995). But this case illustrates more the anxiety of the migrant workers for safety rather than an actual solution because similar arrangements cannot be afforded by all. Indeed, this unique solution was the only case of such dramatic action in all the migrant villages in the capital and it did not affect the overall crime rate of Beijing.

The migrant population in the cities has to struggle with the psychological problem of being considered second-class citizens. Most urban residents, if not all, have had personal contact with the migrants, buying vegetables and other food items they sell, wearing the clothes they tailor, using their skills to renovate apartments and so on, not to mention the public facilities migrant workers have helped to build and continue to maintain. But not all city residents treat migrant workers as their equals. Migrants may have more wealth than many of the registered urbanites but money does not save them from scorn and, worse yet, resentment. But again, this, instead of being the spiteful or arrogant nature of urban citizens, is the product of the long standing urban-rural divide. The limited access of the rural population to the benefits, security and welfare provided

by the state has suppressed this group to its inferior status. This difference is magnified when migrant workers enter the city to live and work among the urbanites.

Life in the countryside without the benefits provided by the state to the urban residents is one thing; living in the cities without these advantages is quite another. Migrants may make more money than the average urban resident but because of their limited accessibility to the state safety nets, they form the bottom layer of the urban society. Urban benefits are linked to two institutions: the urban household registration system and the work units – and the migrant population has neither. While this makes it easier for them to evade certain regulations, migrants are excluded from the common urban welfare schemes. Urban housing, traditionally distributed by the formal work unit where one is employed, is generally not available to migrants and the expense of commercial housing puts this option beyond their reach. This situation has forced most of the migrant population to either rent farm houses on the outskirts of the cities or, if possible, to build shanty-huts. The typical third world phenomenon of slums has invaded China. While the living conditions of the migrant population may not be as desperate and degrading as in many other developing country, the general housing situation for this group is definitely far below the standards of the registered urban residents or of those in the home villages. It is not uncommon for four-to-five migrants to rent a small room and to share the floorspace for sleeping; or then, they may simply sleep in the workshops which usually are also very crowded even after closing time. The lack of adequate sanitation and other basic living facilities has made the migrant settlements very susceptible to disease. There has been serious concern over the high risk of epidemics in the construction fields where migrants account for a large proportion of the workers as well as in their districts of settlement (Liaowang 1995:48, 22-3). Some municipal governments have tried to solve the housing problem by restricting migration, imposing regulations which require the issuance of work permits or requesting proof of housing arrangements before granting permits to enter the cities. These measures, however, have had little effect.

Theoretically, all children have the right to an education and, according to Chinese law, nine years of schooling is the compulsory minimum. But the opportunity of schooling for migrant children does not come easily. This problem is not associated so much with parents lacking the financial ability to send their children to school; it is associated more with the migrant status. According to administrative regulations, children should go to school in the localities where their families are formally registered. But under the existing household registration system, the offspring of parents who have slipped into the cities without a formal urban residence permit – and even those born and raised there – are not registered formally as urban residents and therefore are not eligible to enter the urban school system. Educational authorities in many municipalities have made efforts to accommodate these extra children but they are not legally obliged to do so, nor do they have adequate budgets for this purpose. Municipal officials in Beijing have pointed out that with the educational budget already over-stretched, it is simply impossible for urban schools to accommodate the extra flux of nearly three hundred thousand school-aged migrant children in addition to the 'legal' 1.5 million youngsters with urban resident status. Only approximately one-tenth of the school-aged migrants in Beijing manage to go to classes through various arrangements (Liaowang 1995:21).

While migrants face problems common to all because of their shared status of 'outsiders', by no means do they form a homogenous body. Social differentiation is very much in evidence. Some have made vast fortunes and have joined the newly rich. Others simply eke out a daily living by toiling in any conceivable job in the sweatshops, or in highly unsafe and labour-intensive foreign or joint ventures. Still others fall into devastating poverty.[30] For most migrants, however, it may still be true that cities offer better opportunities for improving their overall welfare, thus constituting the main reason for the floating population to remain 'floating'. The quality of the life of a migrant is based almost entirely on his/her earning ability in the city. While far removed from their home villages where the local safety nets are based on the equal land contract system,[31] the migrants have yet to be accepted into the social security system of the urban sector. It is clear that in addition to their current precarious circumstances, the migrant population has two options with regard to the future: they can either return to their home villages which for many would be a difficult choice; or to be accepted into the urban sector which would allow them to shed the status of second-class citizens, but this decision does not rest with them.

3.5 The status of women

Has the status of women improved during the reforms? This is a question for which there can be no simple 'yes' or 'no' answer. Many studies have shown that the effects of economic transition on women have been largely negative while others continue to argue that in terms of economic opportunity and social mobility, women have substantially benefited compared at least to the previous set-up under central planning, if not compared to men.[32] To be sure, there are a great many women who have 'made it' as a result of economic reforms, as exemplified by the group of successful businesswomen, the so-called 'women entrepreneurs'. For the limited scope of this study, the intention is not to provide an overall assessment but to present the aspects of welfare changes during the reforms that affect women.

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[30] A foreign traveller observed that the more booming an area becomes, the more obvious is the insistent phenomenon of desperate begging. In Guangzhou, for example, the 'homeless peasant-worker families camped out around the railroad station and the children grabbing leftovers off tables in restaurants nearby are in a state of desperate poverty, malnutrition, illness and total degradation. Their ranks, made up mostly of migrants from Sichuan and elsewhere, are swelling in rough proportion to the degree of "new wealth" being generated in this centre of foreign investment and reform' (Weil 1995:13-14).

[31] Institutional arrangements in the countryside in the reform era have largely worked to prevent Chinese peasants from becoming landless. Instead of being privatized when the commune system was dissolved, land – the major source of rural farming income – was contracted on a per capita basis to all rural households. Despite problems such as the scale of economy caused by such land distribution patterns, equal land contracting has proven to be vital to the livelihood of rural population to secure a basic food supply for farmers and their families. In other words, contracted land is the main income source for many and the last resort for others when alternative income-seeking activities fail. This, together with other residual social security arrangements such as those for disabled people, represents the remaining safety net for the rural population.

[32] For assessment of the impact of economic reforms on women, see Croll (1985 and 1994); Davin (1991); Gao (1994a and 1994b); Summerfield *et at.* (1994); and Lu (1995), among others.

As discussed earlier, welfare provision in China is generally linked to employment and the locale of residence. This applies to the female labour force as well. In the pre-reform period, the female employment rate in the urban sector was very high which ensured that women also enjoyed the job-related benefits. As reforms progressed, urban state and collective enterprises, the traditional employers of urban women, began to face growing pressure to improve efficiency in the increasingly competitive domestic and world market. The so-called 'improvement through restructure' (*youhua zuhe*) which was introduced to improve efficiency, threatened job security for all state employees but especially for female workers. When unprofitable enterprises began to downsize their labour force, women were usually the first to go. The Chinese unemployment statistics do not distinguish between males and females, making it difficult to measure the extent of female joblessness accurately. In 1993, according to a survey by the National Labour Union in 1,230 urban state and collective enterprises (Tan 1995:335-6), women accounted for the majority of the total *xiagang* or 'temporarily laid-off' workers. The Chinese word *xiagang* means that workers are allowed to go home during the difficult times of the enterprise and that once the financial standing improves, they would be called back to work. The state-owned enterprises (SOEs) of the old industrial base in the north-east provinces are heavily encumbered with this problem. In Liaoning province, where heavy industry constitutes the key employers, sixty-five thousand workers from large and medium-sized enterprises were 'temporarily' laid off in 1994. On the national level, it has been estimated that 60 per cent of the laid-off workers are women. Taking into consideration that women make up less than 38 per cent of the total work force in urban state and collective enterprises, it must be concluded that women have been unfairly affected by the dwindling job security. Moreover, in addition to those who have already lost their jobs, an estimated ten million female workers have been considered surplus labour in the public sector and may be hurt by downsizing if the reforms keep moving in the same direction as in the past.

In the absence of a national unemployment benefits scheme, laid-off workers depend mainly on their last employer for support. A specified sum of compensation calculated as a portion of their last salary or an allowance paid in the form of living subsidies are usually provided by the employer. But usually non-salary income such as bonuses and subsidies which account for a large and increasing portion of the total income are cut off. Depending on the enterprise, the amount of compensation or allowance varies. In some cities, laid-off women workers are entitled to 40-60 per cent of the basic wage (150 yuan per month) for the first three months and thereafter the subsidies may be as low as 30 yuan per month. In Harbin, 45 per cent of the laid-off female workers received a compensation less than 50 yuan per month while in Xian, 70 per cent received either negligible amounts or nothing. The maximum compensatory payment in many cities such as Shanghai, Wenzhou or Harbin is reportedly to be at a level below the minimum cost of living (Tan 1995:336-7; Chang 1995).

While waiting to be rehired, the laid-off workers are encouraged to look for other employment or to consider self-employment. It has been reported that about 55 to 60 per cent of laid-off female workers have managed to find new jobs; some have even received better wages. But the remaining women are finding it increasingly difficult to

re-enter the active labour force. Some have waited for as long as six years for job relocation. In Shanghai and Wenzhou, 70 to 80 per cent of the laid-off female workers are aged between 31 and 45 years, too young to retire but often considered too old to be re-hired or retrained for a new profession, particularly if the waiting period protracts.

The job situation for women in the rural areas and in the non-state sector is different. The newly established enterprises in the non-state sector, including foreign affiliated and rural enterprises (TVEs) are geared to labour-intensive production which typically needs large numbers of female workers, usually brought in from the countryside. According to a 1994 survey carried out in Guangdong province, female workers from other provinces accounted for more than 60 per cent of its TVE labour force. In Kunshan of Jiangsu province, female workers make up 80 per cent of the employees in all foreign affiliated factories. Migrant workers frequently become victims of abuse or trade law violations. The violation of the rights of employees and labour-capital disputes are more common in foreign affiliated, privately owned enterprises, as well as in village level TVEs where the share of woman workers is usually higher (Tan 1995:337-8).

In 1994, a survey of migrant workers was conducted in Zhujiang delta, one of the booming areas of Guangdong province. More than a thousand people were interviewed of whom 75 per cent were female migrant workers. While virtually all migrants had certain problems relating to labour protection, female workers complained of more serious grievances which included:

i) Long working hours: 50 per cent worked 12 hours a day and 25 per cent stated that they worked 13 hours a day. Another 20 per cent had to work extra hours every month.

ii) Poor working conditions which in many factories were so bad that they are harmful to the health of women;

iii) Appalling housing conditions for many of the workers, including women. Cases have been reported where two or three workers share a bed and some sleep on desktops in the shops;

iv) The majority of the workers have no labour contract or agreement which means that they can be fired anytime without notice;

v) Most workers have no social security schemes to provide health care, pensions or unemployment compensation. One-quarter of the workers have no medical coverage even for job-related injuries;

vi) Nearly half of female workers reported incidents of sexual harassment at work;

vii) As part of the migrant work force, many woman workers have been subject to various forms of demeaning treatment such as reduction in wages, delays in the payment of salaries, fines, insults, and restrictions on personal freedom (Tan 1995:338).

The survey revealed a rather gloomy picture of the working conditions and social protection of women in the non-state sector.

Yet, in spite of these disadvantages, those who have managed to find wage-generating jobs are on the average in a better income-earning position than the women left behind in the countryside. The comparative advantage has encouraged rural women to join the army of migrants. With the exception of some industrial sectors on the coastal areas where female labour is in higher demand, the proportion of women in the floating population is much lower than that of men. In Shanghai and Beijing in 1994, male to female ratio was 2:1. Moreover, the incentive to look for jobs beyond the home district seems to increase in direct relation to the economic standing of the local province. For instance, the share of people looking for jobs outside home villages was 7.2 per cent in the fairly prosperous east, 14.3 per cent and 13.4 per cent in central and western regions respectively.

As more men desert the countryside to become engulfed in the floating population, women are increasingly being left to work on the farms. Farm work cannot compete as a source of income with other non-agricultural work. On the average, income from non-farm economic activities is usually five-to-ten times higher than that generated by farming. The 'feminization' tendency in agriculture has affected the average level of earning power of the female rural labour force negatively. In addition, it has been observed that the poorer a region is economically, the smaller the proportion of women who travel to other areas looking for jobs. The ratio of men to women in migrant workers was 3.5: 1 in the east; 4: 1 in the central provinces and 6: 1 in the western region, an indication that women are increasingly and disproportionally concentrated in the least developed regions. This unfortunate development may compound the already declining earning power of rural women as a whole.

To be sure, rural women are not confined to farming only and many do engage in a variety of other economic activities. Moreover, women being responsible for farming may also increase their decision-making power in agricultural production as well as within the families. Thus, the economic transformation has produced both losses and gains as far as the economic status of woman are concerned.

Indicators show that women lag behind men in certain areas of social improvement. Education is one of them. As mentioned earlier, the drop-out rate for girls is higher than for boys, and the high proportion of females in the total illiterate population remains unchanged. In 1994, 128 million women in China could not read, of whom 110 million or over 85 per cent were rural women (Tan 1995:334).

The social and political status of women does not seem to show any obvious improvement during the reform period with respect to political representation (Table 3.4 below).

The ratio of women attending sessions of the National People's Congress, the Chinese Parliament, increased substantially during the 1960s and 1970s. But after 1978, no further progress has been witnessed. No women, not even in token appointments, are represented in the top decision-making bodies of the government, the Party, or the army.

TABLE 3.4
GENDER DISTRIBUTION OF DELEGATES OF NATIONAL PEOPLE'S CONGRESS

Session	Number of delegates		Representation by gender	
	Women	Men	Women (%)	Men (%)
1st 1954	147	1079	12	88
2nd 1959	150	1076	12	88
3rd 1964	542	2492	18	82
4th 1975	653	2232	23	77
5th 1978	743	2755	21	79
6th 1983	632	2346	21	79
7th 1988	634	2344	21	79
8th 1993	626	2352	21	79

Source: *Women and Men in China* (1995:82).

There can be no denial that the benefits gained during the reform process for the good of the nation as a whole are also enjoyed by women. On the other hand, however, the negative effects generated in the process have perhaps been especially detrimental to women. Certain social practices and traditions which plagued women in China in the past and which had been eliminated under the central planning system have re-emerged. Women have been abducted and sold as wives and prostitutes; women have again become a special commodity with certain market value. Female infanticide has also re-appeared in some areas. But as the purpose of this section is not to prove that women's status has become worse than before, it merely argues that economic growth in China during the reforms has not automatically led to a better position for women in the society.

3.6 The emergence of social marginals

Post-revolutionary China was known for its success in eliminating social marginals. In a few years time after the communists took over the state power, social institutions such as prostitution, drug abuse, and homelessness, which had been the trademarks of national decay in the old China, were largely eradicated from the society. In just three decades before the reforms, the national institutional frameworks had worked effectively to prevent social marginals from reoccurring, largely by keeping the rural population tied to the land in their native villages, and by setting up the work units to organize the life of the urban population. During the economic reforms, marginal social groups have re-emerged. As in pre-Revolutionary China, the emerging social marginals today, including child labourers, street children, prostitutes, drug users, etc. are at the bottom of the class hierarchies of society. They live under a social stigma, not only because they are poor (and some are not) but because their activities waver on the borderline of illegality. As a result, social marginals have close encounters with law enforcement. While a large segment of this social layer is associated with questionable dealings, others are treated as outright criminals, even though they may be victims themselves.

Child labour is a new phenomenon to the cities of China and to the rural non-farming industrial sectors. In agriculture, peasant children traditionally started to help with farm work at an early age. Also under the commune system, it was not unusual for teenagers under sixteen years to work in the field and to earn income. Classified as 'semi-able-bodied' labourers, youngsters usually earned half the daily work points of adults. However, in the cities child labour was strictly forbidden and this was effectively enforced by the planned job allocation. During the reform era, the rapid growth of non-state economic sectors has opened up new wage-earning opportunities which draw an increasing number of children into the work force. Official statistics on child labour do not exist. According to unofficial estimates made by ILO, UNICEF, and various NGOs, child labour in China in the early 1990s was about twelve million, or 3.5 per cent of the 340 million youngsters under the age of 16 years.

In an attempt to curtail its spread, the Chinese government enacted its first detailed law banning child labour in 1991. Judged by the figures on child labour in the subsequent years, it seems that the law has not achieved its objectives. Every year, a large number of school-aged children drop out of schools, and about half are estimated to end up in full-time paid jobs as manual labourers, either to toil in manufacturing or in services. They are commonly paid the lowest wages. Rural migrant children also work in the cities as rag-pickers, helpers to vendors, or housekeepers. Working full-time and taking responsibility for their own lives at a premature age, these children are experiencing social, economic and psychological hardship far more deeply than migrant adults. However, in a situation where other alternatives such as continuing their education do not exist and the options offered in their home villages are limited, the opportunity to work in a factory or at an income-earning job in the urban sector remains attractive. To put it simply, there are strong economic motivations that continue to pull children prematurely into the labour force.

The fate of the street children – their actual numbers unknown – can be worse. Children who left home for various reasons ranging from runaways, abduction, or abandonment have high chance of becoming vagrants. In 1994, some two hundred thousand children were estimated to be on the streets of Chinese cities. Government organs routinely round up these children to return them to their home villages, but they keep appearing in increasing numbers. As one newspaper article put it, 'child homelessness, which goes up and up, is stretching government welfare resources' (Weil 1995:14). While more common in large urban centres,[33] the problem is spreading to middle-sized cities as well. There were an estimated three thousand child-vagrants in Jiamusi city in Heilongjiang province in the north, of whom some six hundred were rounded up and returned home during 1989-91, but new recruits in equivalent multitudes soon reappeared on the streets. By the end of 1992, there were 40 per cent more homeless children under the age of 14 years than the year before (Weil 1995).

The process of marketization has introduced new 'commodities' to the market for exchange – the female body and drugs. After 1949, prostitution in China was and still is strictly illegal.[34] In the pre-reform period, prostitution was almost entirely eradicated. In

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[33] For example, more than three thousand child vagrants were picked up in Shanghai in 1992.

[34] Prostitution in pre-1949 China was not illegal but trafficking was. See Hershatter (1994).

the reform era, prostitution has re-surfaced under the disguise of business ventures related to tourism, services, entertainment, or other activities. When the government launches one of its 'hard hit' campaigns or clean-up programmes, prostitution temporarily disappears only to come back more forcefully than ever. During one such campaign in 1992, more than two hundred thousand people in the sex trade were apprehended in a ten month period, exceeding the total for the entire previous year. In the economically booming Guangdong, nearly twenty-five thousand people were arrested during the period January to August 1992. Official reports acknowledge that the situation has not improved in 1994 or 1995 (Chen *et al.* 1993:121; Chen and Tang 1995:231). Moreover, women, including under-aged girls, forced or solicited into prostitution in neighbouring countries such as Thailand are also reported to have increased in considerable numbers. Even though the actual number of women involved in prostitution is unknown, it is large and significant enough to become a visible social phenomenon.

Illegal drug use in China, like prostitution, has cropped-up again after the onset of the economic reforms. By the end of 1991, registered users of opium and heroin totalled one hundred and forty thousand which in one year increased sharply to approximately a quarter of a million. If marijuana users are included, the total could reach a million. As a proportion of the population, drug users remain small. Nevertheless, the problem is serious because about 80 per cent of the people involved are under the age of 25 years, and their numbers seem to increase at an astonishing speed. Drugs, which began to re-emerge in the southern part of the country, are spreading to the west and north-west,[35] where in the early 1990s, the young unemployed accounted for nearly a third of total drug users. Workers make up approximately half of the rest; followed by those engaged in private businesses or other forms of self-employment (Shao 1994). As with other marginal groups, criminal forces prey on drug users and the effects of being abused often radiate beyond the short-term misery of the individual. According to a survey conducted in Lanzhou of Gansu province, 70 per cent of addicts end up with broken families, and after exhausting their own resources, many turn to illegal activities themselves. The spread of prostitution and drug abuse has also caused serious health problems. The re-awakening of venereal disease caught medical authorities off guard in the beginning, as doctors were rather ignorant of the problem because there had been no need for such awareness in the pre-reform period.

The growing social stratification in general and the birth of marginal population in particular points to the formation of a social underclass. Is such a development unavoidable in order to achieve rapid economic growth, or to put it more concretely, are the have-nots the necessary price to pay for economic growth? The answer has to be found not in economic growth *per se*, but in particular types or patterns of economic development, i.e. in socio-economic conditions under which economic growth has been produced. In addition, the negative aspects of social development clearly point to a policy failure.

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[35] Drug use has been made possible by the increasing criminal activities of drug trafficking. In the early 1980s, drug trafficking was found only in the provinces of Yunnan, Shanxi, Guizhou, Sichuan and Guangdong. By 1989, drug trafficking was evident in all provinces (cf Shao 1994).

IV SOCIAL POLICIES AND INSTITUTIONS AFFECTING WELFARE CHANGES

Economic reforms have been pursued in China through the implementation of a series of economic and social policies without a corresponding change in political structure. The aim of these policies has been to reduce the role of central planning, to create favourable conditions to enable the market to operate, and to restructure social institutions to reflect the emerging socio-economic structure of the country. Economic policies have an impact, either directly or indirectly, on welfare changes of the population. Theoretically, in the longer run, economic policies which encourage investment, efficiency, and competition would result in the growth of national income which, in turn, would improve the overall living standards of the population. In the short run, economic policies such as those causing price changes can quickly translate into wage and income fluctuations. These policies play a powerful role in income redistribution among the people differently situated in the economic structure.

Social policies, on the other hand, directly regulate the redistribution of income and welfare provisions. It soon became clear in the process of reforms that economic changes require corresponding adjustments to the provision of social welfare. The existing framework of income distribution and welfare provision has either been dissolved as in the case of the Chinese countryside, or has become increasingly difficult to maintain under the pressure of market competition as in the case of state sector. Moreover, for the new economic sectors, no prior system of welfare provision existed. To respond to all these changes and to smooth the way for reforms, the government has implemented a series of social policies with the aim of reforming the current welfare provision system. As the government has made social stability a clear priority, the official approach is cautious and, as a result, actual change in the existing welfare system is taking place gradually.

China, unlike the European transitional economies, did not have nation-wide welfare coverage prior to the reforms. Welfare provision functioned according to two fundamentally different institutional frameworks in the urban and rural areas. Moreover, welfare provision in the urban sector was sanctioned by the state but in most cases the work units were responsible for its implementation. Following the increase in economic autonomy in the regions and work units including enterprises, the system has been decentralized further. Consequently, regional and sectoral diversity becomes more significant as government social policies opted to project general directions and basic rules. Welfare provision is an ongoing process in which experimentations have been conducted in a highly decentralized manner.

4.1 Employment and wages

Employment has been the single most important source of income and social security for the working population in both urban and rural areas of China. This was particularly true under central planning when other income sources such as private property were virtually non-existent.

A fundamental principle of the central planning system was that welfare provision was linked to the job and that all able-bodied people were to be provided with gainful employment by the state. Likewise on the part of the population, all able-bodied individuals were expected to engage in socially useful work. Anyone living and depending on the labour of others was considered a 'parasite'.[36] This idea was supported under the central planning system through a mechanism of planned labour allocation and with the job came various welfare benefits. The provision of income and basic social security was vested with immediate employers, i.e. the work units. Unemployment was considered incompatible with socialism. Given the fact that a job was to be secure for a lifetime, it goes without saying that social programmes such as unemployment benefits were unnecessary. Unbreakable, the security of a life-long job and the income it guaranteed became popularly known as the 'iron rice bowls'.

To break the 'iron rice bowls' has been the centrepiece of the government's employment reforms and this was relatively easily achieved in the countryside. Since full employment in the rural areas during pre-reform period was based entirely on the commune system, its disintegration led to a total collapse of the collective labour allocation mechanism. As mentioned earlier, collectively-owned land was contracted on an equal basis to rural labourers and it has become a major source of employment and income for rural families. The state has also encouraged the development of rural industries which have gained importance as employers for a large portion of the rural labour force. Although industrial employment may bring more income than farming, very few rural households have given up their contracted land. It is common practice to divide family labour so that some family members work in non-farm jobs such as in rural enterprises to earn cash, while others cultivate the contracted plots. This division of labour provides a form of security; if earnings in non-farm employment fail, rural families can still rely on the family plot for a source of income.

Largely because of the security provided by the contracted land system, the government has not been especially concerned with regulations on employment, wages and fringe benefits in rural industries. Rural enterprises have been virtually left alone to formulate their own employment policies. By the early 1990s, issues concerning wages, benefits, unemployment or job contracts were still largely a matter of negotiation between the rural enterprises and the employees.

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[36] Article 42 of the Chinese Constitution stipulated that people not only have the right to work but also have the obligation to do so. For a discussion of changing labour policies and ideas, cf. P. and R. Howard (1995).

The situation is different in the state sector, which has been the focus of reforms for the so-called 'labour and personnel system'. The concept of life-long employment with its attendant state-guaranteed security and other benefits had been the backbone of the welfare system of the urban sector. State policies since the reforms in this sector have been striving for a mechanism which would make flexible labour allocation possible and provide enterprises with a degree of autonomy in hiring and firing workers. The process, however, has been moving slowly, reflecting the resistance of the state-sector work force and the concern of the government for social stability. Up until the first half of the 1990s, state employment policies have encouraged the restructuring of enterprises in order to reduce and eventually to eliminate surplus labour. At the same time, however, enterprises were cautioned not to abandon redundant employees but to find ways to absorb the surplus internally.

As part of the employment reforms, the government made great efforts to implement a contract system in the state sector. This change is based on the principle that the old system of life-long employment security be retained for the current labour force, while contracts would apply to newly recruited staff. Lifetime employment is no longer offered and contract renewal depends on the performance and the financial standing of the enterprise. It is the government's intention to eventually extend the contract system to the entire state sector. By mid-1994, over 30 million employees or nearly 28 per cent of the total state-sector labour force had been issued contracts (Feng 1995:299). Giving enterprises greater flexibility, the contract system has also made the companies, instead of the state, responsible for the welfare of their workers. The state itself is to assume the role of arbitrator in case of labour disputes.

An attempt was made in 1992 to eliminate the guaranteed job security in one swoop by laying-off workers in non-profitable state enterprises. In the name of efficiency, some enterprises, calling for the destruction of the 'iron rice bowls' with an 'iron face, iron heart, and iron hand', began to lay-off or threaten workers with dismissals. This attempt, however, backfired. Workers were angered by this outright capitalistic approach and responded in some instance with strikes. The tension between management and workers in these conflict situations was far from being conducive to improving productivity and their strong response forced the government to retreat to a more gradual and less drastic reform approach.

Theoretically, enterprises were authorized to lay-off workers in the face of financial difficulties or in the case of labour discipline violation. But, despite the fact that an estimated 40 per cent of state enterprises are unprofitable, they continue to operate, and workers continue to keep their jobs. So far large-scale unemployment has been avoided. However, an increasing number of workers have been 'temporarily' laid-off or on long 'vacation' with reduced wages and clipped benefits. Unemployment pressures are mounting.

Unemployment is the most serious threat to the livelihood of workers in the urban areas. In 1983-92, the official unemployment rate was between 1.8 per cent and 2.5 per cent and only in one year (1989) it reached 2.6 per cent. Since then, unemployment has been on the rise, climbing from 2.5 per cent in 1992 to 2.6 per cent in 1993, 2.8 per cent in

1994, and 2.9 per cent in 1995. Because of the restrictive definition of unemployment and incomplete registration, the actual number of the jobless is far larger. According to figures from the National Trade Union, urban surplus labour in the mid-1990s had topped the 17 million mark, of which about 10 million were in state sector (Feng 1995:300).[37] The surplus labour situation has propelled the government to focus on establishing schemes for unemployment benefits, which currently are in the initial stages. Already the fading job security, the weakening role of the state as welfare provider, and the inadequate support from the infant social security system, have a negative impact on the living standards of workers in unprofitable enterprises, not to mention the unemployed.

To facilitate the establishment of compensatory funds for the unemployed, regulations on 'unemployment insurance of state enterprises employees' were issued in 1993 by the central government. Guided by these stipulations, provincial governments have formulated regulations to govern the collection and distribution of unemployment insurance not only for employees in state enterprises but also in other types of enterprises.[38] The unemployment funds in different regions vary considerably with regard to contributions by employers and employees, management, eligibility, duration, amounts, etc. In areas where region-wide regulations have yet to be formulated, unemployment benefits are worked out on an *ad hoc* basis between the enterprises and employees, sometimes with the involvement of local authorities. Often, the established unemployment funds are quickly exhausted when there is a sudden increase of joblessness. According to the Information Centre of Labour Ministry, the number of people receiving unemployment relief (*shiye jiujijin*) increased rapidly from 0.1 million in 1991 to 0.34 million in 1992, to 1.03 million in 1993 and to about 0.8 million in the first half of 1994 (Feng 1995:295). The number of people without jobs totalled 3.5 million in 1991, 3.6 million in 1992, 4.2 million in 1993 and 4.8 million in 1994 (CSY 1995:106). These figures suggest that unemployment benefits have begun to cover an increasing portion of the total unemployed.

Social benefits and security during the reform era continue to be essentially linked to jobs. But as employment security becomes increasingly uncertain, sole reliance on this source for one's well-being is no longer the 'iron law'. This change, in view of the growing number of workers in the rural and other non-state industrial sectors, makes the establishment of an alternative social security system imperative. Before and unless an operational system can be set up, additional dramatic changes in the state's employment policies could push many to the brink of poverty. In retrospect, the absence of large-scale unemployment thus far has enabled the industrial labour force to share the fruits of economic growth. But it remains to be seen whether the proposed social security system can become a better substitute in terms of equity and efficiency for the 'iron rice bowls'.

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[37] Labour Minister warned recently that the number of unemployed city dwellers could swell to 153 million, i.e. more than 10 per cent of the country's population by 2000 (FEER 1996c:55)

[38] Cf.Guo (1995) and Schädler and Schucher (1995:217-53).

4.2 Housing

Housing was an important component of social provision in the pre-reform period, especially for urban residents. As in many other social areas in China, the housing system was essentially made up of two segments – urban and rural. Under the commune system, housing in the countryside was privately owned by rural families, similarly as it is today. Housing, after land, was the second most important asset, and in the late 1980s accounted for approximately one third of the rural net worth (McKinley 1993; also McKinley with Wang 1992). Even today, because rural households do not have legal ownership title to the land, houses continue to be their major asset. As other forms of property such as fixed productive assets and financial assets have increased, the importance of houses in the total wealth of rural households has declined. Rural housing today remains basically in the hands of the individual families who, as owners, are responsible for their construction and maintenance.

Most houses in urban areas during the central planning period were publicly owned, but managed and distributed generally by the work units. Investment for housing came from the state budget. Since a housing market did not exist, provision of urban housing was entirely the responsibility of the state and work units. Employees' entitlement to housing depended on factors such as the availability of living quarters within one's work unit, rank and seniority of employees, assessment of needs, and so forth.

The distribution system for urban housing in the pre-reform era had certain distinctive characteristics. Housing, supplementing low formal wages, was a considerable bonus. Because of high subsidies, rents in the cities were largely nominal, constituting about 1 per cent of the total urban household expenditure.[39] The allocation of housing was erratic because several major factors affected the process. First, work units as principal providers of housing had varying access to the relevant state funds and the financial standing of the work unit itself could be too precarious to allow for investments in construction. Thus in many instances, the work units had difficulties in meeting their housing obligations. Secondly, housing was distributed virtually free of charge and those in powerful positions tended to receive more generous allocations. Thirdly, there was a chronicle shortage of housing. Because heavy subsidies kept rents extremely low, additional investments in 'un-productive' housing construction only added to the burden of the state and of urban work units. Overall, for most urban residents, affordability was not the issue; shortage was.

The key element of housing reform is to change its welfare nature, and eventually to establish a housing market. A number of experiments have taken place since 1978 in various cities in China, encouraging urban residents to cooperate with the state and work units in housing reform.[40] In an attempt to establish a housing market by making housing construction a profitable investment, measures have taken to increase rents and to encourage urban residents to purchase their present living quarters.

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[39] The national average monthly rent per m^2 in 1978 was 0.13 yuan (Expert Group 1995:218).

[40] Cf. World Bank (1992a) and Yang and Wang (1992) for evaluations and processes of urban housing reforms in China.

Housing reform has proceeded slowly. Until the mid-1990s, the old distribution system remained fundamentally unchanged, and urban residents still today depend on the work units for housing. In places where public housing has been put up for sale, not all current occupants are willing or able to buy. Rents have been increased, as have incomes. As a result, rent as a proportion of urban household expenditures has not changed much. In 1985, the urban annual per capita rent was 6.5 yuan, the same amount an individual would spend on newspapers and publications, or on utilities such as water and electricity, each of which accounts for 1 per cent of the annual per capita living expenditure. In 1994, per capita rent increased to 28.8 yuan, making it 16 per cent higher than the per capita layout for newspapers and publications, but 45 per cent lower than per capita cost for utilities. Rent in 1994 consumed 1 per cent of the per capita annual living expenditures, the same as in 1985 and 1978 (calculated from CSY 1995: 262).

During the reform years, housing construction had been speeded up and the increasing floorspace has eased the crowded living conditions. Yet, the continuing shortfall between supply and demand makes the scarcity of urban housing one of the most acute problems in China. The ongoing practice of allocating accommodations at extremely low rents does not suppress demand. Newly built commercial complexes and apartments are becoming available, but prices are astronomically high for the ordinary wage-earner. In Beijing, for example, if a middle-income household can put aside 60 per cent of the total family income, it would take a life-time of savings to buy a two bedroom apartment on the commercial market. On the other hand, as rentals continue to be heavily subsidized, few urban residents, if any, have become shelterless. The worst situation is faced by the rural migrants who have not been integrated into urban work units and therefore are not eligible for urban housing allocation.

4.3 Health care

Under the central planning system, health care was composed of three basic parts. One was the public health care (*gongfei yiliao*) that covered state employees in the government, army, and other state institutions funded from the state budget. As a general rule, people in this category were reimbursed in full for their health care expenses by the state, with no definite limit on the expenditures of the individual. The second part was the labour security health care (*laobao yiliao*) which applied to employees in state-owned enterprises as well as most other urban companies. Health care costs in this category was generally established at 5.5 per cent of the enterprises' total wage expenditure, therefore funds available for medicare were not inexhaustible. The third part was the so-called cooperative health care (*hezuo yiliao*) in the countryside. It was based on collective funds and individual contributions (usually very small), which were accumulated into a reserve to compensate for the medical expenses of the farmers. To supplement the limited medicare options of the rural population, the government also encouraged setting up clinics at the village level which were sponsored and managed by the rural collectives. Rural residents with elementary medical training, popularly known as the 'barefoot doctors' provided preventive and/or primary care for the villagers; complicated cases were referred to more advanced medical centres. Public

health care did not provide coverage for family members, whereas labour security health care compensated half of medicare expenses for immediate families of the workers.

Hospitals were run by the state and financed from the government budget. As such, hospitals were considered non-profit organizations and fees were kept very low, usually inadequate to cover even operational expense (cf Yu 1992).

In the central planning era, accessibility to health care was not equal to all, and the services and benefits enjoyed by various social groups were different in terms of quality and quantity. Nevertheless, both urban and rural population had access to affordable medical services. On the eve of rural reforms in 1979, the rural cooperative health care system covered about 85 per cent of the population in the countryside, and clinics had been established in about 80 per cent of the villages. Coverage was not uniform, varying between 50 and 90 per cent in different rural regions (Hussain and Stern 1990:17) and the quality of service was not particularly advanced. But the availability of basic medical services made a considerable difference in China, a large developing country with huge rural population.[41] And, this fairly comprehensive health care system contributed significantly to the improvement in life expectancy and general health of China's population.

As the economic reforms progressed, all three components of the previous health care system have undergone changes, with the countryside experiencing the most radical adjustment. Because cooperative medical care was linked to the communes, it crumbled after the commune system was dismantled. By 1985-86, remnants of the cooperative system had survived in less than 5 per cent of the villages. After a few years' efforts to re-establish clinics, only 10 per cent of the villages by the early 1990s had succeeded (Shao 1988; Bo and Dong 1993:196). For an overwhelmingly majority of the rural population, cash payments to procure medical services have become the only option.

One serious aspect of the erosion of rural health care has been a sharp drop in the so-called 'part-time health workers', including barefoot doctors, medical assistants and midwives. The number of barefoot doctors had been declining since the 1977 peak and the title was officially abolished in 1986 (De Geyndt *et al.* 1992:2) After 1986, due to reclassifications, figures for the barefoot doctors were no longer available. Since the onset of the reforms, government policies shifted from efforts to increase the number of barefoot doctors to emphasizing their competence.[42] A qualifying examination was established to upgrade barefoot doctors to the status of full-time physicians and these medical workers as a distinct group had officially disappeared.

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[41] In 1975, there were about 1.6 million 'barefoot doctors' or one doctor to 400 rural inhabitants (De Geyndt *et al.* 1992). Admittedly, the medical training of the barefoot doctors in most cases was rudimentary but as Drèze and Sen (1989) argued, to have even elementary medical services available across the nation in its remotest parts made a big difference in the health conditions of a country like China.

[42] Deng Xiaoping has been quoted as saying that 'the barefoot doctor must one day learn to walk in straw sandals, then he has to walk in cloth shoes, and finally he must be able to wear leather shoes'.

The cooperative medical care system in collective agriculture was not without its problems. Some have argued that the system had already started to crumble before the onset of economic reforms (cf. Hillier and Zheng 1995). Studies have confirmed that after its disintegration, there has been a sharp increase in the per capita medical expenses, and this has reduced the options of the rural sector to basic medical care. Surveys in rural Jiangxi province found that the existing collective clinics were two and a half times cheaper than private practice (Hillier and Zheng 1995:165). As pointed out earlier, a large sector of rural residents lacked proper or timely medical attention because they could not afford it. Illness in one form or another has a major cause of impoverishment for many. Consequently, inhibiting medical expenses have become a major factor threatening the living standards of individual households.

On the other hand, thanks to the sustained rapid economic growth achieved during the reforms, the continuing increase in rural incomes has strengthened the capacity of households to pay for medical services, especially in areas that have done well. This growth-supported prosperity has to a degree offset the negative effects of the sharp increase in prices for medicine and services, as well as the crumbling cooperative health system.

The health care system in China had favoured the urban population before the reforms, and the situation has not changed since. While the collapse of the rural cooperative system left rural people with no option except to rely on their own resources for medicare, the state continues to allocate substantial funds for the urbanites. In the early 1990s, less than 15 per cent of China's population, or 163 million individuals, were covered by public and labour security health care programmes, but this group utilized nearly half or 44 per cent of the total health resources of the country. Specifically in 1991, of the 8 billion yuan allocated to health care development, over 5 billion yuan, i.e. more than 60 per cent, was earmarked for urban medical coverage (Bo and Dong 1995:196). This heavily biased health care system, plus the extra cuts in medical services in the countryside has been a major source of discontentment among rural population.

Unequal distribution of health resources exists not only between urban and rural areas, but also among various regions, affecting the health situation differently in various parts of the country. In particular, health care is weaker in the impoverished areas, where it is often more urgently needed to off-set such poverty-related health problems as malnutrition. The lack of health care has manifested in a decline or loss of labour-ability, higher morbidity, and higher mortality. According to a report by the Ministry of Health in 1989, infant mortality (below one year of age) in 300 poverty counties was 68 per thousand, 50 per cent higher than the national average. In 38 of these impoverished counties, infant mortality exceeded 100 per thousand. Maternal mortality was twice the national average. Studies have revealed that inadequate basic health and medical services in these areas was a major factor contributing to the higher mortality rate (Wang 1994:8).

In urban areas, both public health care and labour security health care systems have been modified, but the basic framework has remained intact. Reforms have aimed at

increasing individual responsibility for medical expanses. At present, in an effort to cut costs and eliminate waste, individuals covered by either health care programme pay a percentage for medical expenses calculated as 1-8 per cent of monthly wages, or a set sum for each hospital visit. However, rules vary in different regions and even among different work units in the state sector.

While most urban citizens are still covered by the old health care system, the proportion of those without health insurance is growing, a reflection of the fact that more workers are hired on contracts and rural migrants continue to flood the cities. From 1986, market-oriented health insurance programmes with various options have been set up on an experimental basis in both urban and rural areas. The goal is to eventually replace the existing systems, and to create a comprehensive health insurance framework to extend coverage to the entire population. In the rural areas, health insurance efforts have particularly focused on hospitalization, the most costly medical expenditure. Compared with urban schemes, health insurance in the rural areas usually has smaller premiums and provides less coverage. It is anticipated that by the year 2000, rural health insurance will cover 50 per cent of all villages.

4.4 The social security system

Changes in employment policy led to a fundamental shift in the focus of social security arrangements. As lifetime jobs are no longer easily attainable, and as the collective safety nets of the countryside collapsed, the old social security system sponsored by the work units seems to be increasingly inadequate. Government policies in this area have been concentrated on schemes to pool diverse resources into a comprehensive social security system.[43] Typically, social security reforms so far have followed the general pattern of reform, i.e., new schemes are promoted and tested while the old system, albeit with modifications, continues to function. The government offers general guidance, and practical measures are taken mainly by local authorities at provincial or lower levels.

Urban social security reforms have focused on retirement pensions and unemployment benefits and efforts have been made to establish relevant funds. Pension reforms in the cities have been oriented at liberating enterprises from the sole responsibility for pension provision by setting up funds which would be administratively independent of the individual work units. Enterprises and individual employees contribute to these pension funds. It has been reported that most of urban state and collective enterprises have participated in the *shehu tongchou*, or socially/publicly managed pension funds. The massive size of China creates problems in establishing a single unified national pension fund. In reality, the administrative levels of the pension funds vary in different areas. For instance, in some provinces, the newly established funds are pooled and supervised at the provincial level, while in others, control is at the municipal level.

To facilitate the establishment of unemployment compensation reserves, enterprises were required in 1995 to remit 1 per cent of their total wages to these funds. Workers

[43] For a comprehensive introduction to the Chinese social security system, cf. Hussain (1995) and Ahmad and Hussain (1991).

who had been on the job for more than one year before being laid-off were entitled to compensation which in many cases was set at 50 per cent of the average wage of the locality for a duration of two months. It is envisaged that unemployment compensation will be extended to workers in all types of businesses, including state-owned, collective and private enterprises, share-holding companies, as well as to Chinese workers in joint ventures or foreign-owned companies. The government has also plans to establish a fund to provide compensation for the labour force laid-off because of enterprise shutdowns (*tingchan*, i.e. stop production), restructuring (e.g. mergers), or bankruptcies (Chen 1995:209). At the present time, not all regions in China have unemployment benefit funds and where they are available, funds are limited and easily depleted because of the short duration of contributions, untimely payments by enterprises, and/or sharp increase in the number of unemployed.

Provision for old-age security has been especially lacking in the rural areas. As a general rule, unlike their urban counterparts, the rural labour force has never been included in retirement schemes. Decades of full employment in the cities and in the state sector have secured pensions for most urban retirees. Overall, about 30 per cent of all old-aged people in China enjoy retirement pensions and most are urbanites (Ma 1992). In the rural areas, an overwhelmingly majority of old-aged people are left without individual income once they stop gainful work, becoming totally dependent on their families for support. According to the constitution and marriage laws in China, all citizens are obligated to support their elderly parents. But its implementation of the law is problematic, as it is difficult to penalize those who ignore it, because the elderly themselves are not willing to evoke legal action against their own children. With no alternative income source or public support system, the old-aged rural people are at the mercy of their children.

In rural China, the relationship between old and young generations in the family is largely reciprocal in that the elderly provide help in caring for grandchildren, cooking, and doing other domestic work while the younger adults earn incomes. But the reciprocity fades as soon as the older generation becomes disabled. Despite the fact that traditional culture values the Confucius ideal of filial piety, and despite the fact that many dutifully continue to support elderly parents, there are increasing factors such as changes in property relations, higher labour mobility, disintegration of extended families, etc. that have weakened the network of family support (He 1995). Since the late 1980s, various rural old-age security funds have been set up on an experimental basis. One common scheme calls for farmers to contribute an amount specified by the individual to a pension fund from the age of 20 years which would accrue towards a monthly pension at 60 years. The amount of monthly pension would depend on the contributions made during active work years. In areas where rural collectives continue to thrive, they also contribute to the old-age security fund for their members.

It is difficult to have a clear-cut picture of the extent of national social security coverage and related expenditures because of problems associated with data classification, and highly diverse practices in various localities. Tables 4.1 and 4.2 provide a reference to the situation in 1993.

TABLE 4.1
COVERAGE OF SOCIAL SECURITY, 1993

	Million people	Percentage (%)
Population under coverage	192.4	100
as % of total population	16.20 %	
as % of total work force	30.40 %	
By urban and rural areas		
i Urban population under coverage	180.1	93.6
Workers and staff	148.5	77.2
Retirees	27.8	14.4
Collage students	2.5	1.3
People receiving allowance and relief	1.3	0.7
Coverage of urban population (%)	92.10 %	
ii Rural population under coverage	12.3	6.4
Population under regular allowance, relief and five-guarantee	9.4	4.9
TVE workers (10% of T-Es)	2.9	1.5
Coverage of rural population	2.70 %	
By category		
i Workers covered by social security	148.5	77.2
ii Retirees	31.3	16.3
which includes those in homes for elderly, five guarantee and rural pensioners	3.5	1.8
iii Population under allowance and regular relief	4.4	2.3
iv Receiving relief for poverty and laid-off	1.1	0.5
v Population in welfare institutions	0.7	0.4
vi Disabled in welfare enterprises	0.9	0.5
vii Workers of TVE covered by social security	2.9	1.5
viii Collage students	2.5	1.3
By ownership		
i State enterprises	139	72.3
ii Collective enterprises	47.5	24.7
iii Others	5.9	3.0

Source: Zhu Qingfang (1995). Calculated by the author, based on 1993 statistics.

TABLE 4.2
EXPENDITURES ON SOCIAL WELFARE AND SECURITY IN CHINA, 1993

		Billion yuan	% of GDP
i	Social security and welfare of workers and retirees	167	5.3
ii	Relief, allowance and other welfare	8	0.3
	Total expenditure (i and ii)	175	5.6
iii	Welfare expenditure from TVEs and rural public funds	16.7	0.5
	Total expenditure (i, ii and iii)	190	6.1
iv	Housing subsidy	35.6	1.1
v	Price subsidy (grain, cotton, meat, vegetables, etc.)	25.4	0.8
vi	Welfare in kind by enterprises and institutions	52.5	1.7
vii	Social purchasing used for individual consumption	13.6	0.4
	Total expenditure (i-vii)	317.1	10.1

Source: Shu Qingfang (1995). Calculated by the author, based on 1993 statistics and other data.

4.5 Enabling mechanisms – offsetting measures by households and communities

As macro economic and social conditions change, people respond accordingly to the impacts of reforms on income, welfare and livelihood security. The increasing function of the market, coupled with radical institutional changes particularly in the countryside, has introduced a growing sense of uncertainty. The first natural reaction to economic uncertainty is to accumulate extra wealth to safeguard one's livelihood or, better yet, to become affluent. This common reaction by both urban and rural citizens has been instrumental in the continual high savings rate (at the 35-40 per cent level) in the reform era. Of course, not all families are able to save, but large section of the working population are making efforts to leave room in their family budgets for savings against future uncertainty. According to surveys in several cities in Hunan province, of the families putting money in the bank, about 64 per cent save primarily to secure their families' future needs and only about 20 per cent save for the specific purpose of procuring modern consumer goods, accumulating wealth for the next generation, or earning interest income (Feng 1995:296).

In order to save, people must first earn. Opportunities are indeed far greater now than under the central planning system, thanks to the increasing autonomy of enterprises, higher level of labour mobility, and more flexible resource allocation. For obvious reasons, rural and urban responses to the need to establish a counterbalancing mechanism at the household level are not identical. In urban areas, although lucrative non-state jobs offer higher incomes, many are reluctant to quit the state job which would mean losing relatively stable employment and favourable welfare provision. However, once the job security and the existing welfare provision of the state sector become questionable, better paid jobs in the private sector appear to be more attractive. Faced with these choices, urban households look for options which would enable them to enjoy the advantages provided by both sectors, while avoiding the accompanying

disadvantages. One well-known practice is the division of labour within families. In households where both spouses work for the state sector, it is not uncommon for one spouse to join the private sector or to take up a second job (with some risk of losing the state job) in order to earn extra cash, while the other stays on with the state sector as insurance against 'market failure'. This strategy has worked well in mixed economy circumstances where opportunities differ widely in different sectors. However, far from all families are able to achieve this 'ideal' combination.

In the cities, institutional frameworks established after 1949 continue to play important enabling roles. Neighbourhood organizations composed of 'street offices and residents committees' were given responsibility to oversee such affairs as security and welfare assistance within the immediate vicinity (Whyte and Parish 1984). These grassroots associations provided certain community services; they were in charge of distributing government relief in the neighbourhood; were involved in mediating intro- and inter-family disputes, and were responsible in establishing small-scale production or businesses to create jobs. They also played an important role in political mobilization and in maintaining public safety in the neighbourhood. During the reforms, these organizations have continued to promote grassroots participation in community activities for social and environment betterment and have, to no small extent, provided comfort and help to those in needs. According to surveys (Chan and Chow 1992), nearly half of urban residents in the early 1990s were involved in mass mobilization efforts to improve the environment of their local vicinity, assisting law enforcement and/or expanding neighbourhood green areas. Many urban residents continue to receive assistance from these neighbourhood organizations in problems ranging from financial difficulties, caring for the sick, finding employment, and settling family disputes.[44]

The commune system, prior to reforms, could be viewed as the collective and organized solution to fill the need for social security in a low-income situation. Soon after its disintegration, it became clear that individual response to the changing situation is far from adequate, and the need for mutual help has revitalized local kinship networks. In collective agriculture, the informal solidarity of mutual locality and of extended families became less crucial, as responsibility for assistance at village or township levels rested with the formal collective organizations. In the absence of formal solidarity or in its fundamental deterioration, traditional forms of solidarity are becoming more important. Family and friends are the first people to be mobilized when assistance is needed for major investments such as starting a business, constructing a house, or in the event of emergency such as illness or injury, as well as in family occasions such as weddings and funerals (Thireau and Kong 1995; Feuchtwang 1995). Although friends may be approached more frequently for financial assistance, relatives are sought for support in connection with family emergencies or events. It was also observed that in case of need, the willingness to accept or to give assistance depended on the general level of

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[44] According to a survey by Chan and Chow (1992:105), urban residents sought help from neighbourhood organizations (street offices and resident committees) for financial difficulties in the families in 0.4 per cent of the cases; for problems relating to working conditions in 1.4 per cent; for the care of the sick in 3.4 per cent; for housing problems in 4.5 per cent; for the care of handicapped in 7.2 per cent; and for finding schools for their children in 9.2 per cent; for finding nurseries in 11.4 per cent; for finding jobs in 16.8 per cent; and for solving family disputes in 20.2 per cent of the cases.

economic well-being of the village or the household, and that the poor have to rely on their own resources much more than the well-to-do.

Unfortunately, in many rural areas external assistance to poor households has become more limited. In the case of the so-called 'five-guaranteed households'[45] which are totally dependent on socially provided assistance for survival, their living conditions in some rural areas have become precarious. Formally, all rural households continue to have obligations to the village committees, including yearly contributions to the village welfare fund for various causes, including maintaining the five-guaranteed households. But not all village committees are able to collect contributions from the individual households or have the means to generate income collectively. This creates a serious problem in providing to the needy. Currently while village organizations are officially responsible for certain social welfare functions, formal solidarity such as an enabling mechanism is largely conditional on the financial and organizational ability of the village organizations themselves.

Prosperous villages, especially where collective economy continues to play important part, are more likely to assume greater responsibility for welfare provision to fellow villagers. The development of rural industries in the form of thriving township and village enterprises has also contributed significantly to the financial status of many communities. In particular, in localities where collectively-owned village industries flourish, collective welfare provision has becomes more comprehensive and extensive than under the commune system; in some instances, the provision of welfare benefits has surpassed those offered by the state sector. One successful village in the southern part of the country, Gao Seui Haang, is reported to distribute an annual pension of US$ 290 for each senior villager and a smaller allowance for each child. Large sums are lavished on the local school each year, and students are financially assisted to go to university (*Economist* 11 Nov. 1995). Nanjie village in central Henan province is another example of comprehensive collective welfare provision. The village gradually reverted to a collective socio-economic body after the mid-1980s. By the first half of the 1990s, booming economy has enabled the village to provide cradle-to-grave benefits: free three-bedroom housing for each family plus no-cost utilities, free health care and education. These villages constitute a small minority in the countryside today, but they are not isolated cases. In a comparison of communities on the same level of prosperity, the collectively-run villages usually offer better welfare provision than those where community wealth is based on individual entrepreneurship.

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[45] The 'five-guaranteed households' are the aged, disabled and orphaned who are physically unable to engage in income earning, who have no family for support, and who have no access to standard sources to safeguard their survival. Rural collectives and/or administrative bodies are obligated to guarantee the livelihood of these people by providing food, clothing, cooking fuel, education (for orphans) and burial (cf. Guo 1995:943):

V ASSESSMENT AND FUTURE OPTIONS

5.1 Evaluations

China's record of outstanding economic performance in less than two decades after the introduction of the reforms is hard to dispute. Economic growth has brought tangible gains to the material well-being of the population. But at the same time, as increasingly evidenced, the gains are by no means enjoyed equally by all. An examination of the welfare changes suggests a picture of mixed results. Reliable statistics on economic growth can reveal a great deal more than what an average person would observe. The average citizen rarely voices an opinion on economic figures compiled by the experts and, even if a comment is offered, few experts would take it seriously. The situation is somehow different with regard to welfare changes. Welfare directly affects the lives of the people and statistics, for them, do not always tell the story as they know it. Indeed, who can better judge whether their living conditions have improved or deteriorated than the people themselves? One does not have to go far back into history to note that it is the life experiences, not figures or statistics, that have prompted the collective responses to drastic social changes. Therefore, in spite of the academic debate on welfare changes so far, one question remains; how is the situation evaluated by the people concerned?

Thanks to more advanced tools of social research, additional information is becoming available. Surveys on social issues have been conducted and published in recent years on an increasingly regular basis. The results can be biased and should therefore be treated carefully. Nevertheless, they provide valuable information on social changes viewed from below.

A sample survey of twenty thousand people in over ten provinces evaluating welfare changes, was carried out late 1994.[46] Ninety-two per cent believed that living standards had either stagnated or deteriorated in the year.[47] According to official statistics, however, per capita income continued to rise even after adjustment for the high inflation of the year. The difference between statistics and public opinions cannot be dismissed simply by discrediting the survey result.

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[46] This survey was conducted by the Sociology Institute of the Chinese Academy of Social Sciences in cooperation with the Department of Society of the State Statistics Bureau. Similar surveys have also been carried out in the last few years. Analyses of the surveys' results were published in the *Social Blue Book*, a yearly report on social development, published since the year 1992-93. One of the admitted problems of these surveys is that cadres are overrepresented while farmers are underrepresented in relation to their actual proportion of the population. Information on public opinions for 1992 is from Lu (1993:75), and for 1994 from Lu (1995:29-41).

[47] To be specific, 63 per cent of all respondents felt that no obvious change had taken place in living standards compared to the previous year, while 21 per cent believed that there had been a drop, and about 8 per cent felt that there had been a serious decline.

Economic and social issues which caused serious anxiety among the populace in 1994 included such facts as price increases (80 per cent), crime (33 per cent), lack of progress in anti-corruption efforts (28 per cent), and a decline in social morale (19 per cent). Correspondingly, in response to the question which problems should most urgently be dealt with in subsequent years, at the top of the list were measures to control inflation, to combat corruption, and to crack down on crime, followed by such hopes as better individual incomes, housing, jobs, social security, and so forth. The year 1996 has seen the inflation rate come down, and opinion polls currently show that corruption has surpassed inflation as grievance number one. In view of the continuing low per capita income level today, the fact that people are more concerned with corruption and crime than with their personal wealth or possessions highlights the severity of these problems affecting their lives and general well-being.

When asked to identify the social groups who have had the greatest advantage from the reforms, public opinion believes that the lion's share of benefits has been reaped by private entrepreneurs, followed by petty private merchants and producers, government officials, professionals and technical personnel, and managers of state enterprises. Farmers and workers were among those who had benefited the least, with workers last. In 1994 factors such as high inflation, additional worker lay-offs and decline in social benefits in the state industrial sector may have contributed to the perceived reduction or stagnation in the living standards. In the countryside, rural income grew even more slowly than in other sector.

Surveys also revealed that self-evaluation of the benefits of virtually all social groups was lower in comparison to their appraisal by others, except in the case of cadres, professionals, service personnel and non-working urban residents (*jiedao jumin*). Although concerned about unstable agricultural production and such associated problems as the lack of funds and investment, deterioration of the rural infrastructure, and lack of government support, the farmers placed social security issues, particularly pensions, at the top of their list of grievances, signalling deep distress over income insecurity.

It was officially believed that income distribution could effectively be taken care off in the process of 'some getting rich first', and 'common prosperity' coming second. While the first part of the slogan has increasingly materialized, common prosperity remains rather remote. Disappointment is well reflected in public opinions. Those surveyed believed that main factors retarding common prosperity were, in addition to population pressure, the growing income inequality, rural-urban disparity, the weakening of social order and increasing crimes. Academic studies have proven that despite of an increase, income inequality has remained at a relatively low level in China compared to other developing countries at similar income levels. The public, on the other hand, seems to have made their judgement based on different criteria, reviewing, for example, the current situation against the more egalitarian income distribution in effect prior to the reforms. Survey results suggest that public support for the reform ideology of 'letting some get rich first' is not unconditional.

Although workers and farmers were viewed in the 1994 survey as the social group with the least reform-era gains, the 1992 survey suggested that this group, particularly the farmers, was less sensitive to the question of income inequality. This, however, may reflect the fact that farmers see income inequality in a different perspective. Surveys also show that farmers considered the substantial income gap between the cities and the countryside a severe hindrance to common prosperity, and they felt strong discontent over their economic and social status vis-à-vis their urban counterparts.

A paradox has emerged during the reforms; while an overwhelmingly majority of the population are earning far higher incomes, thus enabling them to spend and consume more, general discontentment with the present circumstances has also become more overt and widespread. A popular saying describes the situation as 'eating better and complaining more',[48] which was summarized by a famous Chinese novelist as 'supporting the reforms but hating the reality' (Liang 1994). Indeed, very few people have voiced open opposition to the reforms themselves, but a large proportion of the population have expressed resentment over the social consequences of the process.

Inequality has been one of the major sources of social unrest in China's long history. Today, an estimated one million millionaires and their conspicuous life styles are in sharp contrast to the 65 million destitute living in absolute poverty. Despite the tangible material gains of most social groups, their benefits and losses are often compared to the tiny cluster of the rich elite. Not surprisingly, the comparison unavoidably leads to unsatisfactory conclusions. In this situation, more can indeed look like less.

Social discontent in China has increasingly taken public forms of expression. Even though the government keeps a tight control over mass demonstrations, there have been reportedly numerous cases of protest, labour unrest, collective or individual appeals to government authorities, or strikes. Official Chinese publications generally go to great lengths to avoid the word 'strike', preferring the term of 'unexpected incidents' to indicate social unrest including strikes. The Trade Union of Shandong province reported a double-fold increase in these 'unexpected incidents' during the first half of 1994, more than half of which were related to employment and income. During the first few months of 1994, according to Hunan Trade Union, about a dozen 'unexpected incidents' occurred and two had amassed over five thousand workers each. In January 1994, Shijiazhuang, the capital city of Hebei province, received 596 letters of grievances or personal appeals, representing 166 per cent and 189 per cent increase in the number of cases and the number of people involved, respectively, compared to the previous year. Beijing reported that grievance cases have been growing year by year. From 1992 to mid-1994, the city logged over hundred and twenty thousand grievances, complaints and personal appeals, and in the first half of 1994 alone there were 262 cases of collective personal appeals,[49] the largest number ever received. To stem the flow, Beijing

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[48] Literally the saying goes: 'Picking up the bowl, people have meat to eat; as soon as they have finished eating, they start condemning [the current situation].' (Meat is synonymous with good food.)

[49] This is the translation of the Chinese phrase *jiti shangfang*, referring to actions taken by a number of people collectively to appear in front of the government authorities, demanding meetings with officials in resolving particular problems they have.

municipal government instigated a new procedure as of January 1995 whereby no large-scale collective personal appeals would be accepted, and to air grievances a maximum of five people to represent the complainants could meet with officials (Feng 1995:297). Measures such as these are intended to keep 'unexpected incidents' under control and to prevent them from developing into large-scale social unrest.

From the numerous statistics, surveys, and polls, welfare changes in China during the reforms can be summarized as follows:

i) The welfare of the population as a whole, measured by indicators of opulence, poverty alleviation, capabilities, etc. has improved considerably;

ii) The welfare improvements represent a continuation of the general development trend of the previous three decades, not its reversal;

iii) Going beyond the aggregate and average figures, however, welfare improvements have been far from equally shared by the population, and the gap between the well-offs and the rest of the nation has increased;

iv) Increasing regional differentiation and social stratification are causing differences in welfare advances between the urban and rural areas, among different regions, and among social groups;

v) In connection with the birth of the small cluster of the newly rich, a social under-class has emerged in the midst of economic growth. This is a new and distinctive phenomenon in the post-1949 China.

The above discussion is not intended to belittle China's achievements in social development during the reforms, much less to deny the importance of economic growth in raising the living standards of the population. Indeed, despite the emerging 'third world' problems, China's general record of social development in the post-reform period can still be somewhat favourable in comparison with other countries at similar economic levels. However, compared with achievements of the past under far less favourable economic conditions, and compared with the far greater wealth available in the last decade, welfare improvement during the reform era has left much to be desired. The above analysis of the processes points to an important shifting of mechanisms. If the success in welfare progress during the central planning period can be regarded as 'support-led', then the latest development resembles a shift towards 'growth-mediated' change. During the reform process, people's participation in economic development has expanded enormously as opportunities of income creation and earnings have been enthusiastically embraced. This has allowed the benefits of economic growth to be enjoyed by a broader sector of the population and has translated into an overall high income level and general welfare improvement. In a word, the sustained and rapid economic growth has played a major role in creating conditions for further welfare improvement. As a result, the negative impact of the erosion of the previous support systems has been offset to a large degree by the increasing material wealth as well as the continued functioning of the existent security systems. However, increasing material wealth has not been able to totally replace the function of social supporting systems, hence those individuals who have been failed by market functions and who at the same

time have fallen from the support system are becoming increasingly visible. The relatively broadly shared economic growth pattern has kept the size of these groups of unfortunates fairly small, but the tendency towards social stratification seems to be clear. This and other social problems which have been accumulating during the reform era call for solutions that economic growth alone has not been able to provide.

5.2 The political economy of welfare change: alternatives to social betterment

The Chinese government has emphasized economic growth since 1978 as the centrepiece of the reforms. Much hope has been pinned on economic growth to solve the centuries-old problems of China's backwardness and general poverty. Drawing lessons from China's turbulent modern history, as well as from the experiences of the first three decades when the People's Republic devoted a great energy on political mobilization, the reform-minded government has been determined to concentrate on economic development this time. In order to make this transition, a number of potential debates on important socio-political issues such as the destination of the reforms, the nature of the emerging society, and democratic or political reforms, were played down and deliberately excluded from the government's main agenda. However, it has become increasingly clear that economic growth alone will not have all the answers for social development. Particularly since the late 1980s, greater efforts have been made to establish a social security system aiming at enhancing the supporting mechanism. At the present time, the social security system continues to be divided along urban and rural front. Social welfare and security coverage has been extended to 30 per cent of the total population, including almost 90 per cent of the urban residents but only 2.4 per cent of rural residents (Xu and Wang 1994:2).[50] There is a long way to go before China's population, especially its vast rural population, are protected by a comprehensive welfare supporting system.

There have been increasing discussions by policy makers and academic circles regarding the types or models of social security system to be adopted. Concurrently, numerous experimental schemes have been tested for at least a decade. The experiments so far seem to have incorporated various elements of social security systems operating in more advanced market economies. The question remains as to what type of social security system or supporting mechanism would emerge in China. This question is closely related to the future socio-economic system China is striving for.

It has been argued that China at its current development level is a developing country, and subsequently government spending on welfare should be limited. Responsibility for social security should fall mainly on individuals. If China is aiming for a 'normal' market economy, this argument makes sense and the country cannot afford, for example, the type of social security provided by the welfare states. But affordability is a relative term. It is a fact that even under central planning with a lower economic level, majority of the population, including its rural sector, had enjoyed certain type of welfare coverage. China's own experiences confirm the significance of institutions in providing broadly

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[50] According to a different source, the coverage of social security in 1990 was 29 per cent for the whole population, 92 per cent for urban residents, and 1.6 per cent for rural residents (Zhu 1994:8).

based welfare and social security, a fact that seems to have been overlooked in the reform visions.

In China as elsewhere in the world, there is admiration for the East Asian 'miracle' model of development, which advocates low taxes and low public expenditure on social welfare. This is said to provide incentive for high savings and for hard work, which in turn promote economic growth. As for social welfare and security, the East Asian miracle, reflecting the 'intuition that government patronage is neither necessary nor likely to be forthcoming' (Ranis 1987), honours the tradition of family self-reliance. This idolization of the market has had its influence on certain decision-makers in China to the extent that some government authorities, under the pretence of allowing the market to regulate, have been reported to shirk their responsibilities. Even if this 'secret' of the East Asian 'miracle' were true, it is very doubtful that China can afford similar non-action by the government given its huge rural population and great regional diversity. For the present time, people, particularly the rural population, have to rely mainly on the family for assistance and security, not because they choose to do so but because there are no alternatives.

The point here is not to argue in favour of more or less government spending on welfare, or to propose particular models of social security systems. Indeed, family ties remain strong in China as in many other Asian countries. The fact that family ties remain strong, and land, as the basic source of subsistence, is equally available to households, informal social frameworks in the rural areas can continue to complement social security. But even in the traditional Chinese rural society where people believe that individual families must share, family responsibilities are not unlimited. An age-honoured Chinese saying describes the principle of mutual support as the need 'to help in an emergency rather than in perpetual poverty' (*jiu ji bu jiu qong*). This principle also governs the general pattern of mutual assistance among extended families, notwithstanding the fact that communities are expected to assume residual obligations to provide minimal survival support to those in need. An interesting and important point is that the informal social security support mechanism in one way or another is crucial to survival, but the well-being of the people, i.e. the release of 'perpetual poverty', depends on far broader social and economic context.

In a broader sense, the welfare of the population does not hinge solely on social security systems. It is therefore necessary to go beyond welfare arrangements in addressing the issue of social betterment and to examine possible new alternatives to the problems arising from economic transformation.

Formally, the communist ideology has not been openly denounced in China. However, in order to promote economic efficiency and to create greater tolerance to the growing income inequality and social stratification, the reform government has strongly criticized the egalitarian income distribution of central planning. While a residual socialist system lingers on, income and welfare distribution is being increasingly determined by the functioning of the market. Policy makers, to be sure, are genuinely concerned about the social consequences of the market transition, particularly their impact on social stability. It has been suggested that to maintain social stability, government reform policies should not be pushed too fast and too far beyond people's 'ability to bear' (*chengshou*

nengli). This has been one of the main ideas supporting the gradual approach of the Chinese reforms, in which the formation, timing, and implementation of reform policies have remained to large extent responsive to popular demands. But, on the other hand, social policies based on endurance test could be dangerous, because people's 'ability to bear' cannot be always measured accurately, and delayed government responses run the high risk of jeopardizing the thus far largely turbulence-free transformation processes. Moreover, the assumption that greater 'ability to bear' would be followed by faster economic growth cannot be taken for granted. An important lesson from China's long socio-economic history is that large scale social conflicts are the result of inequality rather than the outcome of poverty.[51]

There is a more fundamental question concerning the basic idea of the reforms. If economic and social policies can be evaluated by their emphasis on either efficiency or equality, then reform policies in China since the late 1970s have clearly opted for efficiency. Such policies have been successful in that they have boosted record economic growth. A general improvement in many aspects in the welfare of the nation can also be recorded. However, this result has as much to do with rapid economic growth *per se* as with the broad participation of the population in the process of economic growth. For this reason, the process can be characterized as 'growth-mediated' welfare improvement. But, this development pattern has clear limitations on equitable and continuing welfare improvement. The credibility of the current economic doctrine – efficiency first and equity second or efficiency leading to equity – as policy guideline in the reform process has been increasingly questioned.

In China, open discussions on alternatives are rare, but not absent. One such occasion was the publication of a book entitled *Looking at China Through the Third Eye* (Wang 1994) in which the author argued for reintroducing some of the Mao's ideas to politics and economic decision-making. *The Third Eye* argues that reform processes have involved a large-scale redistribution of benefits, resulting in gains by certain social groups and losses by others (Wang 1994:204). It acknowledges that the gains achieved thus far have been based on individual ability in terms of knowledge, skill, opportunities, access to information, and so forth, but in the days ahead, the main difference between the haves and the have-nots will increasingly be based on wealth. According to *The Third Eye*, the government policy of 'allowing some to get rich first' inevitably leads to a widening income gap between the rich and the poor. The consequences of this development have been more severe and longer-lasting than anticipated by the government. The author pointed out that exploitation of labour by capital forces as the means to enrichment has been an undeniable and unfortunate by-product of the reforms.

This argument insisted that neither rapid economic growth nor fragmented social policies would be effective in resolving the emerging social problems (Wang 1994:252) In the beginning of the 1990s, the government pledged 'to handle seriously the problem of income inequality'. But income inequality has since become more evident and

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[51] After 'an extensive battery of robustness tests' of the sample of 71 countries, a recent study by Alesina and Perotti again concluded that income inequality increase socio-political instability (Alesina and Perotti 1996).

according to the author of *The Third Eye,* fault rests with the reforms themselves. As income inequality is an inevitable part of the reform process, it was believed that it could not be resolved without jeopardizing the government's determined position on reform. This would imply that as long as reforms proceed in the same direction and the current pattern of income distribution continues, rapid economic growth will accelerate, rather than reduce, income inequality and social stratification, leading to greater social tensions.

Based on this diagnosis, a few alternatives to the current reform strategy have been suggested. The first option is to revert to the rural commune system. This proposal has been backed by the argument that the government, unable to block the flow of peasants or to provide jobs, has failed in its attempts to solve the problem of the 'floating population'. Because of the magnitude of numbers involved, their poverty, their intense sense of injustice, their eagerness to earn money to reach urban well-being, their limited literacy, and unfamiliarity with legalities, the unrestricted migration of the peasants can cause social chaos. The floating population is seen as a time bomb without an effective release. Therefore, to control these multitudes and to prevent social disorder, the peasants should be re-settled into the commune system, which, in spite of its other problems, was effective in managing the peasant masses.

Another alternative calls for maintaining the state-owned enterprises. From the point of view of economic efficiency, reforming the state-owned enterprises is an attractive idea. However, if reform is to be based on the privatization model, it would significantly diminish the role of the government in the implementation of necessary social and economic policies which have been the key factors in China's reforms. Indeed, if the success of China's reforms can signal one important lesson, it is the fact that a leading role by the government is essential in a country as populous, fast developing, and socially dynamic as China.

It would not be surprising to find that privatization has little support among the reform-minded policy-makers or even among radical reform-critics. For rural residents, the notion of being tied to land without options of an alternative lifestyle would stir strong objection to the re-establishment of the communes, despite its obvious advantages.

Critical evaluations of the reform process nevertheless have pointed in the right direction by arguing that the reforms should not only strive for immediate economic growth but should also endeavour to fulfil multitudinous objectives such as the improvement of political participation, culture, education, environment, and the quality of life. Indeed, it took centuries for the advanced capitalist economies to come to terms with the notion of social development, and as its market economy develops, it is crucial for China's long-term development that it does not make the same mistake. It is worthwhile to explore the more balanced development strategies and to seek for a reconciliation between the 'support-led' and the 'growth-mediated' advancement. And in this search, the experience of the pre-reform 'support-led' welfare improvement in China itself and the successful experiences of social support systems in other countries will have valuable lessons to offer.

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