

Chapter 7
Child poverty and well-being in China
in the era of economic reforms and external opening *

Lu Aiguo and Wei Zhong

Summary: During its period of reforms and openness China has achieved positive results in per capita income growth and poverty reduction. However, there is evidence that the most significant progress in poverty reduction occurred in the early days of reform when openness and trade liberalization were not yet playing a major role. At the same time, increasing income inequality (in particular the inequality between regions and between rural and urban areas) explains the persistence of poverty in the midst of rapid growth and jeopardizes the broad-based growth pattern. The chapter examines the changes in child well-being in China over the last two decades, with poverty as the central focus. Its policy recommendations insist on the role of central government in sustaining the rural economy and “developing the west” to reduce the bias for east-coastal and urban development. Policies to accelerate the establishment of social safety nets, welfare programmes – particularly those targeted at children – and the enforcement of reasonable labour and social standards for small and medium-sized enterprises are also necessary to reinforce the ‘equality’ that is currently in short supply in China.

JEL: D63, F43, I31, J13

*** This study presents the views of its authors and not the official UNICEF position in this field.**

CHAPTER 7: CHILD WELL-BEING IN CHINA IN THE ERA OF ECONOMIC REFORMS

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1. Introduction

Economic growth raises the level of income of the population, including for the poor, helping them to rise out of poverty. However, while growth may be an influential factor, it is not sufficient for the elimination of poverty. Whether growth has a major impact on poverty reduction depends on favourable changes in income distribution. In their absence, growth benefits the poor only as much as other segments of the population, i.e. proportionally. In contrast, if growth is accompanied by changes in inequality the extent of poverty can change either favourably or unfavourably. It goes without saying that the most preferable growth pattern, the so-called ‘pro-poor’ growth, comprises both fast growth and low or declining inequality.

The question of whether globalization is good for the poor cannot therefore be properly answered without an examination of its effects on both growth and inequality (see chapter 4 of this study). In cases where globalization has a positive effect on growth, there will be a favourable effect on poverty reduction. But growth alone is no guarantee of poverty reduction. It is possible that, because of the negative effects of globalization on income distribution, poverty falls modestly or even increases.

China has been reforming and opening up its economy for more than two decades. As GDP has been growing rapidly and the country has become increasingly integrated into the world market, a considerable part of the population has gained from the reforms. But compelling evidence also suggests that the benefits of such globalization have not been equally shared, as income inequality has increased to an alarming level. While the fight against poverty has achieved remarkable success, it is also obvious that the war is far from being won. Despite the record growth rates and the government pledge to eliminate poverty by the end of the 20th century, poverty has persisted to this day. This chapter, after mapping out the overall changes in child poverty, identifies the links between globalization, growth and inequality, and examines whether and how “Chinese style globalization” has contributed to a reduction in child poverty.

The notion of globalization is used in this chapter to describe various aspects of an internationalization process that tends to integrate the countries into a single world economy. From the point of view of China, this process is often referred to as external openness. Thus, globalization here is understood as the integration of China into the world economy, a process that has been initiated, encouraged and promoted by the government policies towards deregulation and external liberalization known as reforms and openness, beginning in the late 1970s.

2. Background and Analytical Framework

2.1 Economic reforms and external openness

Domestic liberalization and external openness represent two aspects of the development strategy pursued by the Chinese government since 1978. The process has involved deregulation and liberalization in the domestic economy and in external economic relations. The reforms began in 1978 with the establishment of the “household responsibility system”, under which farmland was contracted to peasants for a fixed number of years. Meanwhile, the government raised the price of grains and other major agricultural products several times, often substantially. Agricultural production grew rapidly as a result of changes in the system of agricultural management and the increased prices for agricultural products. As for the urban industries, reforms such as profit sharing between the state and enterprises aimed to provide incentives and greater management autonomy to enterprises without changing the ownership structure. These reforms led to a substantial increase in national income and to a rise in rural income faster than that of the urban population. Consequently, overall income inequality declined.

Beginning from 1985, the focus of reform shifted to urban areas and to industry. Contracts became important instruments in the reform of state owned industries, while a non-state sector began to emerge. In the countryside, the autonomy of peasant production grew to the point where the household was restored as the basic unit of rural economy, while the commune system collapsed. Meanwhile, the town and village enterprises (TVE) began to grow. In particular, deregulation of prices carried out step by step from 1985 led to the increasing role of the market in price setting, a change that had a profound impact on the overall economy. Reforms stagnated in 1989-1991 and, while the economy continued to grow, income inequality in both rural and urban areas, as well as nationally, started to rise significantly.

Economic reforms were accelerated in 1992, and were marked by further deregulation, marketization and de facto privatization. The government has been steadily withdrawing its support for the state industrial sector, and an increasing number of state-owned enterprises have either closed, been sold, or declared bankrupt. On the other hand, the government took various measures to encourage the development of non-state sectors, especially for private and foreign funded enterprises. As a result, the state sector share in the national economy has dwindled to less than 50 per cent – a downward trend that continues. This period has also seen the emergence and rapid development of a capital market, the outflow of large numbers of rural labourers seeking non-farm jobs, and the rapid growth of export-oriented manufacturing. While the economy has maintained its growth momentum, income inequality has increased to an unprecedentedly high level.

Since 1978, therefore, the policy of external openness has proceeded gradually but persistently, via a series of policy changes, ranging from the reduction and elimination of the state monopoly over foreign trade, the implementation of new exchange rate policies and encouragement for foreign capital investment, to the establishment of Special Economic Zones (SEZs) – testing grounds for further external liberalization policies. The major steps of

this process of external opening are listed in Table 1, while a detailed discussion of this issue is provided in the following sections.

2.2 Poverty profile during the reforms

In China, the differences in income level and general living conditions between urban and rural areas have been, and still are, quite large. In 1999, the annual per capita disposable income was 5,854 RMB yuan for urban residents and 2,210 RMB yuan for those in rural areas. In order to map out and understand the overall situation of poverty in China, it is necessary to identify the characteristics of poverty in both areas.

- **Rural poverty.** In 1978, when the economic reforms began, poverty was, predominantly, a rural phenomenon. About one third of rural residents, i.e. some 250 million people, were identified as poor. Some 20 years later in 1999, the number of poor had decreased to 37 million, meaning that some 200 million people had escaped from poverty. The rural poverty rate declined from 30.7 to 3.7 per cent. At the same time, the per capita net income of the government-designated Poverty Counties increased from 206 RMB yuan in to 1,347 RMB yuan.

Table 1 Chronology of policy changes in external openness in China

Year	Policies and events
1979	Permitting enterprises to retain part of their earned foreign exchange
1980	Establishing SEZs in Shenzhen, Zhuhai, Xiamen and Shantou
1980	Establishing foreign exchange relief system
1984	Opening 14 coastal cities
1985	Opening Yangtze river delta, Pearl river delta, South Fujian delta, Shandong peninsula, and Liaoning peninsula
1985	Floating Peg of RMB (Chinese currency)
1986	Application to re-enter GATT
1988	Establishing Hainan as a province – the first SEZ at the provincial level
1990	Establishing Pudong Economic and Technological Development Zone (ETDZ) in Shanghai
1991	Opening four ports along the northern border
1992	Opening five cities along the Yangtze river
	Opening four capitals of coastal and border provinces
	Opening eleven capitals of interior provinces
1994	Depreciation of RMB to market price
1995	Application to enter WTO
1996	Convertibility of RMB under current account
1998	Carrying out “the west development plan”
2000	Great progress in the negotiations for entering the WTO

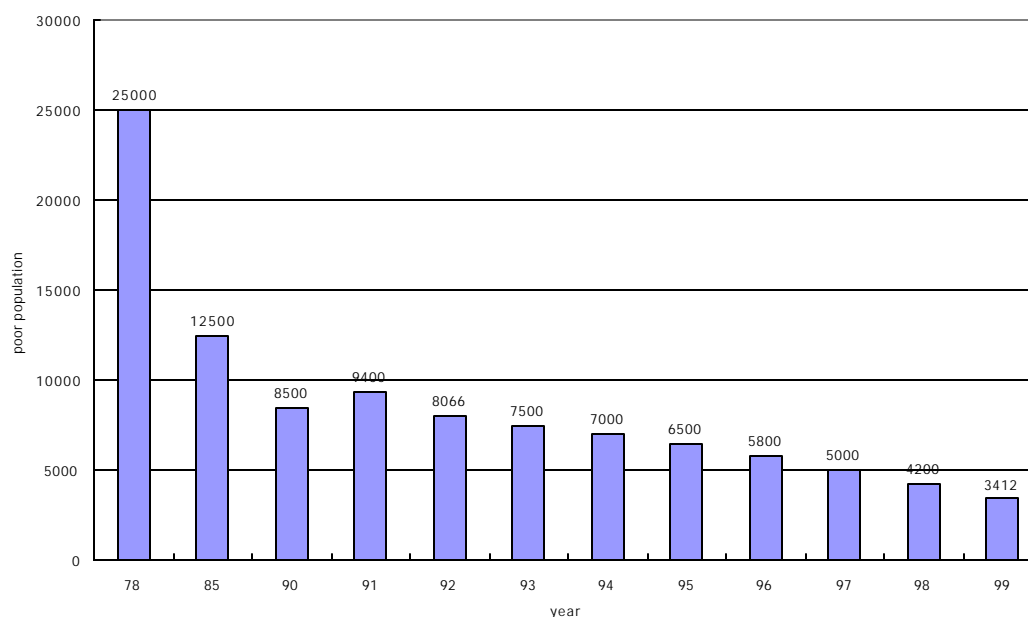
From the very beginning of the reforms, the government had focused its poverty alleviation efforts on the countryside to enable rural residents to “dress warmly and eat one’s fill”. The reform process can be divided into three stages. The first stage – poverty alleviation – spanned the year 1978 to 1985. Initial rural reforms and price increases for agricultural products resulted in rapid growth of rural income, which led, in turn to a sharp drop in rural poverty. The number of people living in poverty was drastically reduced from 250 million to 125 million, and the poverty rate fell from 30.7 to 14.8 per cent.

During the second stage – 1986 to 1993 – the government launched a large-scale poverty alleviation campaign, with the establishment of special institutions and funding and the implementation of special policies in poverty-stricken regions. The main object was to develop regional economies to increase the incomes of local people. Poverty alleviation slowed in terms of the absolute number of people being brought out of poverty. But by the end of 1993, the number of poor had decreased to 80 million, and the poverty rate to 8.7 per cent in the countryside.

The third phase began in 1994 and was heralded as the implementation of the “National Eighty-Seven Poverty Alleviation Plan”. The government envisaged a concentration of manpower, material resources and financial resources to resolve the poverty problem once for all, i.e. to lift the remaining 80 million rural residents out of poverty in seven years – by the end of the century. Poverty alleviation conferences were held in 1996 and 1999 to ensure the realization of the goal. By the end of 1999, the number of the poor in rural areas had been reduced to about 34 million, or 3.7 per cent of rural residents. However, if poverty was measured by means of the international poverty line set up by the World Bank (known as the “one dollar per day” poverty line), there were still 106 million poor, and a poverty rate of 11.5 per cent in China at the turn of the century.

Figure 1. Poverty changes in rural China

Poverty Changes in Rural China



Source: Rural survey organization, NBS 2000

Rural poverty in China is not evenly distributed, as shown in the following table of regional variations. In the 21st century, new anti-poverty plans are being considered, and some experts have suggested adopting the international poverty line as the measure for progress.

Table 2. Rural poverty rate in different rural regions, 1999

East	1.3
Middle	3.9
West	7.3
Nationwide	3.7

Source: Rural survey organization, NBS 2000

-Urban poverty¹. In China, the net income of the rural population has been and still is quite different from the disposable income of urban population. In addition, urban income usually does not take into account the various benefits enjoyed by the income earners, such as

¹ The microdata for the years 1988 and 1995 used in this report are mainly taken from the income surveys carried out by the Institute of Economics of the Chinese Academy of Social Science. Data on urban households in 1999 is based on the six-province survey done by the same Institute, while data for rural areas in 1999 is selected randomly from the rural survey data collected by the NBS. Another data source is from the UNICEF Beijing office, which includes social indices in education, health care and child labour. Unfortunately, except for some sample surveys taken in a few cities, urban migrants were not systematically surveyed or included in any official publication before 1998. Even the 1998 survey has a number of problems. First, it does not provide an accurate estimate of the scale of the migrant population who are thought to account for between 2.8 and 7.6 per cent of the formally registered urban population. Second, the survey only included the so-called long term migrants, i.e. those who have stayed in urban areas for more than half a year, thus neglecting a large number of short term migrants, including those in the construction sector. Our discussion of the “floating population” is based on this survey. It must be pointed out that some members of migrant families (mostly the elderly and children) are often left behind in the countryside, a fact reflected in the lower proportion of children in families of migrant workers.

health care, housing subsidy, and pensions, none of which are enjoyed by the rural population. Due to the lack of adequate data to compare the purchasing power in rural and urban areas, one should be always cautious when contrasting the two incomes. Before getting into detailed discussion of poverty changes, it is necessary to clarify some issues concerning the data. The rural poverty line in China differs from the urban poverty line. Attempts have been made to establish a national poverty line, largely by re-calculating rural and urban income data (Gustafsson and Wei, 2000). However, the 1999 data used in the China study cannot support the national poverty line established by previous studies. In addition, the 1999 poverty line is not consistent with that established by the NBS (National Bureau of Statistics), and thus incomparable with most official data. This study is based on the official poverty line published by the NBS.

Poverty in urban areas has four main features². The first is the different incidence of poverty by the sector of employment and the type of ownership of the firm where a person works. Poverty remains a problem in households where the breadwinner's work is in traditional sectors such as textile, coal mining and machinery industries. Increasingly, however, the urban poor live in households of the unemployed, including workers laid off from state owned enterprises. Second, the growing links between urban poverty and economic structural adjustment. This adjustment, which began in 1994, has resulted in growing numbers of urban unemployed, and has become the main cause of urban poverty. The third feature is that urban poverty is more widespread among migrant workers. During the reforms, especially in the early 1990s, a great number of rural labourers moved temporarily or permanently to the cities, attracted by opportunities to earn income. Those who fail to find a way to make money face poverty. Fourth, disparities between provinces and cities remain substantial. Uneven development during the reforms has widened the gap between the coastal and interior regions, leading to an uneven distribution of urban poverty among different provinces and cities.

² The poverty line used in this report is the official poverty line set by the National Bureau of Statistics. The method of determining the poverty line for both rural and urban areas is as follows: First, the minimum calorie requirement of 2,100 kilocalories per day per person was selected as the minimum nutrition need as suggested by nutritionists. The second step consists in selecting the food bundle that can satisfy this minimum calorie requirement. The actual composition of the food intake selected is that of the 25 per cent of poorest households in poor areas. Third, the minimum food expenditure (or food poverty line) is calculated by means of the prices paid by the poorest 25 per cent of households. Finally, the poverty line is derived by dividing the food poverty line by a "reasonable food share". It was 300 RMB yuan for 1990, or about 50 per cent of per capita net income in 1990.

In China's statistical system, data for urban areas are separate from those for rural areas, and the same applies to household income. The rural poverty line was the first, and for a long period of time the only, measurement. Rather belatedly, it became clear that a poverty line was needed for urban populations. In 1997, the NBS set up an urban poverty line of 2,200 yuan per capita to monitor urban poverty change. The Bureau estimated the urban poverty rate at 6.1 per cent based on its 1997 survey data. This poverty line indicates that the poverty line in 1990 should have been 1,014 yuan per capita income. But the Bureau recognized that the poverty line of 2,200 yuan seemed to be too high compared to that for rural areas. A lower poverty line of 1,540 yuan was set up on the basis of the same survey, which the Bureau considered to be equal to the 640-yuan poverty line for rural areas in the same year.² In 1999 the poverty line for urban residents was 2,159 yuan in current prices, while the comparative poverty line for rural residents was 1,511 yuan. These are the poverty lines used in the following discussion.

Table 3. Urban poverty rate in selected provinces, 1999

Province	Region	Poverty Headcount Index
Liaoning	Coastal	5.38
Jiangsu	Coastal	0.59
Beijing	Coastal	0.16
Henan	Interior	9.29
Sichuan	Interior	7.26
Gansu	Interior	6.87
Urban		5.16

Source: Household survey data

The children of migrants living in urban areas face several problems in addition to poverty, one of the most serious being that of schooling. According to a 1997 survey of Beijing, the migrant population numbered 2.85 million, or 30 per cent of the formally registered residents, of whom 76.7 per cent were employed in Beijing. Of their children aged 6 to 15 years, 14 per cent were unable to study in schools. Various reasons were given for non-attendance, including the high price of school fees (43 per cent) and because the parents considered education useless (28 per cent)³. In 1997 the Government had tried to restrict the high fees collected by urban schools from families of migrant children, but with little effect. A 1998 survey shows that school fees paid by migrant families for their children in urban schools far exceed the fees paid by urban residents for the same education services.⁴ However, because of the lack of reliable data, children of migrant populations are not dealt with as a separate category in the following discussion.

3. Trends in Child Well-being

3.1. Child poverty⁵ in 1988, 1995 and 1999

Child poverty is measured by means of the poverty line established by the NBS for both urban and rural areas: 2,159 RMB yuan for urban residents in current prices, and 1,511 RMB yuan for rural residents. In general, the poverty line for urban China is far higher than

³ China population yearbook 1998

⁴ Urban survey organization, NBS 2000

⁵ Given the cross-country differences in socio-economic conditions, the measurement of child poverty remains an unsettled issue. Because of the lack of relevant research on child poverty in China, in this chapter we adopt per capita income as the index to measure child poverty. A better index is the equivalent income, but this has never been used by the NBS. Income per capita is used in this research for comparison with the official report on poverty. In addition, the economies of scale in consumption are not very obvious in China⁵. Expenditure for a child in a poor family is not, in general, much smaller than that for an adult. It is clear that income levels or economic indicators are not the only measures of child well-being. In the following section, social indices are also discussed.

the international poverty line, whereas the poverty line for rural areas is far lower, e.g. about two-thirds of the international poverty line according to a World Bank estimate. Because of the non-existence of child poverty data for 1978-1985 and the lack of existing research results on child poverty in China, we confine our discussion to the years of 1988, 1995 and 1999, for which data are available.

Table 4 gives the estimates of head count poverty index for both rural and urban areas. Data show that the incidence of child poverty in urban areas fell from 24.4 per cent in 1988 to 6.6 per cent in 1999. Using the alternative urban poverty line comparable to rural poverty line (see above), the incidence of urban poverty among children decreased from 6.7 per cent in 1988 to 1.9 per cent in 1999. Overall, these data show that the child poverty rate decreased in both rural and urban areas from 1988 to 1999.

Table 4. Trends in child poverty over 1988, 1995 and 1999

Child poverty	1988	1995	1999
Rural Poverty Rate	14.2	11.1	5.1
Urban Poverty Rate			
<i>High line</i>	24.4	9.9	6.6
<i>Low line</i>	6.7	3	1.9

Source: Household survey data 1988, 1995 and 1999

While per capita income in rural areas grew by 55 per cent, the Gini coefficient also increased, from 0.305 to 0.336. In urban areas, the disposable per capita income increased by 98 per cent, and the Gini coefficient rose from 0.230 to 0.295. Because of the huge difference between rural and urban income levels, income discrepancy between the two segments of the population ensured that the Gini coefficient at the national level became much higher by the end of the 1990s. In fact, nationwide income distribution became far more unequal (see chapter 4).

The uneven development of different regions indicates that poverty has become increasingly concentrated in the western part of rural China where about one-fifth of the population live. However, in 1988, this area accounted for one third of the total poverty in the country, rising to more than half in 1995. In 1998, an average person in the rural west was around three times more likely to be poor than a person in the east. By 1995, they were six times more likely to be poor. The same held true for children.

- Features of child poverty. One of the main features of child poverty in China is its uneven spatial distribution, and the most notable dividing line is between coastal and interior regions. The coastal region has experienced far more rapid economic growth and income increase than the interior region, leaving a strong mark on the overall picture of poverty distribution. As Table 5 shows, the poverty rate can be so low as to be negligible in some provinces in the coastal region, such as Beijing and Jiangsu province. For Liaoning province, which has benefited from globalization with some foreign investment and, at the same time,

suffered from globalization with the recession in state owned enterprises, poverty is relatively higher. However, it is still lower than in interior provinces that are less affected by globalization. Within rural areas, the regional difference is even clearer. Children living in the interior rural region are 2.5 times more likely to be poor than children living in the coastal rural region (Table 6).

Table 5. Child poverty index in urban areas of coastal and interior provinces

Province	Region	Child Poverty Rate
Liaoning	Coastal	6.34
Jiangsu	Coastal	1.07
Beijing	Coastal	0.00
Henan	Interior	11.27
Sichuan	Interior	8.01
Gansu	Interior	8.64
Total		6.60

Source: Household survey data 1999

Table 6. Children poverty index in rural areas of coastal and interior provinces

Region	Child poverty rate
Coastal	2.45
Interior	6.29
Rural	5.15

Source: Rural Survey Data 1999

The difference in poverty rates between genders has not been large compared to other indicators. In the countryside, no obvious gender difference in poverty rates has been observed. However, this may not tell the whole story, because the poverty rate based on household surveys does not reveal the structure of the families interviewed.

Table 7. Poverty rate by region and gender

Gender	Urban Region		Rural Region	
	Proportion of sample	Child Poverty Rate	Proportion of sample	Child Poverty Rate
Male	50.45	6.21	52.20	5.19
Female	49.55	6.61	47.80	5.11
Total	100.00	6.41	100.00	5.15

Source: Household survey data 1999 and Rural survey data 1999

The poverty rate generally increases with family size. During the reforms, household size in both rural and urban areas decreased largely as a result of population control policies implemented by the government. The reduction of family size means that the proportion of dependent members in the family decreases. It is generally the case that in a smaller family, children receive better care and have greater access to welfare – more so in urban families that are, on average, smaller than rural families.

Analyzing types of households helps us to understand where the poor children are. Among various types of households in urban areas, poverty incidence is lowest in households without children. In China it appears that the more children in a family, the worse off that family will be because of the lack of welfare provisions targeting children. Although single-parent families are not common in China, such families have the highest poverty rate, as in other countries. But the proportion of single-parent households is on the rise, and could be even larger than data reveal as a result of, for example, the Chinese tradition that single parents stay with their parents after divorce. A higher poverty rate is also more likely to be found in extended families, which usually have a greater number of elderly without incomes.

The situation is different in rural areas. First of all, rural families are far less likely to be without children. Second, while some single parents return to live with their parents after divorce, the remainder usually maintain the family assets especially farmland, that contribute to the relatively low poverty rate. As in urban areas, rural families with more children are more likely to be poor, but this applies only to families with more than two children. Extended families in rural areas are also more likely to be poor (Table 8). However, the small samples we have make it difficult to provide more accurate estimates.

Table 8. Overall poverty rate by size of household

Total sample	Proportion of samples	Poverty rate	Percentage of average	Distribution of households
2 parents and 1 child	56.4	4.41	86	48.23
2 parents and 2 children	8.2	7.30	141	11.57
2 parents and 3+ children	0.6	7.14	138	0.80
Single-parent family	1.9	11.61	225	4.18
Couple without child	11.6	1.71	33	3.86
Extended family	21.4	7.56	147	31.35
Total	100.00	5.16	100	100.00

Source: Household survey data 1999

Table 9. Poverty rate by size of household: rural areas

Total sample	Proportion of sample	Poverty rate	Percentage of average	Distribution of households
2 parents and 1 child	13.59	2.41	55.76	7.58
2 parents and 2 children	27.68	2.36	54.76	15.16
2 parents and 3+ children	21.32	5.99	138.84	29.60

Single-parent family	1.15	4.05	93.99	1.08
Couple without child	2.54	2.15	49.78	1.26
Extended family	33.71	5.80	134.41	45.31
Total	100.00	4.31	100.00	100.00

Source: Rural survey data 1999

The poverty rate differs among children of different age groups (Table 10). Parents usually spend more time caring for children aged under six than other age groups. As the children grow, parents have more time to earn incomes and get help from their children at home and at work. On the other hand, an older child is more likely to have a younger brother or sister, which means the family size may be larger. Overall, it seems that the poverty head count index tends to decline with the increasing number of children of increasing age groups.

Table 10. Poverty rate for different age groups: urban areas

Age group	Urban Region		Rural region	
	Proportion of sample	HC index	Proportion of sample	HC index
0-5 year old	16.56	7.45	15.93	6.23
6-15 year old	65.40	6.24	67.98	5.21
16-17 year old	18.04	6.05	16.09	3.83
Total	100.00	6.41	100.00	5.15

Source: Household survey data 1999 and Rural survey data 1999

In the countryside, child poverty among those aged 16-17 is lower than the national average because most of them participate in household production. Poverty incidence among children aged 6-15 is lower than for those aged 0-5, largely because children in rural areas usually start to help around the household and/or participate in certain types of economic activities at a relatively earlier age.

3.2 Other indicators of child well-being

According to the data obtained from UNICEF Beijing, the overall situation of child well-being in China has improved during the reforms. The rate of underweight children, for example, fell more rapidly than any other indicator. Along with the improvement in education indicators such as enrolment and primary completion, the adult literacy rate also increased. Taking into consideration the higher illiteracy rate among elderly, this improvement suggests an even greater improvement among the population of working age.

Table 11. Trends in child well-being during the 1990s (arithmetic average)

	IMR	U5MR	Under-Weight Rate	Entering primary school according to schedule	Enrollment rate	Drop out rate	Primary completion rate	Illiteracy rate of adult
1990	44.32	57.09	21.56	91.06	97.19	2.37	75.57	23

1995	34.49	42.43	10.15	94.84	97.39	1.68	85.13	17
1996	32.84	39.49	8.60	93.90	98.04	1.64	88.32	18
1997	31.59	38.38	6.57	94.10	95.28	1.15	87.88	16
1998	29.39	36.34	5.46	94.15	98.13	1.13	89.10	16
1999	26.13	32.76	4.79	94.30	98.56	1.12	89.95	15

Source: UNICEF Beijing Office

- **child health and mortality.** Since 1949, the Chinese government has made great efforts to develop health care facilities for children. In 1949, there were only five childcare hospitals, with a total of 139 hospital beds. In 1998, the number of children's hospitals increased to 37 with 9,808 hospital beds, and there were around 60,000 pediatricians. In addition, there were more than 15,000 departments of Maternal and Child Health as well as a department of pediatrics in every general hospital at or above the county level. Since 1979, the government has implemented the nationwide immunization plan for children. In 1997, the inoculation rate for BCG and DPT was 96 per cent; MV stood at 95 per cent, and OPT at 97 per cent. According to data on IMR, U5MR and the underweight rate, which collectively form a standard measurement of the health status of children, the improvement is obvious taking China as a whole (Table 12). However, regional disparity remains shockingly large.

Table 12. Health indicators for children of different regions in selected years

	IMR			U5MR			Underweight rate		
	1990	1995	1999	1990	1995	1999	1990	1995	1999
East	28.2	24.1	17.1	33.8	28.0	20.9	7.7	5.3	2.1
Middle	39.9	32.8	24.1	55.2	40.6	28.8	20.0	10.6	4.5
West	66.5	44.3	36.8	87.7	55.7	47.9	23.0	14.1	8.0
Nationwide	44.3	34.5	26.1	57.1	42.4	32.8	17.6	10.2	4.8

Source: UNICEF Beijing Office

- **School enrolments and educational attainments.** Measured by all major indicators, education statistics for children have improved during the reforms. (Tables 13 and 14). By the end of the 1990s, virtually all primary school-aged children were able to enrol in schools. But again, regional differences are easy to detect, especially in relation to rates for drop out and school completion. Children living in the West have less chance to finish primary school education. Unfortunately, these data do not tell us about the quality of education. In fact, children living in the poor areas are less likely to receive quality education even if they are enrolled in schools.

Table 13. Entrance rate and enrolment rate in different regions

	Entering primary school according to schedule			Enrolment rate		
	1990	1995	1999	1990	1995	1999
East	93.80	98.88	96.89	99.12	99.57	99.79
Middle	92.66	94.11	93.91	98.13	99.73	99.41

West	85.55	91.86	92.02	94.21	93.70	96.65
Nationwide	91.06	94.84	94.30	97.19	97.39	98.56

Data source: UNICEF Beijing Office

Table 14. Drop out rate and primary completion rate in different regions

	Drop out rate			Primary school completion rate		
	1990	1995	1999	1990	1995	1999
East	1.28	0.67	0.59	87.70	95.48	95.86
Middle	2.10	1.20	0.64	78.18	87.57	93.19
West	3.79	2.99	1.96	59.78	73.61	80.52
Nationwide	2.37	1.67	1.12	72.24	85.13	89.95

Data source: UNICEF Beijing Office

Compulsory education has been implemented since 1986, aiming to establish nine-year education (six years of primary and 3 year junior middle school). But in China, compulsory education does education that is free of charge. It is common that parents pay a certain portion of school fees in addition to covering all the cost of textbooks and other education related personal expenses, from the first year of primary education onward. In rural areas, the average cost for primary school students varies, ranging from 100 to 200 RMB yuan per year – no small amount for a poor household living below the poverty line.

For a great number of rural children living in relatively poor areas, secondary education is more difficult to obtain. Education costs for junior middle school students are much higher than that at primary level, having an adverse affect on both the enrolment rate and the drop out rate in secondary education. Poor families are generally unable to support their children to go to the junior middle school and a rural child would be considered lucky to continue schooling after the nine-year compulsory education because of the high cost of senior middle schools, not to mention colleges and universities.

- **Child labour.** According to Chinese law, hiring young people under the age of 16 is illegal. In practice, however, a large number of children participate in paid work. The UNICEF Beijing Office estimates that around 4.7 million children in China aged 15 are working, or one quarter of all children in this age group, of which 56 per cent are girls⁶. Anecdotal reports and various observations confirm the existence of child labour among those below 15 years of age. The practice of nine-year compulsory education has had some positive effect in this respect by keeping children in schools. With the increase of the school enrolment rate, especially in primary schools, children aged 15 and below are increasingly staying in school, reducing the likelihood of child labour. In China, adolescents aged 16 or 17 are considered as “semi-labour”⁷ in official statistics if they are not students and do not have disabilities.

⁶ In UNICEF Beijing Office report, 2000.

⁷ In the official published China Statistics Yearbook, the 16 to 17 year-old is defined as semi-labour if he or she is not in school and is not disabled.

Since male preference remains rather strong, especially in rural China, boys are more likely than girls to be supported by their families to continue schooling after the nine-year period of compulsory education. Child labour among girls is, therefore, more widespread. It is common that young girls work to support the education of their brother, while the reverse is rarely, if ever, true. In addition, the female school drop out rate is higher. As a result, female child labour is in greater supply in the labour market.

4. External Opening and Growth

In the course of the last two decades, the economy has been fundamentally transformed. By the late 1990s, China's external openness/globalization has been on a par with many comparable market economies in the world. A World Bank study (World Bank, 1997a: 5-10) concluded that in terms of trade openness and policy, movements of the real exchange rate, prices, foreign direct investment (FDI) and so on, the level of China's integration into the world economy has essentially caught up with or, in certain aspects, even exceeded, the level of most other large developing countries. In the past two decades, China's foreign trade has grown at nearly 17 per cent annually – much faster than GDP. As a result, the trade ratio based on the official exchange rate increased from about 10 per cent in 1978 to more than 30 per cent in 1990, and stayed at around 35 per cent for the rest of the 1990s. As for foreign capital flows, after a slow start in the 1980s, the inflow of FDI⁸ began to take off. The large amount of FDI inflow in the 1990s raised the FDI to GDP ratio from nearly zero before 1979 to 5-6 per cent by the end 1990s. In 1990-1994 China's FDI to GDP ratio was the ninth highest among 120 countries surveyed by the World Bank (1997a: 8). Since the mid-1990s China has become the second largest FDI recipient country next to the US. The ratio of FDI to gross fixed investment increased from 1.3 per cent in 1983 to about 15 per cent in the mid 1990s⁹ (Table 15).

Table 15. Indexes of external openness, 1978-1999

	1983	1985	1987	1989	1991	1993	1995	1997	1999
Trade % of GDP	23.1	25.8	24.6	33.4	32.5	40.2	36.2	32.8	
FDI % of GDP	0.31	0.53	0.72	0.76	1.10	4.58	5.36	5.03	
FDI % of FGI	1.27	1.87	2.17	2.90	4.24	12.10	15.65	14.88	

Source: China Statistical Yearbook 1994, 1995, 1996, 1997 and 2000. Notes: Trade = imports and exports; FGI= fixed gross investment. GDP is measured at the official exchange rate.

The growth of foreign trade and FDI are strongly interconnected. The government policy of external liberalization has been encouraging foreign investment in production areas with an export orientation. As a result, foreign funded enterprises in China are oriented towards the

⁸ In this paper, FDI includes the overseas Chinese capital from China's HK, Macao and Taiwan.

⁹ With regard to the trade ratio to GDP, the conventional calculation based on the official exchange rate overestimates the openness. In addition, China's exports are largely dependent on processed goods, and a large part of trade growth is associated with imports of such goods, said to be worth of 90 per cent of export value. Thus, China tends "to stand higher in rankings of global integration based on the trade to GDP ratio than it would in rankings based on the share in GDP of value added that is exported or on the share of domestic consumption that is supplied by imports, both of which are better measures of integration." (World Bank 1997a)

world market. The share of FDI enterprises in trade has increased rapidly and remains substantial. By the end of the 1990s, foreign funded enterprises accounted for nearly half of China's total trade volumes (Table 16).

Table 16. Share of FDI-related imports and exports in the total, 1978-1999

	1986	1988	1990	1992	1994	1996	1998	1999
Total trade	4.04	5.55	12.28	21.31	34.27	39.10	48.86(1-10)	
Imports	5.60	10.64	23.06	32.74	45.78	54.45	56.09	
Exports	1.88	5.18	12.58	20.44	28.69	40.71	43.52	

Source: MOFTEC: *zhongguo waizi tongji* (Ministry of Foreign Economic Relations and Trade: China Statistics of Foreign Capital), 1998. (cf. Shen Kunrong, 1999: 18)

There is a broad agreement among scholars that the increase in external openness, unprecedented in the history of P.R.China has accelerated the growth experienced in the aftermath of the reforms. To a large extent the recent Chinese growth was export- and FDI-led (Table 3.3).

Table 17. Average annual growth rates %

	1986-90	1991-95	1991-99
GDP	7.9	12.0	10.4
Primary industry	4.2	4.2	4.0
Secondary industry	9.0	17.4	14.0
Tertiary industry	9.4	10.0	9.2
Trade (imp.+ ex.)	10.6	19.5	13.5
FDI (actually utilized)	17.2	36.1	19.9

Source: China Statistical Yearbook 2000

Numerous studies have suggested that greater openness plays a prominent role (World Bank 1997a) among the factors that have a positive effect on growth such as education, high rate of investment financed by high domestic savings, physical infrastructure, and so on. External liberalization policies were quite successful in promoting trade and attracting additional capital from abroad. The inflow of foreign investment has brought in the technology, management skills and other business know-hows that, through the spillover effect and learning by doing, has played a positive role in raising total factor productivity and efficiency. Overall, there can be no denial that the rapid economic growth of the last 20 years has benefited from the government policies of deregulation and external liberalization, which can be almost characterized as "single mindedly pro-growth approach". The relative success of these policies can also be attributed to other characteristics, mainly emphasizing a gradual approach that allows the economy to avoid unnecessary shocks, long term foreign capital investment rather than short term capital flow, and region-focused external openness.

4.1 Encouraging long term direct foreign investment

To encourage long term direct investment from abroad, the government has been selective in opening sectors and has employed financial, monetary and taxation tools at various stages (preferential policies in taxation, tariff, marketing, etc.). After 20 years of openness, however, the openness of the tertiary sector remained limited, while industries open to FDI

included almost every area in the primary and secondary sectors. As the country enters its third decade of reforms, the involvement of foreign capital in banking, insurance, and retail sales is still only at a limited and trial stage. Foreign capital has limited access to the domestic stock market (with the exception of specifically designed category B-shares).

During the reform period, FDI in China was mainly invested in the manufacturing sector. By the late 1990s, about 75 per cent of the total FDI was in industry, 23 per cent in services (mainly in real estate), and 1-3 per cent in the primary sector. Although the primary and service sectors began to draw a greater proportion of foreign investment after 1997, the general pattern of sectoral distribution of FDI has not changed.¹⁰

Compared to other developing countries, the sectoral pattern of FDI distribution in China has certain unique features. First, the share of secondary sector in the total stock and in annual inflows of FDI is higher and, despite the faster growth of foreign investment in technology and capital intensive manufacture in the 1990s, most foreign investment has concentrated on labour intensive processing and manufacturing, such as electronics, textiles, apparel, and other light industry products. Second, during the “real estate boom” in the early 1990s, real estate took the largest portion, about two-thirds, of the total FDI in the tertiary sector. At the same time, and in contrast to other developing countries, FDI remains limited in finance, insurance, commerce, trade, and information services. As mentioned above, the government has yet to open these sectors to foreign investors. Third, the proportion of FDI in the primary sector is much lower than the average level in developing countries. As the countryside in China continues to be dominated by small household farming on scattered and limited land plots, agriculture remains unattractive to FDI.

4.2 Containing short-term capital flows

The government has, to date, shied away from freeing the exchange rate, and the Chinese currency remains unconvertible for capital accounts. During the Asian financial crisis in 1997-98, this cautious approach was beneficial for the country, allowing it to avoid economic volatility and to maintain stability and growth. The current pattern of foreign capital inflow in China is such that the overwhelming part of it consists of long-term direct investment.

Table 18 Structure of foreign capital inflows (actually utilized) in China %

	1985	1990	1995	1999
Loans	57.8	63.5	21.5	19.4
FDI	35.7	33.9	77.9	76.6
Other investment	6.4	2.6	0.6	4.0

Source: China Statistical Yearbook 2000: 30

In the 1980s, the inflow of foreign capital was based on government credit guarantees and mainly took the form of loans. Indeed, loans accounted for 86 per cent of total foreign capital in 1979-1982. In 1983-1985, although the proportion declined, the share of loans in

¹⁰ Calculated from *zhongguo gongye fazhan baogao 1998* (China Industrial Development Report 1998), and *zhongguo waizi tongji 1998* (China Statistics of Foreign Capital 1998), cf. Shen Kunrong 1999: 11)

the total foreign capital inflow still accounted for 48 to 58 per cent. In 1986-1987 it increased to 69 per cent. Entering the 1990s, especially since the acceleration of foreign capital inflows in 1992-1993, the proportion of direct investment in total inflows grew rapidly, quickly surpassed loans, and became the dominant form of foreign capital inflow.

In the second half of 1997, the government took measures to counter the adverse impact of the Asian financial crisis. These measures included further reduction of tariffs on imports, opening new sectors for foreign investment (tourism and water transport, domestic commerce, foreign trade, financial and communication sectors, etc.), adjustment of custom duties on equipment imported by foreign funded enterprises, and other customs duty and tax relief for foreign funded enterprises. These measures, to a large extent, helped to avoid a large slide of FDI inflow into China after the Asian financial crisis.

4.3 Exchange rate policy as an instrument of export promotion

China has relied extensively on an undervalued exchange rate of its national currency to promote exports (Pomfret, 1997). The Bank of China purchased foreign currency to build up its reserves, so that RMB remained very underpriced throughout the whole period of reform. The ratio of Chinese foreign exchange reserves to GDP increased from 5 per cent in 1980 to 16 per cent in 1998, while the ratio of reserves to monthly imports of goods and services increased from 6 to 11 during the same period (World Bank, 2000b). For other developing countries, excluding those in East Asia, the ratio of reserves to GDP is typically much lower (for the world as a whole it is only about 8 per cent).

As a result of these persistent efforts to keep the exchange rate low, Chinese domestic prices in dollar terms remained at a level of 20 to 25 per cent of US prices (for other developing countries this ratio is typically around 50 per cent), which in turn created obvious advantages for Chinese exporters.

After the 1997 currency crises and devaluations in many Asian countries, China promised not to devalue its currency. Such a stand was based on political rather than economic considerations. China tried to avoid competitive devaluations, which would make it even more difficult for other East Asian countries to endure the storm, even though the policy of stable yuan involved obvious costs – in 1998 the rates of growth of Chinese exports dropped from double-digits to zero. In 1999-2000, however, the strong growth of exports resumed.

4.4 Promoting trade in processed and manufactured goods

In order to promote trade and investment, in 1984 the government allowed duty-free import of components and raw materials for use in export-oriented industries. This policy provided a powerful push to export-oriented processing industries. By 1991, the share of processed exports increased to 45 per cent of merchandise exports (Lardy 1994, table 5.1). Since the early 1990s, similar policies combined with other preferential treatment have been offered to FDI, which further contributed to the accelerated growth of exports of manufactured and processed products. (table 3.5).

Table 19 Structure of external trade, % of total

	1985	1990	1995	1999
Exports				
Primary goods	50.6	25.6	14.4	10.2
Manufactured goods	49.4	74.4	85.6	89.8
Imports				
Primary goods	12.5	18.5	18.5	16.2
Manufactured goods	87.5	81.5	81.5	83.8

Source: China Statistical Yearbook 2000: 31

4.5 East and coastal region: bias in the openness policy

The government's external liberalization policy has been deliberately biased in favour of east and coastal provinces. It can be said that open-door policies actually began with the establishment of Special Economic Zones. Located in the southeastern coast across Hong Kong, Taiwan and Macao, the SEZs were set up to attract overseas capital and to test a series of other external liberalization policies for possible implementation later in other regions. Most of the openness policies proved to be successful, and were then eventually adopted by other regions along the east coast. Taking advantage of the coastal location and better physical infrastructure, the east part of China has benefited enormously from openness, and the development of the coastal cities and provinces has, in turn played a key role in China's growth.

FDI has concentrated on the east coastal region, and moved only very slowly to the inland and western regions. Similarly, eastern coastal regions have produced a large proportion of China's exports. Not surprisingly, Guangdong and Fujian, where the first four SEZs were located, have topped others in terms of attracting FDI and export growth. In the late 1990s, the government began to pay particular attention for the development of the western regions and even adopted a special programme of the development of western provinces. As a result, FDI in the central and western regions increased somewhat, but, overall, the regional disparities have not narrowed down. Guangdong province alone originally took more than half of the total FDI in China, and in 1997 it was still absorbing one quarter of total FDI.

Overall, even this brief review of the external liberalization policies shows that China has been relatively successful in pursuing external openness. By implementing deregulation and external liberalization policies selectively and in preferred sequence, the government has to a large extent managed to stimulate and maintain rapid economic growth. It is this rapid economic growth in the past 20 years that raised the overall income of the population, including the poor.

5. External Liberalization Policies, Income Inequality, and Poverty

While having positive effects on growth, external openness in China has also had an impact on poverty by affecting income distribution. But the extent to which external liberalization has

contributed, either positively or negatively, or both, to poverty reduction is not a clear-cut issue. The Chinese experience suggests that growth, while being a crucial precondition for the elimination of poverty, is far from being a sufficient condition. One may even conclude that growth does not automatically reduce poverty without effective and focused anti-poverty measures.

Studies have shown that economic growth in the last four decades in 80 developing countries in general was good for the poor: increases in average income have led to increased incomes for the poor on an individual basis (cf. Dollar and Kraay, 2000). But there were large variations across countries and periods, and in China the story of the last two decades seems less encouraging. First, in 1986, income inequalities in China started to increase markedly, undermining the poverty reduction effect of growth of average income. Large parts of the Chinese population – in western/inland provinces, in rural areas, and especially in rural agricultural (i.e. not industrial) production – did not experience a rise in their living standards corresponding to rapid growth. Second, there emerged social groups of the “new poor”, such as the unemployed in the urban areas, who do not have regular income, and peasants in some rural areas who rely solely on income derived from farming and for whom the growth of agricultural production no longer results in corresponding increased incomes. These “new poor” are increasingly excluded from the growth process.

5.1 Uneven progress of poverty reduction over time

As discussed previously, the most remarkable progress in poverty reduction occurred in 1978-1985, when the population in poverty – 250 million in 1978 – was halved in just seven years. In 1986-1993, however, progress slowed and, in some years, reversed, although the overall poverty population fell by some 40 million, to 80 million. To eliminate remaining poverty in 1994-2000 as planned by the government proved to be difficult.

The hugely uneven dynamics of poverty reduction (in terms of absolute number of people lifted from poverty each year) in the midst of continuous growth is most closely associated with the change of inequality. Before its reforms, China was known as a society of low-income inequality, where people lived a life “poor but equal”. This is no longer the case. Various studies, regardless of the measurement employed, conclude that inequality has been growing fast during the reforms. Today, the Gini coefficient in China stands at an unacceptably high level – 0.458.

Growth, however, was not always accompanied with increasing inequality during the reforms. Prior to the mid-1980s, rapid economic growth took place with no obvious rise in inequality. In 1981-1984, mean incomes increased by 12.6 per cent a year in real terms, while the Gini coefficient increased only very slightly, from 0.288 to 0.297. Unfortunately this pattern of growth did not continue, and the following years saw the persistent and rapid rise of inequality alongside growth. A World Bank study has characterized the post 1985 growth pattern as “growth with inequality”, as opposed to the previous pattern of “growth with equality” (World Bank, 1997b: 10). To state it plainly, increasing income inequality explains, to a large extent, the slow-down in poverty reduction after the mid 1980s.

Growth with equality was the result of the initial reforms before the mid-1980s. The introduction of the household responsibility system, which unleashed rural productivity, coupled with the substantial increase of agricultural product prices brought about a remarkable improvement of the living standards of peasants, who were, and still are, the large majority of the population. This process has been well documented in studies of China's economic reforms. Poverty in China was, and is, largely a rural phenomenon, and rural income growth up to the mid 1980s was the primary precondition for the most remarkable poverty reduction in the reform era.

It is difficult to associate the earlier progress of poverty reduction with external openness/globalization. External liberalization was in its infancy and had yet to produce any significant effect on income or inequality during this period. Neither trade nor the overall economy had much involvement with foreign capital. It was not until the late 1980s that industrial reform started to change the landscape of urban economic development, and it was not until the early 1990s that the open door policy finally brought substantial inflows of foreign capital. In this period growth was sustained, income inequality increased substantially, and poverty reduction continued to progress but not on the scale achieved in 1978-1985.

5.2 Urban-rural and east-west divide

A number of factors have contributed to increased inequality. Two of the major factors are the widening gap between rural and urban incomes, and the disparities between coastal and interior regions.

From the early to the mid 1980s the rural-urban income gap narrowed. The best reduction of rural-urban income inequality was seen in this period and has never been repeated since. Since the early 1990s, for example, the rural-urban income divide has grown ever faster, and has now reached a level rarely seen in post-1949 history. (table 4.1)

Table 20 Household consumption RMB yuan

Years	All hhs	Rural hhs	Urban hhs	Ratio (rural=1)
1978	184	138	405	2.9
1980	236	178	496	2.8
1985	437	347	802	2.3
1987	550	417	1089	2.6
1990	803	571	1686	3.0
1992	1070	718	2356	3.3
1994	1746	1118	3891	3.5
1996	2641	1768	5430	3.1
1998	2972	1895	6217	3.3
1999	3143	1918	6750	3.5

Source: China Statistical Yearbook 2000: 70

Other measurements, such as per capita income or per capita consumption, show similar results. The general trend of widening rural-urban income gap is unmistakable (cf. Knight and Song 1999; Cai Fang and Yang Tao 2000, for detailed analysis)

At the same time, the disparities between the coastal and interior regions have been widening (World Bank, 1997b; CSY 2000), and interprovincial differences within each region are also very large. In 1997, seven provinces and provincial cities had per capita GDP of more than 10,000 RMB yuan, in which Shanghai was on the top with 28,253 RMB yuan, whereas 13 provinces had per capita GDP below 5,000 RMB yuan, including Guizhou at the bottom with only 2,342 RMB yuan. (CSY 1998: 65) A sizeable proportion of the population lives in low per capita income provinces. A recent study divided China not into the usual three regions of advanced east and the lagging central and backward west, but into four ‘worlds’.¹¹ It was reported that about a half of the Chinese population live in the “fourth world”, consisting mostly of the poorest, minority-concentrated, rural and peripheral areas in central and western China. The level of income in this group was below the poorest countries in the world. Another recent study suggests that the time difference of provinces and provincial-level-cities being “modernized” is as large as 70 years, with Shanghai and Beijing likely to be the first in 2015 and 2018 respectively, and Guizhou and Tibet the last in 2070 and 2090 respectively, more than 50-70 years later.¹²

The causes of growing rural-urban and regional disparities are numerous. Initial conditions, natural and human resources, and government policies have all favoured rapid growth in coastal and urban areas over the interior and rural areas. Various reform and openness policies have been influential in shaping growth and distribution patterns. First, internal deregulation and the transition to a market-oriented economy. This began to allocate resources in a way that means returns become more responsive to natural and human capital comparative advantages. Second, the government’s external liberalization has intentionally favoured coastal and urban areas, by providing them with preferential treatment in foreign trade and investment. Third, the fiscal system has been decentralized and the intergovernmental fiscal transfer scheme considerably weakened. The second and third policy changes have led to the narrowing of access to social services in the poorer provinces and regions because of lower revenue. The regional development pattern is the result of these policies. Over the reform period, east and coastal areas have become loci of rapid and widespread growth of Township and Village enterprises (TVEs), booming manufacturing for export, and concentrated foreign investment. (table 4.2)

Table 21 Regional structure of FDI in China before 1997 – percentage

	Numbers of projects	Contracted FDI	Actual FDI
East	82.1	88.5	88.0
Middle	12.9	7.8	8.7
West	5.0	3.7	3.3

East: 12 provinces and cities of Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Hainan, Guangxi. Middle: 9 provinces of Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, and Hunan. West: 10 provinces and cities of Sichuan, Chongqing, Guizhou, Yunnan, Shanxi, Gansu, Qinghai, Ningxia, Xinjiang, and Xizang
Source: waijingmao bu: waizi tongji, 1998. from Shen Kunrong 1999, p.16

¹¹ . Hu Angang, 2001: diqu yu fazhan: xibu kaifa xin zhanlue. (check)

¹² Chinese Academy of Sciences: “2001 nian zhongguo kechixu fazhan zhanlue baogao”, reported in Beijing Qingnianbao, March 2, 2001

Similarly, agriculture has received minimal foreign investment as compared to that received by industrial and service sectors. From 1979 to 1998, FDI in agriculture was merely 2.1 per cent of the total contracted FDI in China. Exports of agricultural products have declined continuously as a proportion of total exports. Meanwhile, Chinese agriculture has been losing competitiveness, as prices of most major agricultural products are already higher than those in the world market. In terms of the volume of external trade and foreign capital investment, agriculture seems to be the least “globalized” Chinese sector, not able to benefit from external openness to the same extent as other sectors.

Thus, external liberalization/globalization has played an important role in the development of urban sectors and coastal areas, but has produced a negatively discriminating effect on rural and interior development. In other words, rural and interior areas tended to be marginalized during the growth process

5.3 Agricultural versus non-agricultural employment in rural areas

The best record of poverty reduction was observed between 1978 and the mid 1980s, when agricultural growth served as the most important engine of poverty reduction.

Agricultural growth has been slowing since the late 1980s, falling far behind industrial and urban economic growth. Rural income began to depend more heavily on non-farm earning opportunities and non-farm employment has become a major income source. Opportunities for non-farm employment can be equalizing or the reverse (World Bank, 2000a: 56). To the extent that diversification into non-farm employment reflects a pull factor – higher returns off the farm – diversification can reduce equality as richer and better-educated workers take advantage of these opportunities. To the extent that diversification reflects a survival mechanism for the poorest, it can be equalizing. Evidence from four Chinese provinces suggests that the pull factor has been more important than the survival mechanism, with access to non-farm employment accounting for a rising share of income inequality in rural areas between 1985 and 1990 (World Bank, 1997b).

During the rapid expansion of the agricultural sector between 1978 and 1985, institutional changes and price increases were the major sources of growth, while external openness/globalization played only a limited role. But given that the positive effects of the initial rural reform policies were running out of steam by the end of the 1980s, and little new policy development to stimulate rural growth had taken place, it may well be the case that non-farm employment has replaced agricultural growth as the engine of rural income growth.

Non-farm work has become more attractive as the gap in labour productivity has grown between non-farm sectors and agriculture. In 1998, the non-farm GNP per labourer was 4.53 times that of agriculture, up from 3.93 times in 1990 and 4.20 times in 1995. External openness policy, by encouraging trade and foreign investment, has created job opportunities for those in the rural labour force seeking additional income.

In 1998, the total labour force was nearly 700 million, of whom 493 were rural labourers, including 171 million working in non-farm sectors. Of the 322 million labour force remaining

in agriculture, 140 million were estimated as surplus. A large number of rural surplus labourers are jobseekers outside villages at any given time. A considerable number of rural labourers, mostly the young, are employed by export-oriented, labour-intensive, processing factories especially those funded by capital from Hong Kong and Taiwan.

The contributions of small and medium-sized enterprises to growth and employment have been particularly significant. These enterprises currently account for over 90 per cent of the total number of enterprises, 60 per cent of total industrial output value, 40 per cent of total profits, 60 per cent of total exports, and 75 per cent of employment in urban areas. In addition, 80 per cent of rural labour working in non-farm sectors has been employed by these enterprises. The advantage of small and medium-sized enterprises, especially in job creation, is well known. In the past 20 years, export-oriented processing and the flow of FDI has boosted the expansion of small and medium-sized enterprises, which, in turn, have become an important source of employment.

Township and Village enterprises¹³ have accounted for a large number of small and medium-sized enterprises. In absolute numbers, employment in TVEs increased by about seven million annually in the 1980s and about four million annually between 1991 and 1998. But since 1997, the labour force of TVEs has actually shrunk. Overall, the transformation of farm labour into wage earners has made a great contribution to rural income. (tables 4.3-4.5)

Table 22 Contribution of factors to the growth of rural income, 1978-97, % of total

Total increased agricultural output value	26.44
Increased purchasing prices of farm and sideline products	32.84
Rise in number of rural labourers engaged in non-farm industries	35.07
Other factors	5.65

Source: Li Zinai, 2000: 33

Table 23 Structure of per capita net income of rural households

	1985	1990	1995	1998	1999
Productive income	367.7	657.4	1479.5	2039.6	2078.6
Primary sector	298.3	510.9	996.5	1237.4	1180.0
Secondary sector	29.5	70.7	287.2	498.9	564.3
Tertiary sector	40.0	75.8	195.7	303.2	334.3
Nonproductive income	29.9	29.0	98.3	122.4	131.7

Source: China Statistical Yearbook 2000: 331

Table 24 Sources of rural income growth, 1997-1999

¹³ TVEs' remarkable emergence and development during the reforms has been discussed widely (cf. Che and Qian, 1998; Perotti, Sun and Zou, 1999; Wu and Cheng, 1999). In 1998, TVEs accounted for 61 per cent of the increase of rural production, 28 per cent of total industrial output, 32 per cent of rural income, 46 per cent of the increase in industrial production, and 35 per cent of export. (Reported by Bureau of TVEs, Ministry of Agriculture, Dec. 7, 2000). By the late 1990s, employment in TVEs stood at 100 million. Since the beginning of reforms and before 1996, the growth rate of TVEs was more than 20 per cent annually on average and over 40 per cent in some years, with two peak periods of 1984-1988 and 1992-1996. The annual growth rate of TVE employment was 12.4 per cent in the 1980s and 3.9 per cent in the 1990s, or an average yearly growth of 7.7 per cent in the period of 1978-1998. (nonyebu ketizu, 2000)

	1997	1998	1999
Increase of per capita rural income, yuan	164	72	48
Of which			
from agriculture, yuan	73	-28	-53
%	44.5	-38.9	-110.4
from non-farm, yuan	91	100	101
%	54.5	139	210

Source: from Sheng Laiyun, 2000: 7

5.4 The urban poor

Urban unemployment began to emerge following the restructuring of state owned enterprises. By the end of the 1990s, an estimated 10 million urban workers had lost their jobs. This resulted in income and welfare losses and urban poverty. According to a conservative estimate, by the end of the 1990s the number of urban residents living below the subsistence level was as high as 12 to 15 million. (CASS ketizu, 2000).

The emerging and growing poor population in the cities is a relatively new phenomenon, caused largely by unemployment. To be sure, increasing urban unemployment goes hand in hand with a substantial increase of wage labour as a proportion of all labour in the countryside. Due to the rapid increase of wage labour, the overall labour force engaged in non-farm sectors has increased. From 1980 to 1998, while the proportion of the urban labour force in the total labour force increased from 25 to 30 per cent, that of the non-agricultural labour force increased from 31 to 50 per cent.¹⁴ The problem is that the increase of the general size of wage labour is accompanied with job losses during the downsizing of the state owned enterprises, which accelerated after the mid 1990s. Such an industrial restructuring under the name of “reducing employment and increasing efficiency” has pushed a large number of families of urban workers into, or close to the edge of, poverty.

¹⁴ xin zhongguo wushi nian tongji ziliao huibian (Statistics of Fifty Year Record of New China)

6 Social Policies Affecting Child Wellbeing

Needless to say, the dynamics of poverty and the living conditions of the poor are associated not only with government economic policies, but also with government social policies. Overall, the Chinese government policies during market transition are clearly focused on growth and seem to be successful for this purpose so far. The same can hardly be said with regard to its social policies. The record of child poverty reduction and the overall welfare changes suggest that, in general, social policies have not been pursued with the vigour necessary to address the issue of inequality. It has not, therefore, been able to sustain the broadly based growth pattern that emerged in the early stage of the reforms.

Market transition and external openness have been altering the institutions that supported the operation of the previous centrally planned economy and the accompanying social provisions. With these institutions transformed, the government has been trying to fill the emerging vacuum. In particular, among the unprecedented number of pieces of legislations that have been adopted and put into effect, some are directly associated with the welfare of children: the Law of Compulsory Education effected in 1986, the 1991 Law of Protection of Minors and the 1994 Labour Law. These laws specify the rights of children and require the government to protect them. According to these laws, all children over the age of six or seven should go to school and receive nine-year compulsory education with free tuition. It is prohibited to employ children under the age of 16 and, for those who do not continue education after finishing nine years of compulsory schooling, governments as well as various social organizations and enterprises should provide (in accordance with actual situation) professional and skills training, helping them to prepare for employment; health organizations and schools should provide children with necessary health care and carry out disease prevention work; and so on.

The irony is that while more and more laws are created, they are rarely put into practice. And when they are implemented, they often lag behind the problems that are emerging in a rapidly changing social landscape. In a number of areas, the social safety net that existed before the reforms, when China was a centrally planned economy, actually deteriorated (access to health care and higher education for the poor, for instance). In other areas, the government was not swift enough to adopt new programmes intended to deal with new social problems emerging from the transition itself (unemployment insurance is an obvious example).

Overall, the spending of Chinese governments at all levels (national, provincial, and local) declined dramatically during the period of reforms. It has been said that cuts occurred mostly at the expense of defence, subsidies and budgetary financed investment, while expenditure for "ordinary government" as a percentage of GDP remained largely unchanged (Naughton, 1997). But government spending for social purposes as a percentage of GDP has also declined substantially since the mid-1980s.

Only in recent years has there been a reverse in the downward trend in total government spending and government spending for social purposes as a percentage of GDP (table 25). Nevertheless, given the dramatic changes in the social structure and the rapid increase in

income (real incomes in 1978-99 increased nearly fivefold), it could be argued that the country to a large extent missed a chance to use the good times of economic prosperity to build a modern system of social safety nets. This latter task still remains a crucial challenge for the government of China. According to a study carried out by a research team of the Chinese Academy of Social Sciences (CASS ketizu, 2000), none of the three relevant parties, i.e. the government, enterprises, and individuals, benefited from the reforms of the social welfare and security system, enacted since the mid 1980s. It comes as no surprise, therefore, that the three issues with which families were most concerned were all related to the lack of social security – deteriorating health care, unemployment, and financial difficulties (CASS ketizu, 2000).

Table 25 Government expenditure as % of GDP

	1978	1985	1990	1995	1999
Total spending	31.0	22.4	16.6	11.7	16.1
In which:					
Social spending*	4.1	4.6	4.0	3.0	4.4

*Spending for social, cultural and education purposes. Other categories in government expenditure are: economic construction, national defense, government administration, and others.

Source: calculated from China Statistical Yearbook 2000, pp.53 and 262.

What is more, it appears that the growth of government spending on social purposes slowed down substantially during the reform period as compared to the pre-reform era. As a result, the growth rates of government-provided social services slowed down as well. Thus, the number of hospital beds increased between 1979 and 1997 by 2 per cent annually, down from 10 per cent each year between 1953 and 1978. The number of hospitals increased by only 0.3 per cent, compared to 12 per cent in the pre-reform period); the number of instructors per student in the universities declined by 3 per cent a year during the reforms, whereas in the pre-reform period this ratio was actually growing by 2 per cent each year. (CSY, 1999: 673).

Major changes in the most important areas of social policy, such as education, health care, employment policy, and poverty alleviation programmes¹⁵, are examined below.

6.1 Education

In the early reforms of the 1980s, those in manual labour earned no less and often more than skilled workers or professionals. Market transition and external openness has led to the restructuring of the economy, making education an increasingly important determinant of earnings. Consequently, future job opportunities and living standards currently depend more and more on access to education.

In recent decades, especially after the adoption of the Law on Compulsory Education, school enrolment in both urban and rural areas has increased. But a huge gap in education

¹⁵ There is a lot to be said about the pension system, which is still lacking in China for the rural population and for the large part of the urban residents. However, since the issue is not directly related to child wellbeing, it is not examined here.

continues to exist between urban and rural children. By the late 1990s, primary school enrolment in the countryside was close to that in the cities, but the secondary school enrolment ratios were far lower in the countryside. Of the 15 per cent illiterate and semi-literate adults (aged 15 and over) in total adult population, the overwhelming majority are concentrated in the countryside (CSY 2000: 103). School dropout is a common occurrence in poor rural villages. To receive nine-year compulsory education has never been a big problem in cities, but it has been difficult to obtain in the countryside. In areas of high poverty, the situation has been even worse. According to a 1998 survey of 33 counties in six provinces of southwest China classified by the government as “nationally poor”, primary school enrolment was 80 to 98 per cent for children aged 7-12 years, and 50 to 85 per cent those aged 13-15 years. Only 14.3 per cent of all girls aged 15 years completed primary school education in some of the poor villages in these regions (Sheng Laiyun, 2000). In view of the education gap between rural and urban areas, it is not an exaggeration to say that a person’s educational attainment is very much dependent on whether they live in the rural or urban areas.

The disadvantage of rural children in education is the result of both the initial conditions and urban biased policies. Formally, nine-year compulsory education is tuition free and the government is responsible for the expenditure. But fiscal decentralization has placed the responsibility for financing education on local governments. The lower revenue of the poor and rural regions means that fewer funds are allocated to education, and the lack of funds is translated into the inadequacy of teachers, facilities, classrooms, and overall lower quality of education. Public expenditure on education per pupil was estimated as 3 to 5 times higher for urban than for country children, and the gap has been widening. Education costs relative to income (textbooks and school supplies that are not distributed free of charge) remain much higher for poor families and those in rural areas. Even with free tuition, these expenses are often beyond the reach of poor households.

The lag in education attainment limits the chance for children from low-income families to take opportunities created by reforms and openness when they grow up. A national rural household surveys reveals that it was difficult for illiterate rural labourers to increase their earnings by taking advantage of non-farm jobs or economic opportunities. Of the total rural labour force working in non-farm jobs, those with only primary education accounted for a small proportion, and the majority of those who did manage to get a non-farm job worked mostly in unskilled and low paid jobs.

By contrast, rural labourers with secondary education are the most successful job seekers outside agriculture (Sheng Laiyun, 2000). Therefore, to improve education in the countryside is crucial for the improvement of future life prospect for rural children.

Public expenditures on education in China have been at a constant level, i.e. about 2.5 per cent of GNP for the past 20 years. Although the government had committed itself to increase public expenditure on education to 4 per cent of GNP by the end of the 1990s, this did not happen. The lack of real commitment to education in general and urban biased policy in particular, especially in the 1990s, is likely to leave poor children more permanently out of the growth process, by impeding their future ability to find jobs to earn better incomes

and to improve capability.

6.2 Health care

No progress has been made towards universal health care during the reforms. Rather, the opposite is true. Access to high quality medical care increasingly depends on the ability of the patients to pay. Moreover, the gap in supply of medical services between urban and rural persists. Liberalization of medicine prices, increasing imports and production by foreign enterprises in China has made a greater diversity of drugs available, but has, at the same time, sharply pushed up the prices. High cost of medical treatment has become the biggest barrier to proper medical care for the population.

State sponsored health care systems in the cities have been in disarray since the reforms. There have been constant modifications intended to divide the responsibility for medical cost among the government, employers and individuals, but these modifications have stopped far short of an alternative health care system which covers all urban residents, not to mention the rural population. Health care services for children were never and are not provided by the government free of charge, although the government and state enterprises once covered part of these costs for urban employees.

The previous commune system of medical care that provided some minimal guarantees to the rural population in fact collapsed with the elimination of the communes. Attempts to restore cooperative medical services in the countryside came to no avail, resulting in large rural populations who are not covered by any kind of medical insurance.

TVEs, even large ones, very rarely cover the medical expenses of their employees. Moreover, state enterprises that continue to employ over 100 million workers (and that formally provide them coverage for all health care expenses) are now increasingly short of money and refuse to reimburse medical costs that are, at the same time, becoming more expensive. The cost of medical services increased from 1993 to 1998 at a rate two to three times higher than the rate of the increase of the average wage (CASS ketizu, 2000).

Nevertheless, as the above data show, health conditions of children in China have in general improved over the 20 years of reform. This improvement has been, in large part, the result of the increase in general incomes. Higher income enables both rural and urban residents to have better access to food, clothing, and housing, which are the necessary material conditions for the improvement of health. Higher incomes also helped to pay for medical treatment and drugs. But medical costs have increased far more rapidly than incomes. In China today, where medical expenses fall entirely on individuals in cases of serious illness, rural families of even average income must either sacrifice health by not seeking medical treatment, or become deeply indebted or bankrupt, or both.

6.3 Employment policy

Workers in state owned enterprises have lost their job security as unemployment has become an increasing threat to their livelihood. To a great extent, the advantage that urban state enterprises' workers still enjoy comes from the residue of the central planning system.

The relative deterioration of the living conditions of workers in state enterprises is linked to openness policies. In an effort to attract foreign investment, the government has been working hard to create a “good investment environment”. The erosion of urban welfare suggests that such an environment comes at the expense of labour standards in the state owned enterprises, leaving little incentive to improve labour conditions for workers in the private sector, nor in the TVEs in the countryside. Foreign competition and efforts to attract foreign investment have put pressure on China’s labour market to keep labour costs low in order to keep investors happy.

In the face of growing unemployment, new social provisions, such as unemployment benefits and minimum living expenses, were put in place in urban areas in the 1990s. These provisions, although not sufficient to compensate job losses, have helped to cushion the negative impact of reforms and openness on job security for urban workers and their families to some extent. No similar measures in unemployment benefits, or in the area of social safety nets in general, have ever been seriously attempted in the countryside. If there is one thing that came as a surprise to the “successful story” of China’s reforms and openness, it is how little progress China has made in terms of social welfare for the rural population despite the rapid growth and rising national income. Rural people are left entirely on their own for survival and security, which makes them extremely vulnerable to risk and unexpected changes.

6.4 Poverty alleviation and relief policy

In 1999, after the minimum subsistence level programme (*zuidi sheng huo bao zhang zhidu*) was established in all cities and county townships, it was reported to reach only one-fifth to one-quarter of those who were actually qualified to receive its assistance. The poor financial situation of the poorest counties did not allow them to allocate appropriate funding for this programme. (CASS *ketizu*, 2000)

The problem of “return back to poverty (*fan pin*)” is now causing increasing concern. The rate of falling back into poverty in Guangxi province in 2000 was 15 per cent and as high as 30 per cent in some areas. In the first half of 2000, one million rural residents fell back into poverty in Anhui province alone.¹⁶ According to the report by the Office of Poverty Alleviation of the State Council, the average income of the rural poorest population remains less than one third of average rural income, and the rural income gap between the better off and the worse off rural areas has been also widening.¹⁷

This is not to say that the government has been making less effort to alleviate poverty in the 1990s than in the 1980s. In fact the government intensified its anti-poverty efforts and pursued its poverty alleviation programmes more vigorously in the 1990s. The rural population remains the main target for poverty alleviation programmes, but the vulnerability of small household farming in an uncertain market without social welfare protection and safety nets tends to diminish the effectiveness of such remedies. Farmers and their families

¹⁶ Ban yue tan (By-Weekly Review), 2000, no.12.

¹⁷ Xinhua News Agency, reported 2001, March 2

will face uncertain and, most likely, negative impacts on agriculture and rural incomes after China joins the WTO.

To sum up, external liberalization policy decisions have had mixed impact on the wellbeing of people, including children. Compared to the relative success of growth promoting economic policies, social and economic policies to offset the negative effects of some growth-oriented policies on income equality seem to have been rather weak. In this area, the problem is not what the government has done, but what the government has not done, or not done enough of, to maintain a broad based growth model for more equitable benefits for all. Similarly, the problem of the continuing existence of poverty and poor living conditions among children is not because of the lack of legislation, regulations, or programmes. Rather, the problem is the inadequate implementation of these regulations and programme and the lack of progress in creating a modern system of social protection for children consistent with the rapid increase in average income experienced in China during the reform period.

The violations of child rights, such as child labour, that have occurred during years of unprecedented economic prosperity clearly indicate that the social safety nets for the population, and for children in particular, did not keep pace with the impressive economic progress of the last two decades.

7. Conclusion and Policy Implications

It has been proposed that redistributive policies should remain secondary in China's poverty reduction strategy. China, it is suggested, should raise rural incomes through growth rather than through redistribution (World Bank, 1997b: 12) as excess redistribution measures provide disincentives that can suffocate growth. However, it is also widely recognized that the lack of growth in a particular country or region is associated with the low level of infrastructure and human capital. This is the case in rural and inland China. Because of the paucity of necessary resources in poor areas, the improvement of infrastructure and human capital in rural and poor areas is unlikely to happen without redistribution policies. Redistribution measures such as public expenditure on social services targeted towards the poor and rural-interior areas are necessary both to promote growth and reduce inequality.

This paper has examined changes in child well-being, with the poverty issue as a central focus, in China during the time of reforms and openness. The economic gains in the process are there for everyone to see. However, it is not economic growth alone but also, and perhaps more importantly, the patterns of economic growth that make a difference in the living standards of the vast majority of the population. Our tentative findings can be summarized as the follows.

First, China has indeed achieved a great deal in poverty reduction, in the sense that the size and proportion of the population in poverty has declined substantially in the past 20 years. This progress is largely due to rapid and widely spread economic growth that has raised the general income level and improved the living conditions of the population including children. But there was no robust relationship between poverty reduction and external openness in the

first half of the 1980s when the most remarkable progress was made. This was demonstrated by the fact that the most significant poverty reduction occurred in the period of early reforms when openness and trade liberalization had yet to play a significant role in growth.

Second, the living conditions of a large part of the low income population, including their children, have not improved to a degree consistent with the record increase in average income. The government had anticipated the elimination of poverty by the end of the 1990s. The reality is quite different. Poverty seems to have become more chronic and tenacious. Children in poor families lack access to basic education, health care and security, which not only has a negative affect on their living conditions but also diminishes their future life opportunities. The persistence of poverty in the midst of rapid growth has two major causes: the sharp increase of income inequality, and the lack of efficient redistribution measures and mechanisms. In other words, the positive impact of growth via external openness on children could have been far greater, had more decisive measures and mechanisms been developed along the way to prevent or at least to curtail inequality and to assist the poor.

Third, as inequality has reached a high level and continues to grow, the broadly based growth pattern has been in jeopardy. A great number of children in poor families and poor regions are trapped in permanent disadvantage if not in absolute poverty, because the trickle-down effect of urban and coastal biased growth was far from sufficient to benefit all.

We found explanations for negative consequences of reforms and openness in a number of areas. First, the external openness policies have been biased in favour of cities over the countryside, east-coastal over interior regions, and capital over labour. These policy decisions, while quite successful in promoting growth, have resulted in increasing inequality. Second, there is a lack of necessary coordination between economic policies and social policies. Government efforts and policy implementation have been overwhelmingly focused on growth, while insufficient attention has been paid to social problems such as inequality. As a result, poverty has persisted, social safety nets are slow to be established, and social tensions have accumulated. For economic growth to be sustained for the purpose of benefiting the entire population, a more balanced development strategy is called for. The following measures are recommended:

First, market functioning needs to be improved and market imperfections should be eliminated. To a great extent, the impact of external liberalization on well-being and poverty depends on how well markets are able to allocate resources in such a way as to increase public welfare. A well-functioning market requires infrastructure support, relevant institutions, financial and labour market regulations, and effective law enforcement. While the contribution of external liberalization to growth should be recognized, it should also be understood that external liberalization can push some people into poverty or increase the extent or depth of poverty under certain circumstances. Thus great care is required in deregulation and external liberalization to ensure that the market transition proceeds in a way that minimizes poverty and maximizes positive gains for the vast majority of the population.

Second, employment should be put at the centre of government policies. In China, where

the size of the surplus labour pool is very large and still growing, one cannot over-emphasize the importance of job creation. While employment is the single most important source of income for urban workers and their families, unemployment has become the most important cause of urban poverty. Since job security has been taken away, more job opportunities must be created to ensure the right to work stipulated by the Chinese Constitution. Moreover, a growing number of rural families derive an increasing share of family income from non-farm employment. Needless to say, creation of jobs for the abundant rural labour force is the important area of poverty reduction. One necessary component of an “employment-friendly development policy” is the encouragement of small and medium-sized enterprises, including TVEs. The role of these enterprises in providing jobs is widely recognized. They can be internationally competitive, but the key to this competitiveness is, in the longer run, better production efficiency. Until now the comparative advantage of many of such enterprises, especially TVEs, depended largely on their low labour costs, i.e. low level of labour standards, lack of pension and other social contributions, etc. It is now time for the government to establish and enforce reasonable labour and social standards in these enterprises for the sake of their long term development in the face of growing external competition. Even if some of these enterprises produce insignificant or even zero revenue for governments, their function in job creation alone should warrant government support.

Third, the development of the rural economy should be on the list of priorities of the government policy agenda. Rural growth has been proved to be more important in reducing poverty than urban growth. As long as a large population remains in the countryside, the significance of rural growth in the improvement of well-being is unlikely to diminish. Given the low mobility of the rural population in the short and medium term, and if rural income cannot be raised significantly, poverty reduction is unlikely to succeed even with fast growth in other sectors. Thus, external/globalization policies that are detrimental to agricultural growth should be especially avoided. In this context, measures need to be taken to protect peasants from the negative impact of China’s entry into WTO on agriculture and rural income.

Fourth, the current policy of “developing the west” should be continued. In order to correct to some extent the long existing bias in favor of east-coastal provinces, the government has in recent years formulated a strategy of development in western regions. The strategy aims to tap the resource potential of these vast regions by implementing preferential policies to encourage domestic and foreign capital, providing financial, technical and administrative assistance to improve infrastructure, and encouraging westward movement of skills and management. Although this recently enacted policy has yet to produce tangible results, it is absolutely necessary and should be pursued unwaveringly.

Fifth, policies to accelerate the establishment of social safety nets, to enhance welfare provision and to extend such provisions to the countryside are urgently needed. Such policies should work to upgrade social welfare provision that fell behind the increases in income in the last two decades. It is socially unacceptable that high growth is not accompanied by a higher level and a more universal provision of welfare. In particular, measures need to be taken to protect disadvantaged social groups, who remain quite large and who, in the absence of special social policies, shoulder a disproportionate burden of the

costs of market transition. Providing public goods is the government's responsibility, and includes maintaining laws, institutions, education, medical care, welfare, social security, infrastructure, and all that is necessary to ensure social order and social/individual safety. Insufficient supply or, even worse, shortage of public goods results in the loss of the basic sense of security. As the Chinese reform and openness experiences suggest, an abundance of private goods cannot replace the scarcity of public goods. Time has come to re-examine the policy of "letting a few get rich first" as the shortest way to make the whole country rich. It is indeed very questionable that there is a trade-off between equality and efficiency, but even if there is, it is equality, not efficiency, that is currently in short supply.

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