

Economic Growth and Human Development in China

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Tables

The Chinese economic takeoff has captured the attention of the whole world with its 15-year sustained growth. It started with the implementation of Deng Xiaoping's economic reform policy in 1979. Since then, China has been the world's fastest-growing economy. For a country comprising one fifth of the world's population, with an exceedingly diverse economy, such rapid growth would have been thought impossible. What makes this possible? Has the fast economic growth been translated into human development? What accounts for the successful or failing translation? To answer these questions, this country report traces for more than four decades the performance of China with respect to economic growth and human development, and offers explanations with emphasis on interactions between economic growth and human development. The structure of this report is as follows: the first section examines the trends of economic growth and human development, discusses the growth pattern and nature, and provides the findings of mixed performance in terms of the country's translation of economic growth into human development. The second section develops an analytical framework to explain this mixed performance from the aspects of institutional change, reform policy and the quality of governance that concern the exact process through which growth translates, or fails to translate, into human development. The third section, by utilizing the analytical framework, discusses such empirical issues as income distribution, reduction of poverty, education and health, economic security and environmental issues. The last one contains a conclusion.

1. The trends of economic growth and human development

1.1 The rise of China's economy

China's economic growth in the past four decades can be divided into two periods: the pre-reform era (before 1979) and the post-reform era (after 1979). The year 1979 represents a milestone in terms of economic performance, development strategy and the pattern and nature of growth. The Chinese economy in 1978 was generally pictured as "on the brink of disaster" due to its various imbalances as well as problems of low productivity growth and poor incentives. The major imbalances included an emphasis on capital construction and neglect of agriculture and light industry; emphasis on production and neglect of people's livelihood; emphasis on production and neglect of distribution;

and emphasis on high accumulation and neglect of efficiency and consumption. These imbalances caused high urban unemployment, widespread rural poverty and sluggish productivity growth.¹

Table 1 compares the gross national product (GNP) growth rate and that of the population in the 1980s and 1990s with those of earlier periods. Despite the many statistical shortcomings, there can be little doubt that the growth rate after reform was substantially higher than in the pre-reform period (as a matter of fact, there was a good subsequent growth between 1952 and 1980), as Table 1 shown. GNP grew annually at a rate of 6.2 per cent in the period of 1952-1980 and 9.6 per cent in the period of 1980-1993. Except for the early 1950s and the period 1962-65, when the economy was recovering from war or famine, at no time in the history of the People's Republic of China has the economy grown as fast as in the 1980s and the first half of the 1990s.² At the same time, population growth has been slower, so that the difference between the per capita GNP growth rates in the pre-reform and post-reform periods is even more marked. GNP per capita grew 4.3 per cent and 8.2 per cent in corresponding periods, GNP per capita has rapidly increased from \$280 in 1980 to \$530 in 1994.³ Figure 1 reveals an apparent growing trend of GNP per capita in China. Although the growth rate declined to 4 or 5 per cent in 1989 and 1990 due to the efforts to deal with unacceptably high inflation and turmoil, the rates re-accelerated to 7 per cent in 1991, to 14 per cent in 1992, 14 per cent in 1993, 11 per cent in 1994 ⁴ and 10 per cent in 1995.⁵

Foreign trade and investment have played a crucial role in the growth of the Chinese economy. Its foreign trade currently ranks 11th in the world economy. Table 2 contains the growth index of the gross value of imports and exports, compared to the level of 1979 (1979=100), and the degree of openness of the economy. The degree of openness of the economy, which is calculated by trade against GDP, is strikingly rising from 11 per cent in 1978, 18 per cent in 1985, 25 per cent in 1990, 33 per cent in 1992, to 40 per cent in 1995, ⁶ as Figure 2 indicates, there is a rapidly growing trend of the growth of exports and imports. While accomplishing this trade growth, China has also recently achieved the foreign exchange reserves about \$90 billion, ranking second in the world after Japan. Furthermore, China successfully implemented extensive exchange rate system reforms at the beginning of 1994, when the dual exchange rate system that had been in effect since 1986 was unified on January 1 at the rate of Y8.7 per dollar. In addition, China has attracted tens of billions of dollars of foreign direct investment, ranking second only after the United States. Its place in the world is shown in Table 3.

Along with rapid economic growth, major changes in the economic structure have occurred, as shown in Table 4. Production and employment structures have shifted in favour of industry and services, suggesting a continuation of the industrialization process. During the 1980s the ratio of employment to population rose sharply, as did the investment rate and the export-GDP ratio. In each indicator the rate of increase was much higher in the 1980s than in the 1970s and 1960s. Excepting for the inflation rate, economic achievements in the last 15 years were very remarkable. The standard of living of the Chinese people has also increased as the result of reform. Between 1981 and 1990, the nominal share of basic necessities (such as staple food, clothing and fuel) in total

expenditure declined for both rural and urban households while that of non-basic items (non-staple foods, housing, daily goods and others) as well as services, increased. For urban households, the nominal share of expenditure on staple food fell by almost half from 1981 to 1990. For rural households the nominal share of expenditure on non-staple food increased by more than 30 per cent from 1981 to 1990.⁷

1.2 A mixed performance of the translation from economic growth to human development

Has economic growth translated into human development? There is no straightforward answer for this question. The achievements of the translation from economic growth to human development in both the pre-1979 period and post-1979 period have been mixed.

During the pre-reform era, some important elements of human development, along with a good subsequent economic growth, had pivotally improved, but other ones had not. The improvement can be demonstrated by remarkable increases in longevity and ease of access to health and education services, compared to the pre-1949 period, before the founding of the PRC. In 1949, China was among the poorest nations in the world and had very high levels of mortality, undernutrition and illiteracy. Life expectancy at birth was only 35 years and the infant mortality rate was 200 per 1000 live births, as Table 5 shown. Since 1949, an outstanding development had emerged. As the trends in Figure 3 show, the life expectancy at birth from 1950 to 1980 increases sharply. Life expectancy at birth was 40 years in the early 1950s,⁸ while it was 64 years in 1974⁹, 65 years in 1975¹⁰. Figure 4 presents a trend of infant mortality rate, which rapidly declined from 195 at the beginning of the 1950s to 52 in the late 1970s.¹¹ Moreover, the primary enrolment ratio expanded from 49.2 per cent in 1952, 56.1 per cent in 1962 to 93.0 per cent in 1978.¹²

In addition, the basic needs of most of the Chinese people were fairly well satisfied prior to 1979 despite the fact that there had been relatively little increase in food availability per capita.¹³ The Chinese government increased the provision of several basic commodities and services to the poor such as staple foods, health care, primary education, etc. in both rural areas and urban areas, or directly provided subsidies or relief funds to the poor, laid-off, retired, elderly and disabled. It can be seen from Table 6 that government expenditures on pensions and social welfare relief funds was 1.89 billion Yuan in 1978, six times the figure of 1952.

However, China's record of human development during the pre-reform era is seriously flawed by the absence of essential human choice, such as political and economic freedom. Its good subsequent growth did not enlarge the choices of the Chinese people in economic and political affairs. The participation of people in planning for themselves is regarded to be one of the distinct elements of the human dimension.¹⁴ In China's case, people's participation was largely denied by a highly centralized economic planning system and human development strategy before reform. The central planning system was established in the early 1950s, based on the principle "unified leadership and unified

administration." This system worked through three central planning mechanisms: (1) physical planning of production, (2) centralized allocation of materials, and (3) budgetary control of revenues and expenditures. The State Planning Commission and other central ministries directly controlled major enterprises, distributed funds and materials, and supervised fixed investment through a centralized budgetary allocation. The centre set compulsory financial targets for localities and had complete budgetary control over provincial government expenditures. Through the central planning mechanisms, the central government controlled almost all aspects of economic and social affairs. As a result, workers had no rights to choose their job; farmers had no rights to decide what to grow and how to grow; enterprises had no rights to purchase raw materials or semi-products and to sell their products while markets were eliminated. Similarly, localities' participation in the operation and maintenance of development projects and programmes had been restricted by the central government. And the Chinese people had little freedom to participate in political affairs as well. There were no competitive elections, there was no multiparty system; it was impossible to form independent non-governmental organizations; the press was highly constrained.

This serious flaw has been partially corrected during the reform era. After 1979, the economic and social choices of the people have been significantly enlarged. Decentralization, especially, has brought economic freedom closer to the people by giving back rights of decision-making of the people and the market economy. Peasants, through the equal distribution of land (household responsibility systems), have considerable choice and incentive to increase their income. Enterprises have gained more autonomy than before due to the declining role of administrative regulations such as price-controls, wage-ceilings and production-quotas. They could set up the profit-sharing arrangements with the government, control fringe benefits and make decisions about selling and buying according to market signals. The former "unified allocation of labour" that provided a state-determined job for urban workers has been abandoned for all. Thus, the nature of the relationship between enterprises and the state that is characterized by paternalism [15](#) has been significantly changed. Like peasants and enterprises, localities have played increasingly important roles in promoting economic growth. Their dependent relationship with the centre has been altered from paternalism to either a rivalry or partnership. [16](#) As rivals, when both the centre and localities insist on their own interests, they confront each other over issues. As partners, localities are willing to implement policies that are compatible with their interests or local interests.

The major indicators of human development are continuing to improve. Compared to Table 5, Table 7 shows a recent improvement in a specific year in some aspects of human development. In 1993, life expectancy rose to 71; infant mortality rate declined to 35; and the under-five mortality rate was 43. Real GDP per capita also has dramatically improved, rising from 723 PPP\$ in 1960 to 2330 PPP\$ in 1993. Figure 3 and 4 show the trends in life expectancy and infant mortality rate during the post-reform era as well. Progress in longevity and health are continuing to develop in the earlier trends, rather than a new departure (although the pace of improvement during the after-reform period has slowed down).

Furthermore, the growth pattern has significantly changed. First of all, the major source of growth has gone from state-owned enterprises to non-state-owned enterprises. The share of growth of the state-owned enterprises started to decline from 78 per cent in 1979 to 48 per cent of gross output value of industry in 1992.¹⁷ It was the first time in the PRC's history that state-owned enterprises owned less than 50 per cent of industrial outputs. The figure continue to decline after 1992. Figure 5 and Figure 6 give us two different pictures of the structure of industrial output. Compared to the 1978 structure of industrial output, the growth share of state-owned enterprises in 1994 declined to 34 per cent, 44 per cent less than that of 1978, while individual-owned and other ownership including joint venture enterprises rose from zero to 25 per cent. This change indicates that the major source of growth is no longer determined by the state-owned enterprises, while non-state-owned enterprises have begun to play a decisive role in growth. More important, non-state-owned enterprises determine the pace of growth because an explosive growth of collective industry, private industry and joint venture industry outgrow the state sector. Table 8 tells a detail of the growth rates based on preceding year. In 1978, compared to the previous year's performance on a basis of comparable prices, state-owned enterprises grew faster than collective-owned enterprises. In 1979, both types of enterprises grew at almost the same rate. After 1979, collective-owned enterprises, at a much higher rate, outgrew state-owned enterprises in every single year, while individual, joint venture and other enterprises even greatly outgrew collective-owned enterprises. In 1994, gross output value of industry increased by 26 per cent, among which, state-owned enterprises grew only 6.5 per cent while collective-owned, individual-owned and joint venture and other firms grew correspondingly 29.8 per cent, 58.3 per cent and 68.5 per cent.

The growth of non-state-owned enterprises not only largely determines the pace of growth but also significantly changes the structure of employment by absorbing a large amount of labour. Many of these non-state-owned enterprises are characterized by labour-intensive industry since their products are mostly textiles, garments, shoes, toys and consumer electronics. Their growth represents a generation of jobs. In the pre-reform era, employees of state-owned enterprises made up 79 per cent of the urban work force. This figure has declined during the reform. Table 9 suggests a trend of declining role of state-owned enterprises in terms of the structure of employment, while non-state-owned enterprises provide much more employment opportunity. The impact has been especially dramatic in commerce. Between 1978 and 1992, the collective share of commerce-related urban employment jumped from 16 to 34 per cent, while the state sector share dropped from 84 per cent to 44 per cent.¹⁸ As for job creation, the number of jobs expanded most quickly during the 1980s in joint venture enterprises, rising at an average annual rate of nearly 60 per cent between 1984 and 1992. In terms of urban self-employment, it is believed that the figure has been seriously underestimated. The State Administration for Industry and Commerce in Beijing admitted in 1992 that about one-third of all urban self-employed in large cities were not registered. One author estimates that the proportion of the overall urban work force employed in the private economy was 16.76 per cent in 1985, and 33.93 per cent in 1992, and raised from the official 5 per cent to a full one-third.¹⁹ Table 10 provides additional information concerning the growth of private enterprise employment. As this table shows, in a few years, the number of registered

private enterprises rose from 91,000 units to 420,000 units, and the number of persons employed rose from 1.85 million to 6.35 million.

Moreover, the foreign trade decentralization leads the Chinese people to have much wider access to the opportunities of expanded trade than before. In the 1980s, numerous new foreign trade enterprises and companies were set up, including provincially-run enterprises, city-run enterprises, collective-run enterprises and even individual-run enterprises. The monopolistic position of the Ministry of Foreign Economic Relations and Trade (MOFERT, now called MOFTEC--the Ministry of Foreign Trade and Economic Cooperation) was replaced by a new pluralistic organizational framework. In December 1987 only around 800 enterprises were permitted to import and export; this figure skyrocketed to around 5000 in early 1988. Except for certain commodities, such as coal, oil, food grains and steel, which are still exported by enterprise under the direct control of MOFERT, all other commodities can be exported by non-MOFERT enterprises. Many rural township and village enterprises (TVEs) were permitted to enter foreign trade activities. Table 11 shows that rural TVEs and joint venture enterprises produce a growing share of the exports. This trend was most obvious in the second half of the 1980s. Rural TVE exports jumped from about US\$4 billion to more than US\$12 billion between 1985 and 1990, and joint venture exports from around a quarter of a million dollars in 1985 to 47.6 billion dollars in 1995, accounting for 32 per cent of total exports. [20](#)

Thus, the nature of China's economic growth has switched from centralized growth to decentralized growth during the reform era. It can be called a participatory growth [21](#) since it has released vast initiatives at local and individual levels and enlarged people's participation in economic growth by generating millions of jobs and increasing incomes in ways which have benefited ordinary Chinese people. In this regard, there is no doubt that China's growth successfully translated into human development.

The performance of human development during the reform era, however, contains its failures, as can be seen in Table 7. Literacy rate and enrolment ratio for all levels are poor. The rate of adult illiteracy fell from 38.1 per cent in 1962 to 23.5 per cent in 1982, but has seen a resurgent increase in the more recent years (it was 26.8 per cent in 1987). [22](#) From the same table, an obvious declining trend of enrolment ratio for all levels can also be seen, dropping from 50 per cent in 1980 to 43 per cent in 1992. Figure 7 suggests that the total primary enrolment ratio fluctuated during the reform era. It climbed in 1978 and went down afterwards. In 1983 it rose again and reached a peak of 130 in 1987 and then declined again.

Achievements of basic education and health are even worse in remote and mountainous areas. Many remote villages do not have the minimal conditions for running schools. Many of their school buildings are unsafe and the quality of teachers is poor. In rural primary schools only about 60 per cent of students complete their five years of schooling. The rate of transition from primary school to junior high school is only 59 per cent, while the rate of transition from junior high school to senior high school is 10 per cent in the countryside. Nation-wide, there are still 457 counties that have not yet fully

implemented the universal system of nine years of mandatory education. In 1987 among school-age children (6 to 14) in the countryside throughout the nation, approximately 30 million were not in school, with 25 per cent of them having been to school but withdrawn, and 38 per cent being those who had never enrolled in school. The situation is similar for medical care and public health. Many areas in the countryside have had a shortage of doctors, of medicines and of paramedical staff. As of the end of 1991, a third of towns did not have hospitals, and about 100,000 villages, which make up about 12 per cent in the country, did not have clinics.²³

Although economic growth quickened and the economic choices of the Chinese people had expanded, certain aspects of social progress slowed down. How do we explain this mixed performance of the translation from economic growth to human development?

2. The analytical framework: Explaining a mixed performance

2.1 Institutional change:

The change from highly centralized institutions to decentralized institutions has mixed impacts on the translation from economic growth to human development. On the one hand, it facilitates the translation; on the other, its undeveloped elements impede the translation.

The institution ²⁴ is considered as a central variable in the translation from economic growth to human development. In this section, China's institutions are regarded as a structure of institutions, including state institutions, social institutions and market institutions. State institutions consist of central government and local governments organizations. Social institutions here refer to both non-governmental organizations and non-market organizations. Markets are institutions, created by conscious design and governed by sets of rules. ²⁵ Since 1979, China has been converting its institutional structure from a highly centralized one into a decentralized one, which is being achieved in a number of ways: First, the centre transfers resources, responsibilities and the rights to decision-making to lower levels of government and other public organizations outside the normal bureaucratic structure of central government (delegation), coupled with revenue sharing or other forms of transfers from the central government to the regional and local levels. Second, the centre transfers some administrative responsibility or authority to lower levels within central government ministries or agencies (deconcentration).²⁶ And third, China's decentralization also takes the form of a transfer of power, resources and responsibility to social institutions--the private sector and other social sectors.

State Institutions

1. The downward shift of institutional functions

The Chinese government reallocates its institutional functions in the reform period, which has changed the role of state institution in economic growth and human development. The central government has made tremendous changes in institutional design. It has undergone two structural reforms in the 1980s. One of them was the 1982

reform. It included: (1) the dismantling of state council commissions which had acted as overlords to each of the hierarchical "systems"; (2) reduction of the total number of State Council institutions from 100 to 61; and (3) reduction of the State Council staff by 34.7 per cent, from a total of 49,000 to 32,000. In 1988, further reform of the State Council had been undertaken. This reform focused on the downward shift of government functions. The central government, through the decentralization, has changed its institutional functions from complete intervention to selective intervention. It relaxed its control over resource allocation (between 1979-89, the number of raw materials controlled by the centre fell from 256 to 27, and the proportion of capital goods from 80 per cent to 20-30 per cent), gave greater autonomy to the local authorities over investment (the jurisdiction to approve investment projects of provincial government has been enhanced from less than 10 million yuan in 1984 to less than 50 million yuan), and decentralized managerial power over enterprises.

After the central government institutions shifted focus from direct decision-making to providing a supportive role, local institutions have effectively played a role in promoting economic growth by facilitating the implementation of projects and programmes in a wide variety of local circumstances. More important, in some special circumstances, local governments, based on the knowledge and desires of the local population, created new projects and programmes in order to engage local community support and participation. The creation of the household responsibility system in the late 1970s in Anhui Province was an example. There, after the severe drought of the fall of 1978, a great scale of poverty faced local governments. Local leaders were unable to find economic solutions among the policy alternatives designated by the central government. Motivated by a sense of crisis, the local leaders and the populace brought about the household responsibility system, even after it was ruled out by the central leadership at the very beginning of the reforms.[27](#)

2. The paradox of decentralized institutions

Analytically, decentralization is likely to promote economic activity through several routes including an increased infusion of capital and other resources, the more extensive provision of infrastructure, and a more effective enabling environment than would have been the case under a centralized system. In addition, decentralization will expand employment, improve economic efficiency (by introducing a market-friendly approach) and enlarge participation of local people in economic and social affairs. It is also likely to make expenditure decisions which agree with the basic priorities of human development. It is argued that the overall picture of decentralization reflects significant potential for human development. [28](#)

Empirically, decentralization indeed has reflected significant potential for economic growth but is not necessary to guarantee the achievement of human development due to the existence of the paradox of decentralized institutions. The paradox of decentralized institutions is that decentralization requires breaking the custom of dependence of localities on the centre, at the same time it demands more efficient central government and more sophisticated governing crafts at the national level to guide the development and reform process. This paradox of decentralization determines the presumed conflict

between reform policies and growth with human development.²⁹ Reform policies require the correction of price distortions, a greater role for the market mechanism and less government intervention--an intentional withdrawal of the government intervention from the economy. By contrast, human development requires more government intervention and a greater government presence, particularly in education and health. In certain circumstances, the presumed conflict between reform policies and growth with human development could be overcome if demand management is improved, price distortions are corrected, unnecessary public intervention is reduced, and inefficient and corrupt economic and administrative controls are done away with. Thus resources would be released to achieve both higher growth and better allocations for human resources development. However, if all these necessary conditions do not exist or only partially exist, then the presumed conflict could become real. In China's case, necessary conditions only partially exist. For example, a part of price distortions has been corrected but the uncorrected part still plays a negative role in pursuing growth and human development simultaneously, and so do unnecessary public intervention and corrupt economic and administrative controls. Moreover, decentralization in China weakens the ability of the central government to mobilize resources, which has negatively affected government expenditures and revenues in terms of growth and human development (this will be discussed below). However, this conflict, to some extent, can be overcome by the emergence of social institutions.

Social institutions

After decentralization, social institutions in China played a greater role in economic and social affairs than before. Social institutions such as collective enterprises,³⁰ private enterprises and joint ventures are significantly involved in the process of growth as discussed above. Some social institutions have been positively involved in some aspects of human development, when state institutions fail to provide necessary social services. The stories of the social welfare evolution in developed rural areas of China such as Guangdong Province, Hebei Province and Jiangsu Province are relevant. In these areas, the villages and townships enjoy a relative prosperity due to the creation of local enterprises. The profits of the enterprises are not directly redistributed to the inhabitants but part of them are used to finance community funds. The funds have different social functions: to support the local school for adults as well as the elderly and the disabled, to establish a system of insurance which enables peasants to recover part of their expenses in case of illness, and to encourage education.³¹ This welfare system is designed to serve the interests of the inhabitants of the locality to which the enterprises belongs.

In the field of education, the role of social institutions also can be found. Since state investment in education is not sufficient, non-governmental sectors start to become involved in the opening of schools. To date, social efforts have opened more than 1,000 primary schools, 600 junior middle schools and 300 senior middle schools³² and even higher educational institutions.

These two examples indicate that, in the field of education, health and social welfare, in general, market institution is unable to translate economic growth into human development. The state could not completely correct the failures of the market institution

due to its weak ability to mobilize resources. In this sense, social institutions could overcome both failures to a certain degree.

Market institutions

Markets are institutions which structure, organize and legitimize contractual agreements and the exchange of property rights. They not only provide price conventions but are a means to communicate information regarding products, quantities, potential buyers and potential sellers. ³³ A central issue in growth and human development is the interaction between state institutions and market institutions. *The World Development Report 1991* stressed the complementary ways markets and states can work together. If markets can work well, and are allowed to, there can be a substantial economic gain. If markets fail, and states intervene cautiously and judiciously in response, there is a further gain. And if the two are brought together, the evidence suggests that the whole is greater than the sum. When markets and states have worked in cooperation, the results have been spectacular, but when they have worked in opposition, the results have been disastrous. China's central planning system which supplanted the market in the pre-reform era produced disastrous results in terms of growth as the report describes in section 1.1. Market institutions are the best guarantee for economic growth. During the reform, the opening of product, capital, labour and technology markets that are rising demand for labour, rising productivity, rising wages, lowering prices of the goods the people could buy, significantly fosters the rapid growth of the whole economy. But they have a limited role to play in translating from economic growth to human development. Market institutions are not the guarantee for equitable income distribution, primary education and health care for the poor; by contrast, market forces concentrated benefits in the hands of the few. Thus government intervention to spread the benefits downward to the poor is a must.

The problem of China is that in the decentralized institutions, it becomes difficult for the central government to provide basic social services due to its own weak capability to mobilize resources, while many local governments ignore the issues of education and health due to the lack of commitment and incapability. For very basic services the central government should provide leadership and financing to the entire population at fees below cost, for which no market institution has offered a substitute. Market institutions that have recovered adversely affect the social sectors, while social institutions are still too weak to play an important role in establishing a close linkage between growth and human development. In this regard, although the decentralized institutions give the Chinese people the opportunity for higher economic growth, their undeveloped elements seriously impede the translation to human development.

2.2 Reform policies: The designed reform policies have mixed impacts on the translation from economic growth to human development

High economic growth rates do not automatically translate into higher levels of human development. Appropriate and well-designed macroeconomic policies are required in order to translate the benefits of growth into the lives of people. China offers, through decollectivization and rural industrialization, an example of a combination of institutional reforms and growth-oriented macroeconomic policies promoting rapid agricultural

growth since 1979. The institutional reforms in the countryside consisted of replacement of the commune system with the "production responsibility system". Macroeconomic policy reform ended the state monopoly on procurement of agricultural produce, gave price incentives to farmers and formed markets in rural produce, credit and labour. The rapid growth of rural industries has enabled China to absorb a large part of the surplus labour that emerged in agriculture after the institutional reforms, and has done much to increase the income of peasant households and to alleviate rural poverty.

Decollectivization policy

The traditional farming institution in rural China prior to the founding of the PRC was the independent family farm. In 1953, the government transformed the household farming system to a collective system. Due to the characteristic of "everyone eating from the same big pot", the collective members' incentives to work were very low. Empirical studies show that the total factor productivity in the collective system was about 20 to 30 per cent lower than in the household system. [34](#) It is argued that collectivization was seen as a fatally flawed process, both intrinsically encouraging state interference in collective decisions and weakening the link between individual performance and income.[35](#)

Decollectivization started in the poorer areas in 1979. The government encouraged collectives to delegate the agricultural production from collectives to smaller groups in order to improve the management of labour, but the household farming system remained prohibited until late 1981. In late September 1980 the Central Committee issued Document 75, "Announcement Regarding Several Issues Concerned with the Further Strengthening and Perfection of the Production Responsibility System in Agriculture". For the first time, the production responsibility system was regarded as central government policy in two kinds of circumstances: (1) in poor and backward areas, where the population had "lost faith in the collective", and (2) where household contracting had already been carried out and found satisfactory. In the late 1981, full official approval of the household system in agriculture was eventually given. By that time, 45 per cent of the collectives in China had already been torn down, and by the end of 1983, 98 per cent of the collectives had adopted the household system.[36](#)

As a result of swift decollectivization, agricultural performance has dramatically improved. Agricultural gross output value grew around 9 per cent per year between 1978 and 1984. Major agricultural products have tremendously increased. The annual growth rate of per capita output of grain rose from 0.2 per cent in the period of 1957-78 to 3.8 per cent in the 1978-84 period, cotton from -0.6 per cent to 17.5 per cent, edible oil from -0.9 per cent to 14 per cent, etc. For the first time in many years, China's diet began to improve, with significant additions of protein and fats.[37](#)

This very same policy, however, has legitimized and facilitated a reduction in social services previously provided by village and commune-level collectives, especially in the fields of basic education and health services [38](#) In the mid-1980s, the central government delegated financial responsibility for rural basic education and primary health services to the local communities. As a result, investment for basic education and health care was

reduced. The drop-out rate of school children is increasing and many poor people cannot afford medical care (this will be discussed in more detail in empirical issues).

The rural industrialization policy

It was estimated that massive disguised unemployment in agriculture before the late 1970s had amounted to between one-third and one-half of the total labour force in many areas. The establishment of the household responsibility system revealed that a large percentage of the farm labour force could leave agriculture without reducing output. The rapid development of rural industrialization became a significant source of employment in the countryside after 1979.

The major power of the rural industrialization was CBEs (later called TVEs). Government policy, to a great extent, significantly determined the rise and decline of the CBEs. During the 1950s, the central government, according to Mao Zedong's goal of accelerating the pace of industrialization and speeding transformation into a communist society, launched a campaign to "run industry by the masses" as part of the People's Commune Campaign and the Great Leap Forward Campaign. During these campaigns, CBEs grew rapidly. In 1958, total employment of CBEs was 18 million and the gross value of CBE products was 6 billion yuan.³⁹ Following the failure of the Great Leap Forward, the central government decided to shut down most CBEs. From 1960 to 1963, the number of CBEs dropped from 117,000 to 11,000, the gross value of CBE products fell from 1.98 billion yuan to 0.42 billion yuan. During the Cultural Revolution (1966-1976), the central government policies, such as "learn from Dazhai",⁴⁰ had a direct influence on the CBEs. During this period, tens of thousands of small CBEs were set up. In 1976, at the end of the Cultural Revolution, the number of CBEs was 1.1 million, employment was 17.9 million, and gross output was 27.2 billion yuan. However, markets were eliminated, and CBEs were tightly controlled by central and provincial government. After 1978, accompanied with the economic reforms in the agricultural sector, central government policy toward CBEs changed markedly; CBEs were encouraged and central and provincial government controls were relaxed in order to raise efficiency and solve employment problems in the rural areas. In 1979, the State Council issued the "Provisional Regulations on the Growth of CBEs". In the regulation, the most important policies benefiting the CBEs are: (1) to permit and encourage the growth of CBEs; (2) to give CBEs more autonomy in production and marketing decisions; and (3) to reduce or abolish taxation of CBEs.

Under the encouraging policies, CBSs (the CBEs were renamed township-village enterprises, TVEs, after the dissolution of the people's commune system in 1984) grew rapidly. Their growth performance is outstanding by world historical standards. In 1978, total industrial production of TVEs was 49.3 billion yuan, which accounted for 11.6 per cent of the gross national industrial production. In 1992, this figure rose to 2036 billion yuan, which accounted for 38.6 per cent of gross national industrial production.⁴¹ The rapid growth of the rural industrialization led to the creation of millions of jobs. Table 12 shows the fast development of employment in TVEs. From 1978 to 1994, total employment of TVEs ⁴² increased from 28 million, which accounted for 7 per cent of

the total employment, to 120 million, which accounted for 20 per cent of total employment and 28 per cent of total rural labour force. In some relatively industrialized areas, a labour shortage problem actually appears. The rapid growth of rural industrialization has had some obstructing impact on human development, as critics claim that rapid expansion of TVEs, encroaching on the surrounding arable land, has contributed to environmental degradation.

The fiscal policy toward social sectors

Government budgetary expenditure is the main policy which directly affects human development. Health, education, social welfare and other social services usually provided by government can be measured by the share of government budgetary expenditures in GDP. Table 13 provides a detail of the expenditure structure of government. As the table shows, the share of total government expenditures in GDP has sharply declined, from 32 per cent of GDP in 1979 to 13 per cent in 1994. Government expenditure on culture, education, science and health care also decreased from 3.8 at the beginning of the 1980s to 2.8 per cent in 1994. This indicates that the fiscal capability of the government to mobilize resources has been weakened during the reform era. As a matter of fact, it is accurate to say that the central government's capability to gain budget revenue has become weak, but that of local governments has not. Table 14 demonstrates that the central government share of the budget revenues and expenditures has dropped while the shares of local governments increased.

In recent years, local government's shares accounted for about 60-65 per cent in both revenues and expenditures, which are much higher than that of the central government. With more resources in their control, local governments have become increasingly capable of pursuing goals according to their own preference rather than central guidelines. They intend to invest as much money in productive projects as they can generate. They are reluctant to invest in infrastructure projects such as energy, education and railroads because such projects generally need large amounts of investment, take a long time to finish and run a high risk. [43](#)

Each of the reform policies that are discussed in this report has both positive and negative impacts on the translation from economic growth to human development. Decollectivization releases peasants' incentives and significantly improves agricultural performance on the one hand; on the other, it facilitates a reduction in social services previously provided by collectives. Rural industrialization that was designed with a concern with employment generation, letting China absorb a large amount of the surplus labour, has less negative impacts than decollectivization on human progress except the effect on environment. By contrast, the change of government expenditures has more destructive impact on the social sector than other policies. With limited capability to mobilize and collect resources, a weak central government has little to redistribute, thus becoming unable to adjust the distribution of income and wealth to assure conformance with what society considers "fair" and "just".[44](#)

2.3 The quality of governance with a lack of accountability and transparency and reduced commitment towards the social services detrimentally affects the translation from economic growth to human development.

Governance refers to the exercise of authority and control.⁴⁵ In other words, governance means governments use their power and authority to establish and maintain the institutions that regulate social and economic interaction, and promote economic growth and human development. The quality of governance is seen as a key determinant of a country's economic growth and human development. Some writers suggest a concept of "good governance". What is a good governance? Good governance refers to accountability (including legitimacy), participation of institutional pluralism, transparency and predictability.⁴⁶

Specifically, in order for state activity to reach its goals efficiently and merit the label "good", first, government should be accountable. By accountability, we mean that public servants and others holding public office can be held accountable for their actions. Without accountability, the risk of corruption, which is defined as "the illegal use of public office for private gain",⁴⁷ and misappropriation of public money increases dramatically. Second, government activity should be transparent. Essential to attaining this is the availability of information which would allow an assessment to be made of government activity. Third, governments' own activities and programmes should be geared towards improving the well-being of the poor and should leave self-help organizations and non-governmental organizations sufficient room to manage. Fourth, governments should establish and enforce a stable legal and economic framework which ensures the predictability of state and individual action. Fifth, economic and social progress are not the only goals of good governance; civil liberty and the ability to participate in the political system can also be regarded as important elements of a full and meaningful life that should contribute to the well being of individuals and the development of societies.

The quality of governance of China can be characterized by the lack of accountability. Its quality has been negatively affected by significantly increasing corruption. Corruption has reached such an extent that it is seriously eroding the basic legitimacy of the Chinese political system.⁴⁸ No one has more conspicuously clarified the problem than Deng Xiaoping himself: "Bureaucracy remains a major and widespread problem in the political life of our Party and the state. Its harmful manifestations include...abusing power, deceiving superiors and subordinates, practicing favoritism, offering bribes, participating in corrupt practices..."⁴⁹ Other leaders admitted that if corruption becomes widespread, China's reforms and opening to the outside world will be terminated.⁵⁰

There is an economic root to corruption. Price reform provides a gap between planning prices and market prices that represents economic rents. By 1990, two-thirds of agricultural products, over 80 per cent of manufactured consumer goods, almost all services and one-third of producer goods were being traded at market prices,⁵¹ but still a part of products are controlled by the state planning. Thus the economic rent is being produced. In order to seek the rents, government officials who have the power of

distributing productive resources have an enormous incentive to distribute the resources to benefit themselves or their relatives and friends. Thus, corruption has significant negative effects on income distribution and social welfare since government officials with important positions and resources can benefit while ordinary consumers cannot benefit from the gaps.

There is also an institutional root to corruption, which can be seen from the gap between swift economic growth and sluggish institutional change. In other words, corruption is symptomatic of the weakness of state institutions coupled with rapid economic growth. The nature of China's transitional economy has created situations in which corruption carries few risks and pays large dividends, and government officials at all levels can use their offices to affect economic outcomes without any restraint or with less restraint. For them, the dividing line between public and private, government and market, is blurred, and legal and moral systems to define permissible behaviour are lacking.

In recent years, combating corruption, eliminating bribery and embezzlement, setting up restraint remain China's priorities. In 1994, China uncovered 95,000 cases of corruption, and the courts sentenced 20,186 such culprits, including a vice minister, 28 bureau directors and 202 branch directors.⁵² A total of 65,000 people were disciplined by Party disciplinary measures and 37,000 dealt with through administrative regulation.⁵³ Meanwhile, China started to reform its civil service system in 1993, when the "Regulations on State Functionaries", was officially adopted. One of these acts prohibits government departments from operating private businesses in a conflict of interest context. However, because of the lack of an effective supervisory system, there are still a large number of corruption and bribery cases involving law-enforcement, economic administration and senior government officials.

The quality of governance of China is negatively affected by the lack of transparency as well. The government still tightly controls the flow of ideas and information. For the Chinese people, freedom of speech, press and assembly, and civil liberty are still seriously restricted. China's closed system, in turn, multiplies opportunities for corruption because the procedures for public decision-making are not clear.

More importantly, the quality of governance of China is critically affected by reduced state commitment towards improving the well-being of the poor, especially in the fields of education and health services. This happens when the central government transfers a part of the responsibility for education and public health to local government, and the latter invests in production projects which solve the problem of local unemployment and gain profits instantly rather than invest in education and health care. The state has partly retreated from intervention in the related public service domain where the market fails, which has caused many problems. Some people who are not able to take advantage of market-oriented changes and are without a strong social safety net have fallen into poverty. In sum, due to the lack of accountability and transparency, there is no guarantee that China's scarce public funds can be used in an efficient manner in the pursuit of macroeconomic and social objectives. And due to reduced commitment towards public

services, social progress has stagnated.

3. Empirical issues

3.1 Income Distribution

Unequal distribution of income does not result from natural economic growth processes. Rather it depends on the political and institutional arrangements according to which rising national incomes are distributed among the broad segments of a population. What are the effects of reform on China's income distribution? Are market-oriented reforms likely to generate increased income inequality? These questions can only be settled empirically. In China, income is defined to include both the usual cash payments and payments-in-kind valued at market prices; agricultural output produced for self-consumption at market prices; the imputed value of housing services in the case of owner-occupied dwellings, and in the case of households living in public housing, the value of the rent subsidy; the value of ration coupon subsidies; and the value of other direct subsidies received from government minus direct taxes. [54](#)

During reform, China's income distribution is characterized by the following features: First, income inequality between rural and urban areas is rising. As Table 15 shown, the income of urban residents was 3.48 times that of the peasants in 1957. Before the start of the reform in 1978, the ratio of urban to rural income declined to 2.36. Rural-urban inequalities had diminished somewhat and the income of the rural population had climbed to 42 per cent of the urban income. This ratio continued to decrease until 1985. After 1985 the ratio started to rise again. In 1994, the income of urban residents was 2.61 times that of the peasants, which shows the greatest gap after 1978. If the various types of subsidies that urban residents enjoy are considered, and if all kinds of extra responsibilities and burdens from the peasant incomes such as expenses and fees for subsidizing the members of families of the People's Liberation Army and revolutionary martyrs, subsidizing for cadres, and for planned childbirth and etc., are deducted, the actual income gap could be expressed as a ratio of 4 to 1. [55](#)

Second, the sources of rural income inequality differ from that of urban income inequality. Table 16 and Table 17 contain the information concerning rural and urban income inequality and its sources. Measurement of the distribution of income is based on the Gini ratio. [56](#) A concentration ratio lower (higher) than the Gini ratio means that the distribution of the corresponding source of income has an equalizing or disequalizing effect on the overall distribution of income. Table 16 suggests that in rural areas, the largest source of income is from family production activities that has an equalizing effect on the distribution of income (index=0.282); the second largest source of income, wages, is the most disequalizing source of income (index=0.710). Table 17 shows that the distribution of urban income is more equal than the distribution of rural income. Table 18 tells us different Gini ratios in both rural and urban areas. Urban Gini ratios was 0.23 in 1988, 0.37 in 1994 while rural Gini ratios was 0.38 and 0.41 correspondingly. The top 10 per cent of the urban population receives only 3.2 times as much income as the bottom 10

per cent, while in the rural areas, 62 per cent of income from wages is received by the richest 10 per cent of individuals. The poorest 20 per cent of the population receive only one per cent of their income from this source. Wage income, thus, has a completely asymmetrical effect on the distribution of income in urban and rural areas. In urban areas, where almost every household has access to this source of income, wage income has a strongly equalizing effect; while in rural areas, where access to wage employment is limited, it has a strongly disequalizing effect.

Third, there is coexistence of polarization and egalitarianism in urban areas. According to one household survey conducted in the 1988, the cash income of workers and employees in the private sector and in the public sector is unequal (see Table 19). The Gini ratio in the private sector is much greater than that of the public sector.⁵⁷ As Table 20 shows, the Gini coefficient in the private sector is 0.493 while in the public sector it is 0.232. In addition, a Beijing government survey reported that the income of private employers sometimes was ten times that of their employees. Taxi drivers, in the private sector, earn much more than bus drivers. Workers and employees in joint venture enterprises and in foreign owned firms earn more than those working in state enterprises. By contrast, income inequality inside the plan narrowed and became even narrower after the reform of the wage system was introduced in 1985. This is evident from the data in one survey which contains the findings of a sample survey of 48 cities conducted by the State Statistical Bureau. The survey shows that within the public administration, the ratio of the lowest to the highest wage declined from about 1:3 prior to the reform to about 1:2 after the reform. A new egalitarianism has emerged seemingly contrary to the declared wishes of the national leadership.

Overall, income inequality is rising in China. How do we explain the change of the income distribution of China? First, relatively rising income inequality is partly the intention of the reformers. Before reform, one of the most striking aspects of the old system was the virtue of extreme egalitarianism.⁵⁸ Egalitarianism, which was described as "everyone eating from the same big pot", resulted in a high degree of equality but it has significantly negative results for labour productivity and the efficiency of labour allocation. There was a widespread consensus among the reformers that extreme "egalitarianism" under the Mao era had hindered economic development because it had damaged incentives, created widespread inefficiency in terms of resource allocation and utilization and, finally, lowered the pace of improvement of the living standard. In order to overcome this extreme egalitarianism and stimulate an improvement in efficiency, a policy that "let a few grow rich first so that the others can follow their example", which became one of the primary purposes of economic reform, has been adopted. Meanwhile, a series of policies have been introduced to stimulate incentives. In rural areas, the working points system, along with the commune system had been replaced by the production responsibility system. In urban areas, wage differentials have been widened, the returns to formal education increased, private saving and investment encouraged. More important, market mechanisms have been introduced to rural and urban reform.

Replacing the extreme "egalitarianism" by introducing market mechanisms has gained the support of a majority of workers, peasants and officials. One survey on the attitudes

of workers towards the income system provides relevant evidence. Data were collected in July 1989 from 506 participants from a wide variety of different organizations in Henan Province. The results show that the most preferred system is one graded by actual ability and skills, followed by a graded technical system and then a seniority system. The least preferred form is an egalitarian wage system.

Secondly, relatively rising income inequality is a result of asymmetrical institutional reform. Relatively rising income inequality is a complex transitional phenomenon in the case of China due to the existence of a dual structure in income distribution,⁵⁹ which is a product of asymmetrical institutional change. A dual structure in income distribution means coexistence of planned and unplanned income distribution systems. In those economic activities in which mandatory plans still predominate, egalitarianism continues to prevail and income differentials remain narrow. In those economic activities that fall outside the plan, polarization of incomes has occurred. This coexistence of egalitarianism and polarization was caused by a hybrid system of plan and market, where production, material supplies and price setting have been governed partially by the state plan, and partially by market forces.

Thirdly, Chinese leaders strive to avoid significant inequality of income that can threaten political stability. Present Chinese leaders such as Li Peng and Jiang Zemin accept the view that was clearly expressed by Zhao Ziyang: The policies of distribution we formulate should encourage some enterprises and individuals to become prosperous before others through good management and honest work, thus widening the differences in personal income to a reasonable degree. But at the same time, these policies should prevent the polarization of rich and poor, enable all people to move to prosperity and bring about social equity while improving efficiency.⁶⁰

The Chinese government has proposed to adopt a series of policies to prevent polarization as follows: (1) to institutionalize the order of market competition to protect legal business and legal income; (2) to utilize the means of taxation to adjust the income disparity of households; (3) to further reform and complete the social security system to guarantee the basic needs for retired people, the unemployed, the disabled, low-income families and laid-off workers; and (4) to make all efforts to develop a rural economy, especially in poor areas.⁶¹

3.2 Reduction of poverty

Poverty is defined as the inability to attain a minimal standard of living. It will be useful to examine what kind of institutional arrangement and whether macroeconomic policies have alleviated poverty by leading to higher incomes for the poor. In China, the incidence of poverty (the percentage share of rural and urban households falling below the poverty line) rapidly declined. Before 1979, vast poverty occurred in rural areas. In 1959-60, the famine killed more than 30 million people, most of them peasants. In 1970s, many hungry peasants throughout the country went to cities to beg for food. At that time, there were 250 million rural dwellers in poverty.⁶² In the late 1970s, rural poverty became an issue of paramount importance when the new leaders took power. A special

investigation into rural poverty was carried out in 1978. The astonishing reality of the situation of rural poverty created a sense of crisis within the new leadership and became part of the logic of reform. Fifteen years later after reform, the poverty population in rural areas has been reduced to 80 million, the incidence of poverty declined from 30.7 per cent in 1978 to 8.8 per cent in 1992. [63](#) In addition, food security and food production have significantly increased, which also reflects the decline in poverty. In Table 21, daily calorie supply per capita unmistakably rose from 2086 in pre-reform era to 2729 in 1992; and food production per capita increased by 76 per cent in 1993 compared to 1979-81. Table 22 suggests that China, compared to other developing countries, has achieved outstanding performance in the field of food security. Indonesia is the only country ahead of China in this area.

However, many remote and mountainous areas are still very poor.[64](#) A closer look at the profile of the poor in China reveals that most of the rural poor reside in the remote and mountainous terrain of its central and western regions. The western and central regions contain the largest percentages of poor counties, as shown in Table 23. The incidence of poverty in the coastal provinces in 1989 was 3.6 while in the central and western provinces, this figure was 11.2 and 18.4 respectively. The regional differences in per capita GDP is increasing as well. Compared to 1992, per capita GDP of the coastal provinces increased 41 per cent in 1993 and 10 per cent higher than that of the central provinces and 16 per cent higher than that of the western provinces. The incidence of poverty was highest in the western region. Provinces with the highest relative incidence of poverty are Gansu, Qinghai, Inner Mongolia, Shaanxi, Yunan and Ningxia. In addition, there are 49.8 per cent of counties in the western region and 42.1 per cent of counties in central region with average per capita rural income below the poverty line (the poverty line was defined as 300 yuan in 1989).

The overall picture of poverty reduction in China is that in the late 1970s and beginning of the 1980s there was a rapid increase in income and a great reduction in the numbers of the poor. But after 1984-1985, the rate of income growth slowed notably, and the poverty count stabilized and may have risen somewhat in rural areas.

There are both institutional reasons and policy reasons for the overall picture of the poverty reduction. The demise of the commune institutions has had a mixed impact on poverty reduction. On the one hand, it has decreased poverty by enlarging private-sector participation in the production of goods and services; on the other hand, the disappearance of the commune institutions has increased the difficulty for elderly, disabled and poor people to access health and education because certain services which they had previously been provided without charge now have to be paid for by the consumer.[65](#) In relatively developed rural areas, some social institutions such as the community could provide access to health and education services, especially for the poor and elderly, but in less developed areas such remote and mountainous areas, local community lacks these functions.

Equally important, the adoption of a number of macroeconomic policies have resulted in an alleviation of rural poverty by increasing higher incomes for poorer peasants. For

instance, rural industrialization policy has induced a growth in the labour-intensive manufacturing sector that has generated employment in rural areas, and increased access to resources, credits, assets and services. And price policy--large increases in the purchase prices of major farm products--provides the material incentive for the expansion of agricultural economy, and increases the source of substantial gains in income for poorer peasants. But the farm price policy that is still too low. The low price creates difficulties for the poor and depresses their standard of living due to the continued existence of a "scissor gap",⁶⁶ that is, an undervaluation of agricultural prices relative industrial prices.⁶⁷

Moreover, the emphasis of anti-poverty policy has been switched from meeting basic human needs to redistribution with growth, which helps to reduce poverty effectively. Prior to 1979, China's anti-poverty policy emphasized meeting basic human needs, and was designed to satisfy the basic needs of the poor through government provision of commodities and services, subsidies, staple foods, water and sanitation, health care, primary and informal education, and housing. Now China's anti-poverty focus is redistribution with growth.⁶⁸ Redistribution with growth (RWG) policies are designed to increase the productivity of low-income producers, improve their earning opportunities and ensure that they are supplied with the resources necessary to take advantage of these opportunities. RWG policies provide economic opportunities for the poor to improve their earning power by their own effort. This new emphasis derives from the view that basic needs are now fairly well satisfied in China, and that material incentives are needed to encourage economic effort and promote economic growth.⁶⁹

Most importantly China has adopted specific anti-poverty policies targeted to particular groups and particular regions or areas in poverty. China recognizes that a broad-based economic growth strategy is not in itself sufficient to address poverty and that specific policies targeted to particular groups in poverty and particular areas or regions with a high incidence of poverty are needed. Anti-poverty policy designed to help Ningxia farmers escape poverty is an example. Since 1982, the Chinese government allocated 34 million yuan annually to help Xihaiyu, one of the three poorest areas in Ningxia province, to improve basic production conditions, and assist poverty-stricken households to raise cattle and develop others forms of sideline production. In addition, the government seeks international co-operation from the United Nations World Food Programme (WFP) and EC for the improvement of the ecological environment and the elimination of poverty.⁷⁰

During the Eighth Five-Year Plan (1991-95), the Chinese government continues aid to poor areas, aimed at reducing the incidence of poverty in poor regions by increasing their level of production rather than by merely redistributing income. The plan also requires the more prosperous coastal regions to provide funds and technical and managerial personnel to help develop resources in poor areas. Assistance includes construction of farm buildings, increases in grain yields, additions to regional infrastructure and the "tapping" of natural resources.

3.3 Education

Investment in human capital is one of the major determinants of sustainable human development. No country grows rapidly and sustainably without a highly literate labour force. Among all levels of education, primary and secondary education are most crucial. As the World Bank recently urged, the basic education of citizens "is critical for economic growth and poverty reduction, especially as labour market structures shift dramatically with changing technology and economic reform".⁷¹ In China's case, basic education contains the biggest failure story during the reform period.

In the field of education, the Chinese people have had a very unique experience. During the period of the Cultural Revolution (from 1966-1976), all colleges and universities were shut down; the examination system was abolished; the content of primary, secondary and high schools was political slogans and Marxist and Mao Zedong thoughts. People were discouraged from acquiring knowledge and skills. One of the results of the Cultural Revolution was the crushing of the education system. At least one-third of employees held positions for which they had never had any training, while another third had had only indeterminate training. The illiteracy rate was estimated at more than 30 per cent.⁷² The correction of this serious distortion of education started in 1978. On 22 December 1978, Chinese leaders, at the Third Plenary Session of the Eleventh Central Committee, launched economic reforms and educational reforms which were regarded as one of the strategic tasks for the modernization programme, based on recognition of the importance of improving the quality of China's workforce as a means to modernization. Since then, education development has been repeatedly stressed and a series of policies and regulations have been adopted to revive the education system. Fifteen years later, however, the situation in Chinese education is not as good as it was expected to be.

Many old problems have remained and new problems have emerged. First, there is a great shortage of education funds. In the fifteen years between 1978 and 1993, although educational funding increased considerably, as Table 24 suggests, it is still not sufficient. In 1993, the government budgetary education expenditure was 69 billion yuan, 9 times the 1978 figure. Another 10.5 billion yuan was invested from other sources, such as educational contributions and taxes from industrial enterprises, capital construction funds outside the plan, profits made by school-run and university-run enterprises and donations from individuals or collectives. Altogether education received about 79 billion yuan, 10 times the 1978 figure. However, these funds could not cover all the necessary expenses. China has 220 million students at all levels. Average expenditure is therefore about 360 yuan for each student. But in reality, more than 50 per cent of the budget is spent for the payroll of staff members in tertiary institutions, and more than 80 per cent covers the salaries of school teachers and other staff members. Very little money is left for expenditure on teaching activities. According to one survey reported in 1989, in some areas of the country there was only 5 yuan per student year for secondary schools and only 1 yuan per child year for primary schools.⁷³ There was a shortage of 75 million square metres of school buildings and 13 million sets of school desks and chairs. In addition, 45 million square metres of school buildings which were in use were on the point of collapse. Many school did not have basic teaching equipment. Only 47 per cent of secondary schools and 6 per cent of primary schools were equipped with laboratories.

Less than 10 per cent of primary and secondary schools were fully equipped according to teaching requirements.⁷⁴

The second problem is one of the teaching staff. Many teachers have no incentive to stay in teaching and have been leaving their jobs. The teaching staff problem is mainly caused by two factors: teacher incomes and living conditions and social status. Although the government increased teachers' average annual salaries from 545 yuan in 1978 to 3,278 yuan in 1993 and tried to improve their living conditions by providing more housing, teachers are still at the bottom of the social scale. According to the *Statistical Yearbook of China 1994*, their earnings in 1993 were higher than those of only two other groups: farmers (2,042 yuan) and wholesale workers (2,679 yuan). They are still in one of the country's worst paid groups, earning less than factory workers (3,348 yuan), excavation workers (3,711 yuan), construction workers (3,779 yuan), social services employees (3,588 yuan) and government agency employees (3,505 yuan). Due to financial difficulties, almost all local governments except Beijing and Tibet have been delaying teachers' salaries since 1992. By the end of 1993, a total of 309 million yuan was owed to teachers, mostly in rural areas. In terms of housing, they have much less living space than the standard number of square metres set by the government. For example, according to one survey, at the end of 1987 an average household in a higher education institution had 36.6 square metres of living space while the standard of square metres set by the government was 56. Some 29.7 per cent of tertiary teacher households were waiting for residences to get married or had no residence after getting married, and 63.5 per cent of households were overcrowded or not up to the standard. The 1988 survey showed that primary and secondary school teachers in counties, towns and cities had only an average of 29.5 square metres per household, much less than the average of 42.2 square metres per household in the urban population.

The third problem is a high drop-out rate of school children. In 1988, 4,280,000 children dropped out of primary school, and the drop-out rate was 3.3 per cent. Some 2,870,000 students dropped out of junior secondary schools, and the drop-out rate was 6.9 per cent.⁷⁵ The problem is even more serious in country areas, where one-fifth of school-age children are not at school, three times as many as in the cities. The *Renmin Ribao* reported that in 1987 there were over 2.7 million school-aged children who did not enter school and that 83 per cent of them were female, who tended to start school and dropped out later in large numbers. In Gansu, for example, 80 per cent of female students did not finish primary school in 1986, and most of them were from the country areas. Table 24 reveals this serious problem by giving recent data derived from the Fourth National Population Census of China in 1990. According to this data, 71,471,000 children quit their studies, at a rate of about 17 per cent. It is reported that over 2 million new illiterates are added each year,⁷⁶ and that China still had 259 million illiterates by 1993.⁷⁷ In this sense, at the beginning of 1989, Deng Xiaoping and other state leaders admitted that education had been the biggest failure of the decade.⁷⁸

What has caused these problems? Some writers argue that education has never been given priority in China, which is the most basic cause for these problems.⁷⁹ In fact, the Chinese leaders have repeatedly emphasized the importance of educational development

for the success of economic development. On 20 October 1984, the Third Plenum of the Twelfth National Congress of the Chinese Communist Party adopted a major decision on the economic reforms, in which educational development was stressed as one of the urgent strategic tasks. In May 1985, the Central Committee held a national conference on education. Deng Xiaoping, in his address to the conference, said the rationale for economic reform was that China's overall strength, as well as its economic growth, increasingly depended on the skill of its workers and the quality of its intellectuals. In his view, China must use every possible means to properly solve problems related to education even if it has to slow down the speed of development in other areas.⁸⁰ In this meeting, a target of the introduction of a nine-year compulsory education programme was adopted by the National People's Congress. Similarly, in 1987, Premier Zhao Ziyang stressed the strategic role of education and the necessity of enhancing the education level for people. He said:

"the revitalization of the economy and indeed the progress of the whole society all depend

on improving the quality of the workforce and training large numbers of competent personnel.

Education is of fundamental importance to the fulfilment of our great long-range mission. We must

therefore continue to stress the strategic role of education and do a better job of tapping intellectual resources".

More recently Chinese leaders have also placed greater priority on education. In 1993, a conference, the largest meeting of the National Education Work Conference was held jointly by the Central Committee of the Communist Party of China and the State Council since 1985. In that year, China adopted the Programme for the Reform and Development of Education. In 1994, the second largest meeting was held, focusing on the strategy of placing even greater priority on education, further implementation of the Programme for the Reform and Development of Education in China. At the 1994 conference, General Party Secretary Jiang Zemin emphasized the importance of elevating education to a strategic position and placing priority on the development of educational undertakings.⁸¹ Recently, Jiang, at a conference on Science and Technology in Beijing held on May 1995, stressed a new concept to "make the national prosperous through science and education."⁸²

It seems true that Chinese leaders have a strong commitment to the crucial role of education. Then, what has caused the failure of the basic education system? First, the central government has partially retreated from primary education due to its de-emphasis on the importance of basic education and financial difficulty although it continues to make commitment to all levels of education. This has been decisive for the decline in enrolment of primary and secondary school. In May 1983 a circular of the State Council and the Central Committee of the Chinese Communist Party announced that the goal of universal primary education could only be achieved by "walking on two legs".⁸³ That means that each community should devise its own plan to achieve the state mandated goal. In 1984, a document issued by the State Council, Guofa No. 174 explicitly

delegated financial responsibility for rural education to the government at *Xiang* level [84](#), and in subsequent provincial regulations it was stated that the state money would stop at the county level. The results have been higher charges for students and falling rates of completion of basic education in both urban and rural areas, as well as greater inequalities between villages of different income levels. Villages with strong collective economies or good ability to tax local enterprises charge parents the lowest fees. By contrast parents in areas with only average incomes and no profitable village enterprises find educational fees may take as much as 50 per cent of their disposable cash incomes, and those living in the truly impoverished areas find the costs totally beyond what they can afford.[85](#)

Second, the decentralized institutions are largely contributing to the problems of education. The May 1985 Central Committee decision to reform the educational structure which laid great stress on the reform of basic education--primary and junior secondary schools--emphasized strongly that the power for the administration of basic education belongs to local authorities. However, local leaders have not taken the improvement of basic education seriously since decentralization and decollectivization of the rural economy have reduced the ability of local communities to invest in education in many areas, especially in poorer areas. They do not take action against drop-outs and even break the law themselves by diverting educational funds.[86](#) Some localities even occupy school buildings and students have to classes in old and poor buildings. *Zhongguo Jiaoyu Bao* reported in 1987 that the leaders of a village in Zhejiang Province sold the village's primary school building and students were forced to study in an old mill. The mill collapsed, six people were killed and 16 were injured.[87](#) Such examples provide further evidence that in many areas local officials pay no attention to basic education.

Third, the policy that emphasizes money-making along with economic growth and encourages people to concentrate on what they can earn help to promote a high rate of school drop-outs. Many parents, especially in rural areas, keep their children fully engaged in productive labour, apprenticeships or other work. Some local enterprises run by townships, villages or private entrepreneurs, and businesses run by individuals violate the law and employ under-age workers. For example, one survey exposed that an enterprise in Shenzhen recruited 1024 teenage workers in one month in 1989 from Yulin area in Guanxi. Among them 556 were from secondary school and 468 from primary schools.[88](#) In addition, from wage and income distribution policies, people do not see that education is closely related to more income and a better life.[89](#) A survey in Shanghai revealed that in 1986, the average monthly income of professional and technical personnel was only 109.33 yuan, 23.39 yuan lower than the average monthly income of the wage earners of the city. Thus the view that it is better to start making money early than to have more education has become common. This problem is more serious in the countryside. Peasant parents do not see any benefit in sending their children to schools, especially children who have little chance to get into colleges, universities or vocational secondary schools. Thus they keep their children in activities of making money rather than getting education.

In order to solve the problems described above, several measures were adopted at the beginning of the 1990s. The first measure was to raise educational funds. Insufficient funding for education, which has dogged China's educational progress for many years, continues to be a major problem. The 1994 Conference called for the gradual establishment of a mechanism which combined the government, society and education, mobilized various social sectors to support educational undertakings, and encouraged society as a whole to raise funds for operating schools. Moreover, the Minister of the State Education Commission submitted a draft plan to the State Council for an increase in China's education funding. In addition, an educational trust and investment company, and a national education development foundation were set up to raise more money to build primary and secondary schools.⁹⁰ The second measure is to further progress the concept of nine-year compulsory education. In the 1994 Conference, conferees agreed that, by the end of this century, the nine-year compulsory education will have been popularized in regions to some 85 per cent of the country's total population, and illiteracy will be eliminated among 95 per cent of the country's young and middle-aged people. On the basis of popularizing nine-year compulsory education, vigorous development of vocational education in line with actual conditions in China are an effective way to train large numbers of urgently needed personnel. After having successfully completed the three education levels--primary, junior or senior middle schools--students will be encouraged to enter vocational education institutions. The third measure is to conduct other social policy reform to solve educational problems. Teachers' wage reform will boost their income to at least the level of local officials and severe punishment will be imposed on those who delay paying teachers' salaries.⁹¹ Moreover, the State Education Commission and the Finance Ministry has stated their intention to collect education taxes from social services and exempt school-run factories from taxes.

As a result, it is reported that compulsory education in rural areas and adult illiteracy has improved. In a Beijing news conference on March 14, 1995, the State Education Commission Minister said that 98 per cent of the school-age children in China were at school, with a subsequent drop-out rate of just 2 per cent, but the average drop-out rate in the countryside stood at 3 per cent. According to his announcement, by the year 2000, China will reach its twin target of extending nine-year compulsory education to 85 per cent of the population and eliminating illiteracy among citizens aged 15-45 in the areas where 90 per cent of the national population lives. The goal is to bring illiteracy down to below 5 per cent on average.

3.4 Health services

During the pre-reform era, China produced an exceptional health care system--a primary network of the health services--which had been established in both rural and urban areas. In particular, the stress on health work in rural areas had brought a great change in their previously underprivileged situation since the Co-operative Medical Service (CMS) was introduced in 1968. For about a decade it provided a low-cost form of community financing for rural health services, in which, peasants paid a per capita sum of 1 yuan which was matched by a similar sum from the production brigade and paid to the commune. In this scheme, some 85 per cent of brigades were covering 76 per cent of

China's rural population in 1975. Moreover, there was a great improvement in access of the rural population to health services. In each of the around 2000 counties, a hospital (with average 120 beds), an epidemic prevention station and a maternal and child health care centre had been established; and in each of the approximately 50,000 townships a health centre had been set up (with, on average, more than 10 beds). There were also more than 500,000 co-operative health centres scattered throughout the villages. The number of medical and health personnel had gradually increased. At the end of 1977, there were in all some 1,700,000 regular hospital beds--26 times the total number of beds in pre-liberation days.[92](#)

In addition to the advantages of cheapness and the provision of basic and easily accessible service, the system had a number of structural drawbacks. The most apparent of them was the tendency to overspend, their small scale and local accountability, bad quality of care, etc. Thus, the CMS began to decline before economic reforms were instituted in China. By 1980, 68.6 per cent of brigades were in the system, by 1981 that number was 58.2 per cent. By 1991, it was reported that co-operative health care in the countryside had come to exist only name, and no longer in reality, and that the ratio of co-operative health care and medicine has dropped from 80 per cent in the past to 5 per cent.[93](#)

There are disparities and inequalities in the availability of national health services among different population groups. Compared to the rural population, the urban population enjoys a better health service. National health insurance is only available for cadres and health coverage only for employees of state work units which only account for around 10 per cent of the population. Health services are characterized by costly and sophisticated services that are provided to a small number of population groups, leaving fewer resources for the rest of the population. In 1981, national health services only covered 18 million people but cost 789 million yuan. In 1985, they covered 21.2 million people at a cost of 1.5 billion. In 1986, they covered 23 million people, costing 1.9 billion yuan. Now the cost has become even higher because people are living longer and the number of retired persons entitled to benefits has risen. Costs for those currently in employment stood at 16 billion yuan in 1990, and 18.8 billion yuan in 1991.[94](#) By contrast, with the exception of a small number of developed regions where there is still some measure of planned medical care, the vast majority of peasants today need to pay for medical care out of their own pockets.

Inequity in health status between the "haves" and "have-nots" can also be found in other indicators. According to *The State of the World's Children 1995*, in 1988-1993, about 60 per cent of rural population and 99 per cent of urban population had access to clean and safe water; only 3 per cent of rural population while 58 per cent of urban population had access to adequate sanitation; and 88 per cent of rural population and 100 per cent of urban population had access to health services.[95](#) The rural population had less access to hospital facilities as well. In 1991, the number of hospital beds per thousand people was only 1.6 in the countryside, which is 2.6 less than the 4.2 hospital beds available to each thousand people in urban areas. There were only 0.97 doctors for each thousand people in the countryside, which is 1.9 fewer than the 2.9 per thousand in

the cities. It is clear that there is still a significant discrepancy in the level of health service and medical care available to the urban and rural population.

The major reason for this problem is that the central government reduced commitment to widespread health services. In March 1985, the Ministry of Civil Affairs authorized each province to assume responsibility for welfare policies and programmes that had previously been held by the central government.⁹⁶ Guofa No. 45 in June 1986 and Guofa No. 64 in August of the same year completed the transformation of rural relief. By this major policy shift, the central government retreated from the basic administrative and financial supports of rural health care system. In order to open up rural access to a variety of health enterprises, the government allowed various types of ownership of health facilities to flourish, including private clinics and hospitals, private practitioners. Private practitioners were given legal status as early as 1980, and by 1982 a pluralistic health care system was being established in rural areas. But the result of the reform is not very satisfactory for the rural population. The Chinese government admitted that the health reforms and collapse of the CMS led to a decline in health standards and health work of rural areas. State Council Document No, 4 of 1991 referred to the consequences of the reform plan in its foreword: "During health reform we ignored the support of rural health work. Investment for health care was reduced; the lower levels of the health care system in the towns and villages were severely hit. The CMS disappeared. Medical prices increased without regulation and we could not control private doctors. Rural residents could not afford medical care and diseases which had disappeared appeared again and the gap between the rural and urban areas increased."⁹⁷

The Chinese experience with the reform of the health services system teaches us the following lessons: First, government should consistently endorse health-for-all policy, and at the same time collect enough resources to guarantee funds for health care for all people. There is clearly a recognition that funds need to be set aside for planning the provision of services rather than simply letting them emerge or disappear in response to market demand. By imposing great restrictions on free health care for government employees, the government should take the steps towards retaining resources which can be redirected towards the rural sector and using scarce capital to improve the supply of health services and bureaucratic monitoring and regulation to prevent health care costs from spiralling out of control. It is reported that a programme of health-for-all leadership development has been undertaken in a number of provinces of China where special emphasis is placed on promoting primary health care to a wide inter-sectoral audience.⁹⁸

Second, community involvement is important to develop rural medical and health services systems. Community involvement is defined as a process whereby communities, families and individuals assume responsibility for their own health and welfare and develop the capacity to contribute to their own and the community's development.⁹⁹ In the 1960s and 1970s the success of most village level aid to families in difficulty or to Five Guarantee Households of childless elderly had depended primarily on the quality of village leadership and the cohesion of the community, and only secondarily on absolute levels of wealth.¹⁰⁰ Thus, in any areas where village leaders are able to maintain local welfare services, community involvement is successful, and where decollectivization

significantly weakens the commitment or ability of village-level leaders to maintain local welfare services, the quality of programmes will decline.

3.5 Economic Security

The well-being of an individual can be affected by the degree of economic security. For example, inflation and unemployment could threaten the well-being of an individual since both lead to a substantial decline in real income. Table 25 presents money supply and inflation rates. Such data shows that China had little or no open inflation before the reforms, and after the introduction of market-orientation the average annual increase in prices was significantly more than that of the pre-reform period. Inflation is created by an excessive rate of increase in China's money supply by 20 to 30 per cent per year. In fact, it is generally agreed that the official rice indexes tend to underestimate the true rate of inflation so it may have been even higher in recent years than is suggested by these figures. The greater price instability is a manifestation of the growing difficulties experienced by the government in achieving a balance between aggregate demand and supply under increased decentralization and marketization of the economy.

As for unemployment, with the demise of rural communes, the abandonment of guaranteed state jobs and the introduction of a contract worker system in the cities, job insecurity has increased in recent years. The relatively large amount of disguised unemployment has also diminished and contributed to the growing number of unemployed. Chinese scholars believe that the real surplus population in agriculture by the end of the century may amount to 310 million working-age adults, of whom rural enterprises will be able to absorb about 180 million, leaving another 130 million as potential migrants to the cities. Combined with natural population increase in the cities, the need to create one hundred million new urban jobs during the 1990s appears to be a quite conservative estimate.[101](#)

The growing number of unemployed is partly caused by institutional change from the planned economy to a market economy. The transition to a market economy involves three main elements: (1) transforming enterprises into market-oriented organizations, which are responsible for their profits and losses and which may disappear due to bankruptcy or mergers; (2) giving employees and employers the power to terminate employment; and (3) leaving the markets to determine prices. These transitional changes are crucial for the development of a well-functioning market economy, but they also adversely affect social and economic security such as job guarantee, life-time employment and the provision of daily necessities and housing at low prices enjoyed by the urban population.[102](#) A fully-developed market economy will bring in the following changes: job guarantees will disappear because the government will not be able to provide the same type of job guarantee; life-time employment will no longer exist since universal life-time employment is not consistent with market-oriented enterprises; and homelessness could be a problem when house rents are raised to market levels. In contrast to those in a planned economy, the Chinese government in a market economy has a limited capacity to prevent unemployment, inflation and homelessness. On the one

hand, it has to further open the job market to provide wider access to employment. On the other hand, it has to deal with these problems through the social security system.

Local governments have incentives to deal with these problems. They feel they must create new jobs rapidly to maintain social stability since hundreds of millions of people either enter the urban labour force or seek to shift from farm to non-farm jobs. To meet the tremendous pressures in local areas for new jobs, they intend to maximize the speed of the economic growth. Combatting unemployment in Shanghai is a very good example. Shanghai launched a major programme to find jobs for 385,000 unemployed people after staff were made redundant when the municipal government introduced a modern enterprises system in November 1994. The Trade Union and the Women's Federation of the city played an important role in getting the project into operation. More than 50,000 jobless people have now been employed by some 4,000 enterprises established by the municipal Trade Union, and 7,800 have found jobs with the help of 15 vocational training agencies under the direction of the municipal union. The city's Women's Federation has also helped to engage a number of retrained female textile workers in the civil aviation industry, and others in the subway services. Now, there are 19 vocational training centres in Shanghai. About 249,000 people trained there have found new jobs.[103](#)

China plans to hold the country's urban unemployment rate below 3 per cent by launching a series of programmes to address the surplus labour problem in the cities. According to the Labour Minister, the planned programmes include setting up more profitable small enterprises to increase employment opportunities for newly increased urban labour and a re-employment project to provide jobs for surplus workers from state-owned enterprises. China expects to see a sharp growth in the unemployment rate as it adopted a major reform to invigorate state enterprises. The State Planning Commission estimates that about 20 million redundant workers will be shed from state enterprises over the next five years and that 120 million more will leave rural areas seeking work in the cities.

In addition, the government has taken steps to deal with China's 100 million redundant rural work-force who travel around the country seeking jobs. On the one hand, China encourages more township enterprises to absorb the local redundant labourers; on the other hand, migrant labourers are required to obtain an "employment card" from their hometown and to receive an "employment permit" from the region they travel to before they are allowed to take a job.[104](#)

3.6 Social security system

Before reform, the special feature of the Chinese social security system was its function as a safety-net at a basic and low level. In the China cities, the *danwei* (unit, the employing enterprise or institution) took care of urban workers with Labour Insurance, a social security scheme introduced shortly after the establishment of the PRC for urban state employees (including old age, work accident and health provisions and a range of social services).

By the end of the 1970s, the social security system in urban areas included the following programme: (1) The government had kept a high employment rate. In the planned economy, the government controlled employment as well as every aspect of the economy. The problem of large visible unemployment did not exist in Chinese cities.¹⁰⁵ (2) The government controlled and kept prices for necessary goods such as grain, cloth and cooking oil low. (3) Labour insurance was available to fixed staff and workers employed in state enterprises, including pensions, free medical care, paid sick leave and maternity leave, occupational and non-occupational injury and disability benefits, and coverage of funeral expenses. Employees in some collective enterprises were entitled to similar benefits, but mostly at a lower level. And (4) there were urban relief programme for poor people, whose income was below the minimum living standard, the disabled or elderly widows who had no family support, and orphans.

In rural areas, the social security system included the programme as follows: (1) The rural population had access to agricultural land after they were organized into people's communes. (2) The rural collective organizations provided most welfare for the rural population. The Five Guarantee system, one of the welfare programmes, ensured food, clothing, fuel, housing and funeral expenses for elderly who had neither working ability nor family support. And the rural co-operative medical care system, another welfare programme, existed from the mid-1960 to the early 1980s. (3) The government provided poor relief programmes in rural areas, in some areas with bad natural conditions, or certain areas in a bad year, the government could agree to exemption from agricultural taxes. For extremely poor areas or in cases of natural disaster the government could provide subsidies.

The social security system has shortages. An obvious gap existed between different social groups: urban and rural residents. The former had higher incomes and better welfare provisions than the latter. The difference also existed between the employees in state enterprises and other employees in urban areas. The former had stable employment, pensions, free medical access, family hardship benefits, low-cost housing, etc., while other employees were entitled to unstable benefits from the collective economy or no benefits at all. In addition, the social security system is harmful to economic efficiency. The benefits in the state sector were mainly arranged by the central government, thus every enterprise could maintain a standard level without considering economic efficiency. It provided no incentive for people, especially those of the state enterprises, to work hard, and some call it the cradle of laziness.

After the economic reforms were introduced, the situation in almost all respects influenced the social security system. It became less and less suitable, and more social problems are appearing. First of all, along with the rapid development of the collective and the individual (self-employed) economies, the lack of social security benefits in these economies has become an increasing social problem. Secondly, employment in state enterprises is no longer stable after the employment system reform was introduced. With the reform of the employment system in 1986, almost all new employees in state enterprises have become "contract workers". Moreover, bankruptcy has become possible for all enterprises, which may create a higher rate of unemployment. Thirdly, the

traditional pattern of land security is losing its hold in rural areas.¹⁰⁶ Many young farmers, who are attracted by the development of rural enterprises, are leaving the land to work in local factories, and the management of the land is gradually being concentrated among small groups of people. Consequently, some might become landless.

The purpose of the reform of social security system is to create a more efficient one with higher effects and lower costs. In some cities, a social security programme for the self-employed is offered by the People's Insurance Company of China. Collective enterprises adopt various insurance programmes: some of them get benefits from the "mother organization"; others adopt the social insurance system; a third type is the social insurance arrangement with the People's Insurance Company of China. In the countryside, the reform of the social security system can be summarized as follows: The Five Guarantee system is maintained but not supported by the production team any more. A unified financing system at the village or a higher level to maintain basic social security benefits is established, and old peoples' homes are built. Pension insurance programmes in some richer villages are established, but are not very stable. New programmes such as a medical care programme, a unified medical care system and a health insurance programmes have been put into practice in several economically developed areas. But in most of the poor villages, the absence of medical care programmes is an unsolved problem. Social insurance programmes are developed in several areas. Experimenting by villages with social insurance projects in order to deal with natural disasters is encouraged. In some projects, the peasants are compensated for losses by an insurance foundation subsidized by the government. In general, it has become a common consensus that the rural social insurance, governmental relief programmes, locally financed subsidies and traditional functions must be combined to create an efficient social security system.

Recently, reform of China's social security system has made the following new achievements on old-age and unemployment insurance: first, with regard to the reform of the old-age pension system, the socialized management of pensions has been introduced to all state-owned enterprises and collective enterprises in 2,024 cities and counties. In addition, old-age insurance is being expanded to employees of foreign-funded and private enterprises, as well as self-employed individuals. At present, 87.5 million employees and 20.32 million retirees ¹⁰⁷ have participated in the programme involving the socialized management of retirement pay, a system under which employees pay a prescribed portion of the premiums. Individuals pay premiums equivalent to 2-3 per cent of their salaries, with the rate in some large cities such as Beijing and Tianjin, set at 4-5 per cent. Second, by the end of 1994, the unemployment insurance programme had covered 95 million employees. That same year, over 1.87 million unemployed workers received relief funds, with the number equalling the total for the previous seven years. Some 1.06 million unemployed workers were re-employed after completing retraining programmes or entering into private businesses. In addition, unemployment insurance institutions nationwide issued lump-sum subsidies to 3.6 million employees of enterprises facing great financial difficulty. Some localities have used a portion of their unemployment premiums to help enterprises provide new arrangements for redundant workers. Third, with regard to reform of the medical-care insurance system, a number of units under the direct control

of the State Council have gone into operation, following completion of planning and promotion activities. Reform has yielded gratifying results in reducing medical expenses and ensuring basic medical services. Significant progress has also been made in universalizing the socialized management of medical expenses for retirees and employees afflicted with serious diseases. The programme currently covers 5 million employees in more than 380 cities and counties, and 500,000 retirees in 225 cities and counties. Fourth, in terms of industrial injury insurance, pilot projects for the socialized management of industrial injury payments based on a floating rate have been launched in 868 cities and counties throughout the country. Last, with regard to child-bearing insurance for enterprise employees socialized management of the child-bearing fund has been introduced to 539 cities and counties nation-wide.[108](#)

3.7 Environmental issues

Before 1979, in giving priority to heavy industry development, China under Mao created a system of strong industrial ministries and central planning. Each of these emphasized physical output targets and environmental issues received no attention. These industrial ministries and the State Planning Commission did not consider the environmental results of the construction of new plants. As a consequence, heavily polluting steel and chemical industries were developed in areas such as Beijing's suburbs to the west and north. In Shanghai, the city's major effluent discharge pipe was placed right alongside the major intake pipe that provided the bulk of the city's water supply. The poverty in the countryside also contributed to environmental damage. In order to obtain adequate fuel, most peasants resorted to gleaning forest floors for twigs, leaves and other flammable material for cooking and heating. Such activities reduced the quality of forests by preventing the cycles of decay and nourishment of soil that would normally occur.

Since 1979, reform and growth have had a mixed impact on the environment. There has been some increased incentive to use resources wisely, thus limiting environmental damage; some elements of growth have sharply escalated environmental damage. For example, current industrial policy that has shifted focus from heavy industry to light industry has a basically beneficial effect on the use of resources per unit of output. However, other aspects of reform and growth have accelerated the deterioration of the environment. In the countryside, the break up of people's communes and the resulting movement of large numbers of farmers off the land has had various negative environmental consequences; and the development of a large number of township enterprises helps produce some environmental damage because some of these enterprises are concentrated in polluting industries. In cities, pro-consumption policies are beginning to produce the consequences of a consumer society. The number of vehicles is expanding rapidly, with related contribution to air and noise pollution. The World Health Organization considers 60 to 90 micrograms per cubic metre (mcg/m³) of suspended particulate matter an acceptable range. The average total of suspended particulate matter in north China in the 1980s was 520 mcg/m³, and in south China the figure was 318 mcg/m³. These are among the highest readings in the world.[109](#)

Recently, environmental issues have been put on the national agenda. In introducing China's Ten-Year Programme for National Economic and Social Development (1991-2000), Premier Li Peng pointed to the necessity for China to give greater attention to environmental protection. And local people's congresses have in some instances heard popular pleas for greater attention to environmental protection.¹¹⁰ In practice, the state provides funding for environmental protection, which has resulted in large state-owned factories obtaining funds for investment in environmental protection, e.g. the purchase of pollution-reducing equipment. Although pollution control laws are not always enforced, there are cases in China where the polluter-pays principle has been successfully applied. When the market system is advanced in China, it is possible that the polluter-pays principle may also become more widely imposed and implemented.¹¹¹ China experts reported that the country is seriously examining marketable pollution rights as a possible means of controlling industrial pollution in Shanghai and Shenyang Cities.¹¹² In general, China's reform effort has started to lead to more environmentally friendly approaches to development.

Other China experts believe that China as of the mid-1990s faces environmental problems that have worsened significantly since the start of reform due to the fact that the country lost one-third of its mature forests from 1982 to 1989, and that arable land diminished by 0.5 per cent per year.¹¹³ If China does not adopt efficient measures to solve its environmental problem, the 1990s are likely to be seen as the Decade of Accelerated Environmental Degradation, while environmental degradation, in turn, could conceivably force serious declines in the predicted growth rate for the economy.¹¹⁴

4. Conclusion

With good subsequent economic growth during the pre-reform era, China's human development in terms of life expectancy, infant mortality, income distribution, reduction of poverty, etc. had seen great improvement since the establishment of the PRC. However, its achievements were flawed by the serious absence of such essential human choices as political and economic freedom. The economic reform since 1979 has tremendously increased the Chinese people's economic choices, but the development of other elements of human development such as basic education and health care has stagnated.

This mixed performance of human development can be explained by the change from highly centralized institutions to decentralized institutions, unbalanced effects of reform policies, and governance with increased corruption and reduced state commitment towards improving the well-being of the poor. In the decentralized institutions, the central government is unable to provide enough basic health-care and primary education due to its own weak capability to mobilize resources, while local governments are likely to ignore issues of education and health due to lack of commitment and incapability. Market institutions adversely affect these social issues while social institutions are still too weak to play an important role in the provision of basic education and health services. In this regard, although the decentralized institutions have brought great opportunities to the

Chinese people for higher economic growth, their undeveloped aspects seriously impede the translation of growth to human development.

The reform policies have unbalanced impacts. Decollectivization has released peasants' incentives and significantly improved agricultural performance, but increased difficulty for the poor to access basic social services. Rural industrialization, that was designed with the intent to generate employment, making China able to absorb a large amount of the surplus labour, has had few negative impacts on human progress except for its the affect on the environment. By contrast, fiscal policy that places a smaller share of central government expenditure on the social sectors has had a destructive impact on education and health care. In areas where the market fails, the state fails to resume the leadership; as a result, social progress has slowed down.

The quality of governance of China has been negatively affected by the lack of accountability and transparency and by reduced state commitment towards improving the well-being of the poor. As a result of the lack of accountability, corruption is significantly increasing with negative impact on income distribution and social welfare. The lack of transparency makes Chinese people unable to have freedom of speech, press and assembly, and unable to develop stable means of political participation.

With increased economic growth, the Chinese people's economic choices have been greatly increased. However, the undeveloped parts of institutions, negative effects of reform policies and governance with increased corruption and reduced commitment towards improved well-being of the poor that impede the complete translation from economic growth to human development should not be ignored. The failure of basic education and the reduced success of primary health services suggest that the central government should not retreat from the basic administrative and financial supports of basic education and a rural health-care system. It should consistently endorse education-for-all and health-for-all policy, and collect enough resources to guarantee the funds for basic education and health care for all people, especially for the poor.

Footnotes:

1 Carl Riskin, *China's Political Economy: The Quest for Development since 1949*, New York: Oxford University Press, 1987, p. 268.

2 It is believed that China's GNP seems to be drastically understated rather than overstated. See William H. Overholt, *The Rise of China: How Economic Reform is Creating a New Superpower?* New York and London: W.W. Norton & Company, 1993, p. 6.

3 World Bank, *The World Bank Atlas 1996*, p. 18.

4 Data in 1992, 1993, and 1994 are from *Trends in Developing Economies 1995*, Washington D.C.: The World Bank, p. 108.

5 *Beijing Review*, April 1-7, 1996, p.2.

6 Data in 1993 and 1994 are from *Trends in Developing Economies 1995*, Washington D.C.: The World Bank, 1995, p. 109.

7 Joseph Chai, "Consumption and living Standards in China," *The China Quarterly*, No. 131 (September 1992), p. 730.

8 Nick Eberstadt, "Material poverty in the PRC international perspective," in U.S. Congress, Joint Economic Committee, *China's Economy Looks Towards the Year 2000*, Washington, D.C.: U.S. Government Printing Office, 1986, Vol, I, P. 293. Also see Joseph Chai, "Consumption and Living Standards in China," *The China Quarterly*, No. 131, p. 726.

9 *World Data 1994*, The World Bank indicators on CD-Rom with version 3.0 of the stars retrieval system.

10 *Human Development Report 1990*, New York: Oxford University Press, 1990, p. 45.

11 United Nations Population Division, *Demographic Indicators 1950-1050 (The 1994 Revision)*, 1994.

12 *Statistical Yearbook of China 1988*, p. 839.

13 Jean Dreze and Amartya Sen, *India Economic Development and Social Opportunity*, a draft, Delhi: Oxford University Press, 1995, p. 67.

14 Dr. Hag presents five human dimensions conspicuously lacking in most development plans today as follows: (1) there should be a human balance sheet; (2) plan targets should first be expressed in basic human needs and only later translated into physical targets for production and consumption; (3) both production and distribution objectives should be integrated and given equal emphasis; (4) a human development strategy should be decentralized, to involve community participation and self-reliance; and (5) development plans must contain a human framework for analyzing their performance. See *Reflections on Human Development*, New York and Oxford: Oxford University Press, 1995, pp. 4-6.

15 Janos Kornai described the relationship between a state of socialist country and enterprises as similar to the relationship between father and son, since "the state budget is responsible for compensating some firms for losses, keeping some process at a low level by covering part of the costs, and subsidizing some unprofitable foreign trade transaction...", see his book *Economics of Shortage*, Amsterdam and New York: North-Holland Press, 1980s, p. 592.

16 Amei Zhang and Gang Zou, "Foreign Trade Decentralization and Its Impact on Central-Local Relations," in *Changing Central-Local Relations in China: Reform and State Capacity*, edited by Jia Hao and Lin Zhimin, Bolder: Westview press, 1994, pp. 153-181.

17 *Statistical Yearbook of China 1993*, p. 370.

18 *Statistical Yearbook on Chinese Labour 1993 (Zhongguo laodong tongji nianjian 1993)*, Beijing: Zhongguo laodong chubanshe, 1993, pp. 22-24, 27.

19 Lora Sabin, "New Bosses in the Workers' State: The Growth of Non-State Sector Employment in China," *The China Quarterly*, December 1994, No. 140, pp. 944-970.

20 EIU (The Economist Intelligence Unit), *Country Report: China and Mongolia*, 1st quarter 1996, London, p. 3.

21 The term--participatory growth" is borrowed from Dreze and Sen, they use the term to describe the reason that accounts for the rapid decline of poverty in China in the eighties, p. 69.

22 Chai, p. 726.

23 Zhu Qingfang, "The Urban-Rural Gap and Social Problems in the Countryside," *Chinese Law and Government*, Jan-Feb. 1995, Vol. 28, No. 1, pp. 84-85.

24 The term institution is used in a variety of ways, for the different purposes. Douglass North defines the institutions as the property rights that determine the measurement costs and as the mechanisms that determine the effectiveness of the enforcement of property rights. See his work "The New Institutional Economics and Development." Paper presented at the *Conference on Public Choice Theories and Third world Experience, London School of Economics*. London: September 17-19. Lin and Hughton define institution as a set of humanly devised behavioral rules that govern and shape the interactions of human beings (1994). According to him, institutions can consist of both formal entities like laws, constitutions, written contracts, market exchanges and organizational by-laws and informal ones like shared values, norms, customs, ethics, and ideology. See Lin, Yifu and Hughton, Jeffrey, "Institutions and Economic Development," draft of Chapter 37 of the *Handbook of Development Economics Volume 3.*, ed. by Jere R. Behrman and T. N. Srinivasan, 1994. For the purpose of the background research in this paper, the definition of institutions is borrowed from Peter Hall. According to him, institutions refer to the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy, and the term "organization" are used as a virtual synonym for "institutions" (1986) Institutions refer to the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy, and the term "organization" are used as a virtual synonym for "institutions". See Peter Hall's book, *Governing the Economy: The Politics of State Intervention in Britain and France*, 1986.

25 Amei Zhang, "Institutional Change, Economic Growth and Human Development," a draft for HDRO, June, 1995, p. 11.

26 The distinction between decentralization and delegation is borrowed from Klugman. In China's case, the distinction is slightly different from what he described in his article. According to him, deconcentration can be defined as spatial relocation of decision making, i.e. the transfer of some administrative responsibility or authority to lower levels within central government ministries or agencies. Delegation means assignment of specific decision making authority, i.e. the transfer of managerial responsibility for specifically defined functions to public organizations (e.g. local government s or parastatas) outside the normal bureaucratic structure of central government. See his work "Decentralization: A Survey of the Literature from a Human Development Perspective," Human Development Report Office Occasional Papers, No. 13, p. 3.

27 For good analysis, see Xiaopeng Luo's article, "Rural Reform and the Rise of Localism." in *Changing Central-Local Relations in China: Reform and State Capacity*.

28 Klugman, 1994, p. 2.

29 Dr. Mahbub ul Haq, in his book *Reflections on Human Development*, discussed the presumed conflict between adjustment policies and growth with human development. In his view, correct adjustment policies could release resources to achieve both higher growth and better allocations for human resource development. Pakistan in the 1980s was such an example. p. 7.

30 Collective enterprises is an intermediate form which has its Western counterparts in the grain and dairy marketing collectives popular in the midwest United States and Canada. These forms usually have some village, town, or provincial sponsorship, but operate in competitive markets with little of the bureaucracy that constrains state enterprises, and the return profits to the members. See Overholt, *The Rise of China: How Economic Reform is Creating a New Superpower?* p.73, fn. 34.

31 Isabelle Thireau and Mak Kong, "The Rural Community and the Social Security System," *Social Security in the People's Republic of China, Papers Presented at the Workshop on Social Security in the PRC, Hamburg, February 5-7, 1993*, edited by Ranate Krieg, Monika Schadler, Hamburg, 1994, pp. 117-140.

32 See *Beijing Review*, Mar. 27-Apr. 2, 1995, p. 7.

33 Geoffrey Hodgson, *Economics and Institutions*, Cambridge: Polity Press, 1988, p. 187.

34 Guanzhong James Wen, "Total Factor Productivity Change in China's Farming sector: 1952-1989," *Economic Development & Cultural Change*, Vol. 42, No.1, Oct 1993, pp. 1-41; Yifu Lin and Jeffrey Hught, "Institutions and Economic Development," draft of Chapter 37 of the *Handbook of Development Economics Volume 3.*, ed. by Jere R. Behrman and T. N. Srinivasan, 1994.

35 See Riskin, p. 298.

36 Lin, 1994.

37 Riskin, p. 292.

38 Deborah Davis, "Chinese Social Welfare: Policies and Outcomes," *The China Quarterly*, September 1989, No. 119, p. 578.

39 Xu, p. 14.

40 Dazhai was the name of a production brigade, which was proclaimed the national model of agricultural development by Mao Zedong in 1964 because of its spirit of self-reliance and hard struggle, persistent expansion of the role of the collective in production, distribution, and consumption; constant restriction of the private sector, and relatively egalitarian distribution among individuals and units.

41 Calculated according to data from *Statistical Yearbook of China 1994*, p. 363, 373.

42 In 1984, after the dissolution of the people's commune system. the CBES were renamed township-village enterprises (TVEs).

43 Wang Shaoguan, "Central-Local Fiscal Politics in China," in *Changing Central-Local Relations in China: Reform and State Capacity*, Boulder: Westview Press, 1994, p. 101.

44 *Ibid.*

45 Deborah Brautigam, "Governance, Economy, and Foreign Aid," *Studies in Comparative International Development*, Vol.27, No.3, Fall 1992, p. 3-25. And Perrre Landell-Mills and Ismail Serageldin define the concept of governance parallely, see their work "Governance and the Development Process," *Finance & Development*, September 1991, p. 14.

46 Brautigam offers the analysis of how politics and economics interact in shaping and affecting economic development by examining the following dimensions of good governance: accountability (including legitimacy); participation of institutional pluralism; transparency; and predictability. Likely, Peirre Landell-Mills and Ismail Serageldin (1991), Hans Peter Replik and Ralf-Matthias Mohs examine similar dimensions of governance and discuss yardstick that governance can be measured. See Hans Peter Replik and Ralf-Matthias Mohs, "Good governance," *Democracy and Development Paradigms, Intereconomics*, Vol.27, No.1, Jan/Feb 1992. p. 28-33.

47 Theobal, 1990.

48 Kenneth Lieberthal, *Governing China: From Revolution Through Reform*, New York and London: W.W. Norton & Company, Inc. 1995, p. 267. In addition, for a good description, see Ting Gong's book,

The Politics of Corruption in Contemporary China: An Analysis of Policy Outcomes, Westpot: Praeger, 1994.

49 Deng Xiaoping, 1983, p. 287. Cited from King Tsao's article "Chinese Public Administration: Change with Continuity during Political and Economic Development," *Public Administration Review*, March/April 1995, Vol.55, No.2, p. 171.

50 China Daily, 1993, p. 4.

51 *China Daily*, February 23, 1991, p. 2. Also see K.C.Yeh, p. 540.

52 *Beijing Review*, Mar. 27-Apr. 2, 1995.

53 *Beijing, Review*, Feb. 13-19, 1995.

54 This definition is borrowed from Khan, Griffin, Riskin and Zhao. See the book *The Distribution of Income in China*. London: Macmillan, 1993, p. 7. In this book, they use a comprehensive measure of income which corresponds closely to the concept used in other countries. Their definition is different from one that used by the State Statistical Bureau (SSB) of China. In the rural areas their estimate of per capita household income is 39 per cent higher than the official estimate of SSB. In the urban areas, their estimate of per capita household income is 55 per cent higher than the official estimate.

55 Zhu Qinggang, pp. 81-82.

56 D.G. Champernowne, in his paper "Measures of Inequality of Income Distribution," *The Economic Journal*, December 1975, studied six of the well known indices of inequality and concluded that the Gini ratio is a good index of inequality because it satisfies the following standard criteria: (1) impartiality between persons, (2) invariance with respect to the number of persons receiving incomes, (3) invariance with respect to uniform increase or decrease of the size of incomes, (4) Pigou Dalton efficiency (which requires that if a distribution is modified by altering two incomes only so as to leave the total of incomes unaltered then the index must increase, remain unchanged or decrease, depending on whether the absolute difference between the two incomes increases, remains unchanged or decreases), and (5) range from zero to one. See Azizur Rahman Khan et al., "Household Income and its Distribution in China," in *The Distribution of Income in China*, edited by Keith Griffin and Zhao Renwei, note 26 and 27.

57 The private sector is defined to include the self-employed, private domestic firms, joint ventures and completely owned foreign firms. The public sector includes state enterprises and government institutions.

58 The term "egalitarianism" can refer to wealth, income, utility, status, opportunity, or capability in the Chinese system of distribution. Here, the focus is on income. See Riskin, p. 224.

59 For a good description, see Zhao Renwei's work "Three Features of the distribution of Income during the Transition to Reform," in *The Distribution of Income in China*.

60 Tisdell, p. 93.

61 Guo Jiyan, "The Situation and Trend of the Individual Income Distribution in China" (Woguo geren shouru fenpei guanxi de zhuangkuang ji qushi) *International Conference on Income Distribution System*, Beijing, June 27-29, 1995, Document No. 5, p. 7.

62 Qiang Li, "The Issue of Income Disparity in China" (zhongguo dalu de shouru chaju wenti), in *The International Conference on Income Distribution Institutions*, Beijing, June 27-29, 1995, the document No. 4, p. 9.

63 Qiang Li, p. 9. According to most recent estimate by The World Bank, poverty level, accounted as headcount index (per cent of population), was 10.9. See Trends in Developing Economies 1995, p. 109. But the estimate of the incidence of poverty in cities, derived from a survey conducted by All-China Labour Union, was 17.3 per cent in 1989, which means that there are 34.8 million urban population under poverty line. Another Chinese Scholar has a similar estimate, see "Income Distribution Policy and Inflation" (Shouru zhengce yu tonghuopengzhang), *National Conditions and Strength of China* (Zhongguo guoqing guoli), March 1995, No. 27, p. 12.

64 Carl Riskin points out that except the famously poor peripheral provinces: Inner Mongolia, Shaanxi, Ningxia, Gansu, Qinghai, Xinjiang, Guanxi, Guizhou, Yunna, Jilin and Heilongjiang, where contain half of China's poor, another half of rural poor is located in the heart of agricultural China: Henan (12.7 per cent of total poverty), Sichuan (11.2 per cent), Hebei (7.1 per cent), Shandong (5.0 per cent), Shanxi (4.1 per cent), Anhui (3.9 per cent), Hunan (3.5 per cent), and Hubei (2.6 per cent). See his article "Chinese Rural Poverty: Marginalized or Dispersed?" *American Economic Review*, May 1994, Vol. 84, No. 2, pp. 281-284.

65 Chai, p. 7.

66 Riskin argues that the "scissors gap" has functioned as a kind of tax by which the state withdrew resources from agriculture to support its industrialization drive, p. 242.

67 It is reported that Chinese government decided to increase the purchasing price of agricultural commodities in 1994 to enhance the level of income of peasants. See "Improving Macro Control over Income Distribution" (Gaishan dui jumin shouru fenpei de hongguan tiaokong), by Fan Jiangping, *National Conditions and Strength of China* (Zhongguo guoqing guoli), No. 27, March 1995, p. 9.

68 Tisdell, 1992, p. 92.

69 Tisdell, 1992, p. 92.

70 See Rongguan Shang, "Helping Ningxia Farmers Escape Poverty," *Beijing Review*, January 22-28, 1996, pp. 14-18.

71 Amy Magaro Rubin, "World Bank Urges More Emphasis on 'Basic' Education," *The Chronicle of Higher Education*, May 26, 1995, A40.

72 According to 1982 population census, illiteracy rate was 32 per cent. See Statistical Yearbook of China 1995, p. 61.

73 *Zhongguo jiaoyu bao* (Chinese Education Daily), March 28, 1989.

74 Zhang Ning, "A Conflict of Interests: Current Problems in Educational Reform," *Economic Reform and Social Change in China*, edited by Andrew Watson, London and New York: Routledge, 1992. p. 150.

75 *Zhongguo jiaoyu bao*, March 18, 1989. Also see Zhang Ning, p. 168.

76 Zhang Ning, p. 145.

77 *Social Indicators of Development 1995*, p. 73.

78 *Guangming ribao* (Bright Daily), March. 31, 1989. Also see Zhang Ning, p. 145.

79 Zhang Ning, p. 147.

- 80** *Guangming Daily*, April, 12, 1989.
- 81** Yannian Dai, "New Focus on Education," *Beijing Review*, Jul, 11-17, 1994, p. 4.
- 82** *People's Daily* (renmin ribao), May 29, 1995. p. 1.
- 83** *Renmin ribao*, August 27, 1983.
- 84** *Guowuyuan gongbao* (Bulletin of the State Council), 1984, pp. 1046-47.
- 85** Deborah Davis, "Chinese Social Welfare: Policies and Outcomes," *The China Quarterly*, 1989, pp. 581-591.
- 86** Zhang Ning, p. 155.
- 87** *Ibid.*
- 88** *Ibid.*
- 89** Some studies intimate that the returns to education in China are very low, others suggest that earnings in China are positively correlated with education in China but the relationship is weaker than in other countries. See Raymond Byron and Evelyn Manaloto, "Returns to Education in China," *Economic Development & Cultural Change*, Vol. 38, No.4, July, 1990, pp. 783-796. John Knight and Lina Song, "The Determinants of Urban Income Inequality in China," *Oxford Bulletin of Economics & Statistics*, Vol. 53, No. 2, May, 1991, pp. 123-154.
- 90** Aiming at aiding children in China's poor rural areas who are unable to attend school or are forced to suspend their studies because of poverty, a number of programmes have been set up. Xiwang (Hope) Programme, launched by Youth League and Chunlei (Spring Bud) Programme by the All-China Federation of Women and the Children's Foundation of China, are quite successful. The later programme was established in 1992 in order to collect funds from throughout china and abroad to help girls who had been unable to carry on their education due to poverty to return to school. Between 1992-93, Chunlei girls' classes were expanded from 14 in four provinces and regions to 1166 in 23 provinces and regions. See "Funds for Girls to Resume Schooling," by Kou Zhengling, *Beijing Review*, Aug. 28-Sept. 3, 1995, p. 26.
- 91** See *Beijing Review*, January 24-30, 1994, p. 6.
- 92** (WHO) World Health Organization, "Evaluation of the Strategy for Health for All by the Year 2000: Seventh Report on the World Health Situation," Volume 7, Western Pacific Region. Manila: WHO Regional Office for the Western Pacific, 1986, pp. 53-57.
- 93** Zhu Qingfang, "The Urban-Rural Gap and Social Problems in the Countryside," *Chinese Law and Government*, Jan-Feb, 1995, Vol. 28, No. 1, p. 85.
- 94** Sheila Hillier and Xiang Zheng, "Health and Rural Health Insurance in China," *Social Security in the People's Republic of China*, 1994, p. 160.
- 95** UNICEF, *The State of the World's Children 1995*, Oxford University Press, 1995, p. 71.
- 96** *Guowuyuan gongbao*, 1985, pp. 283-84. And Davis, p. 592.

97 See "State Council of the PRC Report on Strengthening Rural Health Work, January 17th Beijing State Council," *Jiankangbao*, January 22, 1991.

98 WHO, *Implementation of the Global Strategy for Health for All by the Year 2000: Second Evaluation, Eighth Report on the World Health Situation, Volume 1 Global Review*, Geneva: World Health Organization, 1993.

99 WHO, 1993, p. 51.

100 Davis, "Chinese Social Welfare: Policies and Outcomes," p. 597.

101 Liebethal, p. 245.

102 Athar Hussain, "Reform of the Chinese Social Security System," in *Social Security in the People's Republic of China*.

103 See *Beijing Review*, Feb. 13-19, 1995, p. 7.

104 See, *Beijing Review*, Mar. 27-Apr. 2, 1995, p. 7.

105 Guan Xinping, "Social Security System-an Outline on its Reform and Problems since 1979," *Social Security in the People's Republic of China*, pp. 13-32.

106 *Ibid.*

107 According to Athar Hussain's research, the old-age pension scheme in China currently covers around 24 million. See "Reform of the Chinese Social Security System," *Social Security in the People's Republic of China*, p. 52.

108 Jianlun Wang, "Reform of China's Social Security System," *Beijing Review*, Vol. 38, No. 31, July 31-August 6, 1995, pp. 7-9.

109 World Bank.

110 Tisdell, p. 198; and Lieberthal, p. 391.

111 Clement Tisdell expresses a similar view, see his book, *Economic Development in the Context of China*, p. 201.

112 Mao Yu-shi, 1991, p. 14. Also see Tisdell, p. 201.

113 Lieberthal, pp. 282-286.

114 Lieberthal believes that the China's reform to date have not changed the system to the extent that pressures from below will put environmental issues high on the national agenda or market forces will increase substantially the attention paid to efficient, environmentally friendly production, and that China in the 1990s is likely to face the Decade of Accelerated Environmental degradation in its overall development experience, p. 291.