



Introduction

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By the turn of the 21st century, China is a drastically different country from the late 1970s. Three decades of economic reform have substantially raised the living standards of the Chinese people. Chinese society, however, is even more stratified than ever. The rising new rich have attracted much international attention for their luxurious lifestyle. At the same time, a huge number of people are unable to make a decent living and increasingly vulnerable to all kinds of income shocks and health problems.

This divergence is, in part, the result of China's reform strategy which sought to achieve breakneck growth at the cost of social development. Under Deng Xiaoping and Jiang Zemin, the central government's key concern was to lower welfare expenses of the government, reduce welfare commitments of State-Owned Enterprises (SOEs), and marketise or privatise public services. Within the government hierarchy, the central government asked local governments to finance public services. As a result, while China was changing from one of the most equal countries in the world to one of the highly unequal, those left behind were not properly protected. There was increasing public frustration and anger from vulnerable groups of the rural poor, migrant workers and laid-off workers. Even among those who were economically better off, there were widespread complaints about the soaring costs of education, housing and health care.

When Hu Jintao came to power in late 2002, he decided to shift the focus in an effort to garner social support and consolidate political power. In many ways his pro-people approach is in sharp contrast with Deng's

call for getting rich first and Jiang's proposal to co-opt private entrepreneurs. Hu successfully used the Severe Acute Respiratory Syndrome (SARS) breakout in 2003 to make a point that gross domestic product (GDP) growth per se does not solve all the problems. While economic development remains important, there has to be a shift from a single-minded pursuit of GDP growth to a more balanced development. Hu's scientific outlook on development, written into the Party Constitution at the end of his first term in 2007, is a guideline calling for less income inequality, less regional disparity, more social justice, better protection of the disadvantaged, higher energy efficiency and more environment-friendly development. In an indirect way, the Hu–Wen administration acknowledges the social reality that in a generation's time China has gone from not having enough inequality to having excessive inequality.

In the new millennium, efforts have been made to narrow the rural-urban gap and reduce the regional disparities. From 2003, the central government had begun to reduce the agricultural tax to the point that it was entirely phased out in 2006. The Eleventh Five-Year Programme (2006–2010) proposed to build a new socialist countryside, pledging increasing financial support to the rural areas. In October 2008, nearly 30 decades after China began its market-oriented reform, the Chinese Communist Party Central Committee redefined development priority in favour of rural development. In an effort to balance the development between rural and urban areas, China will expand policy support for agriculture, establish a modern rural financial network and spend more on public services in the countryside. The focus is on rural education, health care, social safety net and local infrastructure. Rural China is expected to become another engine of economic growth, and government expenditures will increase substantially starting from 2009.

To reduce the regional disparities, China has introduced a series of regional developmental programmes in recent years. The 2000 western development initiative was followed by a programme to revive the north-east — China's rust belt region with a high concentration of failed SOEs — in 2003, and another programme to develop the central region in 2004. The developmental gap between the rural and urban areas and between the coastal and inland provinces remains large as of the printing of this book. As there is a time lag for any major policy to take effect, it

remains to be seen whether the Hu–Wen leadership will begin to see the payoff of its policy initiatives in the second term (2007–2012).

Hu Jintao's call for a harmonious society has led to more policy attention on economically and socially disadvantaged groups. Not only laid-off SOE workers, but other types of urban and rural poor are also included in the expanded system of public assistance. The Minimum Standard of Living Scheme has been extended to the countryside to form a nationwide social safety net, and the level of subsidy has been raised to provide better protection against poverty. Other than the urban and rural poor, rural migrant workers have received unprecedented policy attention since Hu and Wen came to power. Efforts have been made to provide vocational training to rural workers and potential migrants, and basic education to migrant children in public-funded primary and secondary schools in cities. Labour bureaus have been asked to conduct regular inspections of wage payments in industries with a high concentration of migrant workers, such as construction, manufacturing and services. As part of the effort to improve the employment environment for migrant workers, the central government has been pushing since 2004 to expand injury insurance to millions of migrant workers in construction, mining and other high-risk sectors.

There has also been an extension of various types of insurance schemes from state employees to those working in the non-state sector, and in some cases to the non-working urban population and the rural population. As the problem of population ageing is looming large in China, efforts have been made to expand the pension system to cover workers in the informal sector, including migrant workers. In the countryside, after years of stagnation, a new round of pilot projects was implemented in 2007 in Shandong and some other provinces to expand the pension system. For the first time, local governments at various levels were willing to make contributions to the rural pension system.

Much progress has been made to extend healthcare insurance to non-working urban population and rural residents under different schemes. After having been abandoned for two decades, a rural cooperative medical scheme was re-established in 2003, with 80 percent of contribution from the central government and lower levels of government. Although the

level of government subsidy was low — initially 40 *yuan* per enrollee, it was increased to 80 *yuan* in 2006 — the enrolment rate has increased rapidly since 2006. By the end of June 2007, 720 million rural residents had voluntarily participated in the scheme, accounting for 83 percent of the rural population.

In the case of basic education, the nine-year compulsory education was made free in 2006 for rural students in the western provinces. In 2007 the policy was extended to rural students in other parts of China. In 2008, free education was extended to urban students all over China. To establish a stable and regularised financing mechanism for rural education, China decided in 2006 to set up an expense guarantee system, with the central government pledging to help rural education in the central and western regions in some categories of expense. For example, for capital spending such as the renovation of school buildings, the central government would share the cost on a 50/50 basis with lower levels of government in the central and western provinces, while leaving it entirely to local governments in the eastern region. The government would provide free textbooks to students from poor families and cover all costs in the central and western regions with the exclusion of the eastern region.

While policies are being put in place to build a harmonious society, it is important not to take policy statements at face value. As is well known, law enforcement and policy implementation can be a serious problem in China. For one thing, Hu needed “pro-people” policies to rally public support to consolidate his power in the first term. The purpose of the Hu–Wen new deal was to legitimise their leadership. The implementation was a secondary issue in this regard. For another thing, Hu has to go through the system — the party and government hierarchy — to implement whatever policies formulated at the central level. To a large extent, the system remains in favour of GDP growth. Officials are assessed on their economic performance; local governments also need high growth to create jobs and generate revenue.

One large problem is the misalignment of fiscal capacity and financial responsibility of the central and local governments. The 1994 tax reform favoured the central government in terms of revenue sharing. However, the responsibility of funding education, health care and other social services

remained at the local level. Local governments in poor areas have a much narrower revenue base than their counterparts in the urban areas and the coastal region, leading to large regional disparities in the distribution of financial resources in the areas of education, public health and social security. Many local governments over-stretched their budget to the extent that they had to pay school teachers out of non-education budgets in order to avoid the problem of late or non-payment of salaries to rural teachers. It is quite common to see local governments struggling with unfunded central mandates. The central government has increased responsibility to the poor areas, but this has created its own problems of lack of efficiency and transparency. Financial difficulties at the county and prefecture levels pose a big challenge for the implementation of central policies, particularly those that require local governments' funding. Thus far the Hu–Wen government has shown no determination to overhaul the misaligned system.

There are other problems as well. Some policies should have public participation in the decision-making process. But China's political system makes local officials less willing to listen to the public. Some public projects, such as affordable housing and low-rental housing, thus become wasteful investment or "image" projects because officials fail to understand the public interest and preference. While the success of any social policy requires public participation, Hu has not made it a priority to hold local officials accountable to local residents.

It seems to be clear that Beijing has a long way to go before it can shun its GDP-centred doctrine in favour of the people. However, the onset of the global financial crisis in the third quarter of 2008 has provided a much needed shift on the focus of the Hu–Wen government. Facing a worldwide slowdown in demand, China's export-oriented economy was badly embattled. For the final quarter of 2008, the Chinese economy registered one of its slowest growths of 6.8 percent. This pulled down the economic growth for the whole of 2008 to 9 percent, ending its five-year double-digit growth. Behind the numbers, the slump was translated into job losses as factories were forced to shut down its production. In January 2009, the government announced that more than 20 million Chinese migrant workers had lost their jobs in the final months of 2008.

In order to stimulate the economy, the Chinese government revealed a four trillion yuan (US\$586 billion) public spending package in November 2008. Although the focus of the package is to induce growth in the economy and to create jobs, the Keynesian approach behind the package is indirectly translated to improving the welfare of the people, something that the Hu–Wen administration has been struggling to achieve so far. In fact, a huge portion of the package will be spent on large-scale social welfare projects such as building affordable housing and environmental protection. Parts of the package will also be channelled to raising rural incomes via land reform and to upgrade infrastructure, particularly roads, railways, airports and the power grid. While these projects created by the stimulus package have the potential to improve the welfare of the people and thus addressing some of the socio-economic problems, it remains to be seen how they will be executed. From a long-term perspective, however, the sustainability of these “pro-people” policies to improve many of the current social policies in China is still dependent on more decisive initiatives by the government.

II

The Hu–Wen administration has put a great deal of emphasis on more balanced development and better protection of the vulnerable in recent years. Not only have new social policies been introduced, old programmes have also been revised and expanded. It is, therefore, important to keep track of China’s social policy changes. The East Asian Institute (EAI) has been following these changes very closely and has produced a number of high quality policy papers to address them. The papers provide an updated account of a wide range of new social policy initiatives in China that address various socio-economic issues ranging from healthcare and housing to environmental protection and food safety. Selected papers are compiled into the 11 chapters of this book.

However, before delving into the insights provided by the papers, it is necessary to understand why it is important for the Hu–Wen administration to address the various socio-economic problems in China. In Chapter 1, Zheng Yongnian provides a concise but comprehensive overview of the evolving focus of the central government. While acknowledging the

spectacular economic achievements of the 30 years of reform, the chapter also noted the many socio-economic problems that came with it. To address them, the central government has re-oriented its reform direction by focusing more on the society rather than the economy. Indeed, the goal to “build a harmonious society” using the so-called “scientific development” approach to “strike a balance” among previous reform policies is the policy goal of the Hu–Wen administration. Achieving this goal is important as it would set the momentum for China to embark on a political democratisation reform.

In Chapter 2, Gu Xin addressed the issue of rising healthcare cost in China. This is brought about by the market-oriented reforms in the country’s healthcare sector in the past two decades. Taking note of the rising discontent among the population over this issue, the central government is in the process of launching a new round of healthcare reforms that will not only try to lower healthcare cost, but also increase the accessibility of healthcare services. However, the introduction of the new reforms has been delayed as the government could not agree on the general framework of the new system. While some advocated regulatory measures to bring down healthcare cost, others want the market-oriented reforms to continue. The chapter suggests that a regulated market-based approach should provide the middle-ground solution that can break the deadlock on both sides.

Åke Blomqvist and Qian Jiwei picked up from where Gu Xin had left off by examining in Chapter 3 how the interests of patients can be protected in China’s decentralised, market-based health services system. Similar to the previous chapter, Blomqvist and Jiwei stressed that the cost of healthcare is rising very rapidly in China. Partly, this is caused by the reduction of government subsidies to healthcare providers. As a result, this forces providers to push the extra cost in their services to the patients. In order to address this problem, the authors suggest strengthening social insurance programmes and providing government subsidies to healthcare providers.

In Chapter 4, Zhao Litao and Sheng Sixin examined the recent expansion of higher education in China. The authors noted that higher education opportunities are increasing rapidly in China. In fact, the gross enrolment ratio of university students in China increased from 9.1 percent

in 1997 to over 20 percent in 2007. This expansion is primarily driven by non-government resources. Official statistics identified the three sources of non-government education funds as 1) investments by organisations and individuals running schools; 2) donations and fundraising for running schools; and 3) tuition and miscellaneous fees. Since the 1990s, the contribution of these resources to China's higher education has increased quite significantly. However, this does not mean that the government is withdrawing its support for education. Instead, it is shifting its focus to the nine-year compulsory education. This is in line with the World Bank's advice that public educational investment should be focused on primary education and, to some extent, secondary education.

In Chapter 5, Liang Ruobing examined the current stage of China's market-based public housing system and the problems it is creating in society. One of the main problems identified in the chapter is the affordability of public housing. After going through a period of reforms in the 1980s, China's previous centrally-planned public housing system has been replaced by a market-based one. This resulted in the soaring prices of public houses which gathered speed during the property boom in China after 2000. As lower-income families have smaller disposable income, purchasing public houses became a major problem for them. To prevent the public housing problem from spiralling out of control, the central government began to introduce a new housing directive on an experimental basis in Xiamen. To increase the supply of cheaper public housing, the directive includes using government subsidies to keep housing rental at an affordable rate.

Other than public housing, China's market-based reforms, as illustrated by Su Fubing in Chapter 6, have also caused problems in the acquisition and redistribution of land by local governments. During the planning period, China did not have a land market as all land was considered state property. Ownership of land came in the form of leasing. For instance, in the rural areas, land was distributed to collectives where farmers could lease it for a stipulated period for farming activities. The onset of the economic reform programme in 1979, however, saw the emergence of a land market brought about by industrialisation and urbanisation and the leap in urban land demand for commercial use. Local governments had to turn to rural lands to increase land supply. Very often, this resulted in excessive land

acquisition from farmers who were not properly compensated for their loss. The central government is aware of the problem but is still trying to craft a balanced resolution that will not hamper the country's progress towards the market economy and at the same time protect the interests of rural land owners.

China's relentless drive in developing its economy has also caused many environmental problems in the country. In Chapter 7, Chen Gang offered a study on some of the major environmental problems and an overview of the government's response. In the chapter, he warned that China's phenomenal growth is imposing huge pressure on the country's environment and resources. It is also causing high levels of water and air pollution and other environment degradation. The author stressed that if the government did not address these problems well, they could, in the long run, affect the sustainability of China's growth and the health and lifestyle of the people. Apparently, the government is not turning a blind eye to the country's deteriorating environment. Apart from taking decisive steps to protect the environment as laid out in the Eleventh Five-Year Programme, Beijing and local governments are working to devise an environment-oriented method of measuring the latter's economic performance.

In Chapter 8, Yang Mu and Teng Siow Song also focused on the environment by studying China's water shortage problem. While the authors noted that water shortage is very common in the northern parts of the country because of prolonged periods of drought, they also noticed the peculiar development in the southern provinces even though they are constantly embattled with high levels of rainfall and devastating floods. The authors explained that this is due to the country's ineffective water distribution system. Over the years, despite facing an increase in water demand from its huge population and growing number of factories, China has failed to take decisive steps to improve its water system. In fact, water supply in China is growing at only a mere 0.05 percent annually. Therefore, the authors stressed that it is crucial for the government to start improving the country's water system as water shortage is likely to become even more severe in the coming years due to water pollution and wastage.

Addressing China's socio-economic problems is not a piecemeal effort. It requires keeping existing political and administrative structures in pace with the challenges brought by the country's economic development.

Zhao Litao and Lim Tin Seng highlighted this point in Chapter 9 with special emphasis on the Sanlu milk formula incident that occurred less than one month after the Beijing Olympics in August 2008. More than 290,000 babies fell ill after consuming melamine-tainted milk formula produced by a respectable China milk company. As the tragedy unfolded, the Chinese authorities also discovered traces of melamine in other locally-produced dairy products such as biscuits, yoghurts and candies, some of which had been exported overseas. This led health authorities worldwide to ban the sale and import of Chinese dairy products. The incident became an international embarrassment and wiped out the euphoria in the wake of China's highly successful Olympic Games. Months of investigations revealed that Chinese officials at the local level were aware of the incident but chose to cover it up. The milk companies involved managed to bypass inspections due to their reputation. All in all, the incident illustrated that there is still a great level of inefficiency in the local government structure as well as existing health controls.

In Chapter 10, Yang Mu and Tan Soon Heng suggested that overseas returnees or *Haigui* could be "agents" of change to help address the various socio-economic issues the country is facing. Having received their education overseas, *Haigui* usually bring back experiences that could prove to be useful for the country's modernisation process. As it was, they had a big part to play in China's development in Science and Technology. They also brought in political ideology such as Marxism and helped established the country's education system. During the Cultural Revolution, however, *Haigui*'s contribution to China's development came to a halt as China shut itself from the outside world. After China re-opened its doors in 1979, these overseas returnees were among the first to be restored. Today, *Haigui* continue to play an important role in the country's development particularly in Science and Technology and other high-tech sectors. There are signs that the central government is bringing in these overseas-trained talents to renew its leadership and help it prepare to address the various socio-economic issues the country is facing.