

November
2018 [no. 44]Mobilizing critical research for
preventing and eradicating poverty

Special Issue

Perspectives on the Democratic Developmental State



© United Nations

Key points

- The focus of Chinese policies has gradually changed from economic growth to more equal and fair distribution
- Substantial welfare reforms have been implemented through pilot programmes and adjustments
- Reducing inequality is now seen as important by both government and people
- The continued legitimacy of the Chinese government may depend on reducing inequality of opportunity and improving access to basic welfare services
- Other countries in the process of developing a welfare state system may learn from China's gradual development and implementation through pilot projects and local adaptations

REFLECTIONS ON RECENT WELFARE REFORM IN CHINA

by Kristin Dalen

Introduction

This Poverty Brief looks at the development of a welfare state in China, with a particular focus on reducing poverty and inequality.

China's Gini-coefficient^{1&2} has ranged from 48.7 in 2006 to 46.5 in 2016, indicating one of the world's most unequal societies (Riskin, Zhao and Li, 2001; Wang, 2008). The Brief looks at how Chinese official political rhetoric has changed from a focus on economic growth to that of a more just distribution, and how this resonates with the perceptions of Chinese people. It will also detail the Chinese government's strategies to fight poverty and reduce inequality, and ask whether a focus on equality and distribution has the potential to strengthen the legitimacy of the regime.

The Shifting Focus from Economic Growth to Reduced Inequality

Reform and opening-up policy in China was guided by the formula "efficiency comes first, with proper attention to equity" (*xiaolu youxian, jiangu gongping*).³ Yet, after the 'reform and opening-up' period, many Chinese were disillusioned by the negative consequences of the reforms. Despite real improvements in living conditions, inequality of opportunity and access to public goods was widespread. Large proportions of the Chinese population were left with very limited social protection (Whyte, 2010). Due to fragmentation and privatisation of welfare provision, coupled with decade-long urban-rural segregation by the *hukou* institution and urban priority development strategies, the vast majority of rural people lacked both health insurance and pension schemes in the early 2000s (Whyte, 2010).

Increased access to information (news, TV, radio and internet) has raised the awareness of unequal

opportunities and life chances among all groups in the population. Social unrest and public protests spiked⁴, and inequality has become the focus of media and social debates.⁵ In October 2006, The Chinese Communist Party (CCP) issued a resolution emphasising the “new” phrase of “social equity and justice” (*shehui gongping zhengyi*)⁶. The resolution highlights the importance, guidelines, goals and principles of building and implementing a socialist harmonious society.^{7&8} The Hu and Wen administration conveyed the goal of a “well off” (*xiaokang*) society in China by the 100th anniversary of the Chinese Communist Party in 2021, including universal coverage of pensions and health care, the narrowing of social and economic inequality and increased public responsibility for welfare.

Xi Jinping’s thoughts as expressed in “Socialism with Chinese Characteristics in a New Era” include a greater focus on tackling social inequality and reducing poverty, which are seen as leading to an unbalanced development. The so-called main contradiction in society is redefined from the “*the ever growing material and cultural needs of the people and backward social production*” to the “*unbalanced and inadequate development and the people’s ever growing needs for a better life*”⁹.

The New Social Policy

The CCP’s 11th, 12th and 13th five-year-plan (2006-2010) clearly state: “Greater attention should be paid to social justice”. Improvement of welfare policy management¹⁰ and the design of a social insurance law¹¹ is a priority, and large-scale reforms related to social security, health care, education, elderly care and pensions have been at the core of these reforms. The goal is universal access to health care, pensions and education.

An ambitious programme to eliminate severe rural poverty by 2021¹² is being implemented. The plans include relocation, employment training, education, health care, pensions, agricultural development support and cash transfers. The focus has been altered from support for areas (village/county) to individual targeted measures at the household level. Traditionally, there has been substantial room for local adaptation of central policies (Yuan Yuan Ang, 2016). Despite the impression of a more centralised regime under Xi, local adaptations and experimentation still seem to be encouraged. China has a long tradition of introducing new welfare schemes and programmes as pilot projects in some areas and in selected communities first. Based on experiences from these pilot projects, schemes are adjusted and gradually introduced on a national level with room for local adjustments.

Among the most substantial achievements is the increase in medical insurance coverage. In 2004, only 15 percent of rural populations and 9 percent of migrants were covered by any kind of medical insurance. Ten years later, 94 percent of people in the Chinese countryside and 87 percent of migrants have some form of medical insurance (Dalen, forthcoming). Though not at the same level, pension insurance coverage has also increased substantially. In 2006, the revised Compulsory Education Act was introduced and secured free basic nine-year education for all.

New reforms to secure better welfare are being developed and tested in pilot areas. The introduction of long-term care insurance (LTCI) jointly financed by government and individuals to secure old age care, and a new Education Act securing 12-year free education for all are some of the measures the government plans to introduce throughout China.



© Jon Pedersen

Reducing inequality reaches beyond poverty. Despite a narrowing income gap between rural and urban people (the income ratio dropped from 1:3.33 in 2015 to 1:2.72 in 2016¹³), rural and migrant residents still face inferior access to education, infrastructure and public services. Corruption and mismanagement of funds is a persisting challenge, together with more structural challenges such as a rapidly aging population and unwillingness to pay tax on income and wealth.

Peoples' Perceptions

The CCP's focus on reducing poverty and inequality and securing broader access to basic public services seems to echo the perceptions and demands of the majority of Chinese people. Nationally representative data collected by the China Inequality and Distributive Justice Survey Project (Whyte, 2016) show that significantly more people saw income inequality as "too large" in 2014 compared to in 2004. Tolerance for unequal access to public services such as health and education is decreasing; moreover, more people see growing inequality as a potential for conflicts and social unrest in society.

At the same time, a growing number of Chinese see the state as the best provider of basic social welfare such as health insurance, education and pensions. By 2014, the majority thought that the state should have the main responsibility for providing basic welfare services. This is a dramatic change from ten years earlier when only one in three shared this opinion.¹⁴

Legitimacy

If the "Chinese model" succeeds in raising living standards, it will fulfil some requirements of political legitimacy. Increased access to health care, care of the elderly, basic education, and support to move out of extreme poverty have improved the quality of life for many Chinese. However, the road ahead is still filled with challenges. Insurance reimbursements are still rarely adequate to cover real expenses or living costs, the general willingness to pay tax is low, and a rapidly aging population represents real problems. At the same time, peoples' expectations of what the state should deliver is increasing.

To what extent will the Chinese government be able to continue to develop its governance model, answering to the increasing demands of people, stated even by President Xi as "democracy, rule of law, fairness and justice, security, and a better environment"?¹⁵

Failure to meet the needs of both the middle class and those left behind by development enhances the risk of

social unrest and may undermine the legitimacy of the CCP. The state's willingness to take responsibility for people's welfare has increased in China since the turn of the century. Entitlements have largely been secured by law, and a wide range of different schemes are being made national and more unified. From January 2019, China will set nationwide minimum standards for basic public services, including education, health care and pensions. The main funding for these programmes will come from the central government, also guaranteeing access for people living in the country's poorest provinces. Based on these reforms we might see the Chinese welfare state as moving from the selective welfare of liberalism towards a more inclusive model with a dual focus on development and enhanced social inclusiveness (Kuhnle 2011, 2012). Yet, the "Chinese model" is still heavily dependent on continued economic growth, trust in government and substantial contributions from the people.

Conclusions

China has made considerable progress in strengthening access to basic welfare services and reducing poverty for its population since the shift in the early 2000s from a development strategy predominantly focused on economic growth, to one with more focus on distributive fairness. New welfare schemes have been developed and adjusted based on pilot projects and gradually introduced on a national level with room for local adaptations. The focus on gradual implementation, evaluations, adjustment and allowing room for local adaptations may be the most important lesson for other developing countries to draw from the Chinese experience in the process of establishing broader welfare state systems.

Yet, China is still one of the world's most unequal societies; further progress towards a more equal society depends on efficient, transparent and just implementations of policies. Official statements about a new focus on social justice, more equality and fairness is a good starting point—while practical implementation of policies on the ground will prove whether the Chinese government is able and willing to promote more redistribution in practice.

About the Author

Kristin Dalen is a researcher at the Fafo Research Foundation in Oslo and a PhD candidate at the Institute for Comparative Politics at the University of Bergen. Contact: Kristin.Dalen@fafo.no

References

- Ang, Yuan Yuan (2016) "How China Escaped the Poverty Trap", Cornell University Press.
- Dalen, Kristin (forthcoming) "Let the State take care of it – Changing perceptions of the role of the state in Chinese welfare provision".
- Kuhnle, Stein (2011) Towards a Nordic-East Asian welfare dialogue? *Journal of Asian Public Policy*, 4: 254-262.
- Kuhnle, Stein, Sanders, Anna and Schmitt, Christopher (2012) 'Towards a Chinese welfare state? Tagging the concept of social security in China' *The Perspective of the World Review*, 4(2): 9-35 [2012].
- Riskin Carl, Zhao Renwei, and Li Shi, eds. (2001) 'China's Retreat from Equality: Income Distribution and Economic Transition' edited by Armonk, N.Y., M.E. Sharpe.
- Wang, Feng (2008) 'Boundaries and Categories: Rising Inequality in Post-Socialist Urban China'. Palo Alto, Calif.: Stanford University Press.
- Whyte, Martin King (2010), 'Myth of the Social Volcano: Perceptions of Inequality and Distributive Injustice in Contemporary China'. Palo Alto, Calif.: Stanford University Press.
- Whyte, Martin K. (2016): "*China's Dormant and Active Social Volcanoes*". *The China Journal*. 2016; 75 :9-37.

Notes

- The Gini Index is a statistical measure that is used to represent unequal distributions, e.g. income distribution. It can take any value between 1 and 100 points (or 0 and 1). The closer the value is to 100 the greater is the inequality. 40 or 0.4 is the warning level set by the United Nations indication potential for social unrest.
- Statista: <https://www.statista.com/statistics/250400/inequality-of-income-distribution-in-china-based-on-the-gini-index/>
- 效率优先，兼顾公平”
- protests were related to expropriation of land and lack of adequate compensation <http://www.cnb.com/2014/08/18/is-rising-unrest-in-china-a-threat-to-the-economy.html>
- Chen Guidi and Wu Chuntao book «Will the Boat sink the water – a survey of rural farmers» was published in 2004 and led to an increased debate on inequality between urban and rural citizens.
- 社会公正与公平 Resolutions passed in the Sixth Plenary Session of the Sixteenth Central Committee of the CCP, published on October 18th 2006.
- The Sixth Plenary Session of the Sixteenth Central Committee of the CCP published the resolution entitled 'Central Committee resolution on major issues regarding the building of a harmonious society'.
- "China publishes Resolution on Building of Harmonious Society," available at <http://manchester.chineseconsulate.org/eng/xwdt/t276653.htm> published 18th October 2006 (accessed 15th of May 2015).
- Xi Jinping's remarks 17th of October 2018 in the report to the 19th National Congress of the Communist Party of China (CPC) http://www.xinhuanet.com/english/2017-10/18/c_136688132.htm
- The new 'Ministry of Human Resources and Social Security' was established in 2008.
- The Social Insurance Law of the People's Republic of China' was instituted on 28 October 2010.
- Extremely poor is defined as rural people living below the official poverty line of 2300 RMB/344 USD income per year.
- Annual report 2017 from the Chinese Academy of Social Sciences (CASS), Rural development institute (presented by professor Du Xiaoshan) <https://www.scmp.com/news/china/society/article/2089654/china-rural-rich-get-richer-and-poor-get-poorer>
- Percentage of people who think government should be the main provider of primary education (2004: 44%, 2014: 79%) elderly care (2004: 33%, 2014: 55%) basic health services (2004: 31%, 2014: 66%). Source: China Inequality and Distributive Justice Survey Project.
- Speech by Xi Jinping 18th of October at the opening of the 19th party congress 2017.

The CROP Poverty Briefs: This Special Issue brief is part of a series of short research notes from an international workshop on "Perspectives on the Democratic Developmental State" held in Cape Town in February 2018. This initiative was supported by the CROP/UiB-UKZN-

CODESRIA UTFORSK *Partnership for Poverty and Sustainable Development Studies*. The ideas contained in CROP Briefs are those of the named authors and do not necessarily reflect a consensus view of the Programme.

CROP Secretariat

P.O. Box 7800
N - 5020 Bergen - NORWAY
Visiting address: Jekteviksbakken 31
Phone: +47 555-89744

eMail: crop@uib.no
Website: www.crop.org
Facebook: @CROPoverty
Twitter: @CROPoverty

Editor: Etienne Nel
Co-editor: Enrique Delamónica
Coordinator: Inge Tesdal



International
Science Council