中国人类发展报告 2005

追求公平的人类发展

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CHINA DEVELOPMENT RESEARCH FOUNDATION
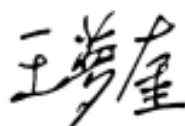
UNDP

Preface

The developmental goal set by the Chinese Government is to build up a Xiaokang society in the first two decades of the 21st century. The Xiaokang society refers to the stage of development during which people generally are not rich but have adequate food, clothing, and other material belongings necessary for a decent life. It is a stage China must pass through in its drive for modernization. Our next goal is to achieve overall modernization by the mid-21st century.

What China is struggling for in promoting modernization is not just economic growth but overall social progress based on economic development that allows everyone to benefit. To achieve this, China has put forward the idea of building a harmonious society, emphasizing policy goals such as balancing development among regions and between urban and rural areas; creating job opportunities; improving social security and public health; and developing cultural, educational, and social programs. As the UNDP report indicates, China's human development index has risen continuously, reflecting marked social progress in the past decades. During the 11th Five-Year Plan (2006-2010), China is expected to devote more attention to the issue of social equity and take more actions to promote social development.

Along with economic reforms and rapid growth, China has witnessed dramatic changes in its social and economic structure. The country is making the transition from a bipolar urban-versus-rural system to a more balanced and integrated modern society. This change is shifting hundreds of millions of peasants into non-agricultural sectors through the processes of industrialization and urbanization—processes accompanied by a social restructuring of unprecedented depth and breadth. In a country with a population of 1.3 billion, achieving rapid and sustainable economic growth, structural change, and social transformation simultaneously is a daunting task. Accomplishing these historical tasks will take a long time, and will require that many policy issues and practical problems be addressed. As these problems and difficulties emerge, they will be resolved with measures aligned with development and reform. China has great potential for development and has a bright future, but historical transformation is often fraught with conflict.

The present "China Human Development Report" tells of China's achievements in social development and the policy options the government should consider to promote further development. I believe the report will help China build a Xiaokang society, and help the international community gain a better understanding of China's development.

Unlike the previous three reports written by foreign experts and institutions, this fourth "China Human Development Report" was written by a Chinese team of experts organized and coordinated by the China Development Research Foundation. We owe them our thanks for their fine work.

Wang Mengkui
President
Development Research Center of State Council, PRC
Chairman
China Development Research Foundation
Oct. 15, 2005

Foreword

China's rapid development raises the pressing need to confront the challenges that have arisen in terms of equity in ensuring equal opportunities and capabilities among its large population. It is now China's policy goals of Xiaokang to build a well-off and harmonious society and become an essential part of the global effort to attain the Millennium Development Goals.

Since adopting the groundbreaking reform and opening-up policy in the late 1970s, China has made considerable progress in human development as measured by the rise in almost all human development indices. Althongh it is still a low-income country, China's achievements in literacy and life expectancy have placed it among the ranks of middle-income countries. China now no longer has a single province or autonomous region in the low human development category.

Despite such progress, China faces great challenges. Disparities between those who benefit from economic advancement and those who are left behind are sharpening, and statistics at the macro level cannot disguise the vast gaps in development between regions, urban and rural areas, as well as between men and women and social groups.

The China Human Development Report 2005 catalogues the imbalances in China's current development and sets forth a set of policy recommendations to help China chart its path of "*Development with Equity.*"

The issue of equity is essential to sustainable human development and indispensable to China's Xiaokang goals. The report argues that inequity, if unaddressed, could penalize China's economic development and undermine the extent and sustainability of future progress. To achieve inclusive and sustainable development, China needs to integrate pro-active equity and pro-poor policies into future national macro-economic policy frameworks.
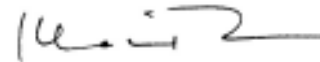
Inequity, the issue of primary concern in this report, is viewed as the inequality of basic rights and opportunities. In China, it surfaces as a nexus of selective disenfranchisement that includes institutionalized differences between regions, areas, and groups in terms of income, property ownership, employment opportunities and wages, education, health care, social security, and government fiscal expenditure.

Reasons behind such inequities are complex, with roots in history, past policies, and the still-less-than adequate markets. To address them, this report puts forth a set of policy suggestions for creating opportunities and fostering abilities, enhancing social security

services to reduce vulnerability, and promoting empowerment and improving governance.

The report is produced by a team of eminent national authors under the coordination of the China Development Research Foundation. It is the first time the production of the China Human Development Report has had such strong national ownership, a process of special significance for China's development community. A big thank you for their hard work and insightful analysis. I also wish to take this opportunity to thank the Department for International Development, the Swedish Embassy and Shell (China) Ltd. for their kind sponsorship.

There are no easy answers to the equity challenges that China faces. However, it is our hope that, taken together, the changes suggested within this report can help China harness fully the large potential of its economic miracle for the benefit of all its citizens. These, in turn, can reinforce stability and sustain the development of China.

Khalid Malik
UN Resident Coordinator and
UNDP Resident Representative

Acknowledgements

The "China Human Development Report 2005" is the result of collaborative research efforts and a production to which many partners have contributed. In the past two decades, China has not only achieved rapid and sustained economic growth, but has also made substantial progress in human development. But along with the rapid growth, the issue of social inequity has also become increasingly tangible. Social inequity not only constitutes a barrier to human development, but also threatens China's sustainable economic development and long-term social stability. In recent years, research institutions and scholars have become aware of the severity of inequity and inequality in China, and some valuable studies have been conducted from a variety of perspectives. These studies provide important support for this report.

The framework and structure of this report have been developed gradually. A number of experts and scholars actively participated in the discussions and provided many constructive suggestions. Besides their roles as coordinators, Secretary-General Lu Mai and Deputy Secretary-General Wang Xu of the China Development Research Foundation have worked closely with the two chief editors in designing the structure of the report. Professors Wang Shaoguang, Hu Angang, Cai Fang, Han Jun, Shang Xiaoyuan, Wang Rong, Gao Yu, Shahrbanou Tadjbakhsh, Omar Noman and Calla Wiemer also provided valuable suggestions on the report's general framework. During the initial stage of this study, UNDP's Beijing Office and the China Development Research Foundation jointly held a workshop in June 2004 to solicit advice from scholars and government officials. Participants freely aired their views and put forward many worthy suggestions, some of which are contained in the report.

In addition to helping design the report, the China Development Research Foundation entrusted selected Chinese experts to contribute 10 background papers. These include "Analytic Framework for Equality" (Wang Shaoguang), "Inequality in Income Distribution in China and Policy Suggestions" (Li Shi and Yue Ximing), "Wealth Distribution of Chinese Residents" (Zhao Renwei and Ding Sai), "Educational Disparities and Inequality of Public Education Resource Distribution" (Wang Rong), "Health Discrepancy and Inequality of Public Health Conditions" (Zhang Zhenzhong, Gao Guangying, Han Youli and Ren Jing), "Employment Opportunities in Urban and Rural Areas and Inequality in Wage Payment" (Cai Fang, Du Yang and Wang Meiyan), "Inequality in Social Security"

(Shang Xiaoyuan), "Inequality in China's Public Finance and Public Service Provision" (Hu Angang), "Developmental Goals and Guiding Principles for the Future" (Hu Angang), and "Employment and Social Security for Landless Peasants" (Han Jun). These background papers constituted a major source of ideas and data for this report. To give contributors of these background papers a better understanding of the real social and economic situation in China, in July 2004 the China Development Research Foundation organized a field study trip to Shangluo Prefecture in Shaanxi Province and Wenzhou City in Zhejiang Province. Experts on the survey team included Zhao Renwei, Lu Mai, Li Shi, Bai Nansheng, Du Yang, Gao Guangying, Han Youli, and Du Zhixin. Some of their investigations have been incorporated into this report.

The first draft of "China Human Development Report 2005" was completed before the 2005 Spring Festival (Chinese Lunar New Year). The following months saw an uninterrupted process of comment, solicitation, and revision. Mr. Wang Mengkui, President of the State Council's Development Research Center and Chairman of the China Development Research Foundation, and Mr. Khalid Malik, UN Resident Coordinator and UNDP Resident Representative, put forward many important and constructive suggestions for revising the report. Other experts who presented valuable opinions include Professors Wu Jinglian, Zhao Renwei, Mao Yushi, Chen Xiwen, Lu Mai, Wang Xu, Wang Shaoguang, Hu Angang, Cai Fang, Jia Kang, Han Jun, Yao Yang, Wang Sangui, Shan Xiaoyuan, Wang Rong, Wei Zhong, Du Yang, Gao Yu, Peter Nolan, Omar Noman, Calla Wiemer, Constance Thomas, Mark George, and Nafis Sadik. At the final stage of revision, Lu Mai, Wang Chunhua, and Zhang Changdong carefully edited the entire Chinese draft. China Translation & Publishing Corporation translated the report into English. Shahrbanou Tadjbakhsh and Winter Wright helped with English Editing. We would like to express our gratitude to all of them.

Last but not least, as the editors of this report, we would like to take this opportunity to express our particular appreciation to the working staff of our research team for their kind assistance over the past year, an incomplete list of whom includes Li Tonglian, Cui Xin, Chu Hung-lam, Xie Maosong, Du Zhixin, Luo Chuliang, Wang Yake, Deng Quheng, Chou Ting, Feng Wei, Huang Haili, and Zhang Yan.

Li Shi
Bai Nansheng
October 2005

China Human Development Report 2005 Project Team

Consultants

Wang Mengkui	President, Development Research Center, State Council
Wu Jinglian	Senior Research Fellow, Development Research Center, State Council
Chen Xiwen	Deputy Director, Office of Central Leading Group for Finance and Economics

Coordinator

Lu Mai	Secretary General, China Development Research Foundation

Chief Editors

Li Shi	Professor, School of Economics and Business, Beijing Normal University
Bai Nansheng	Professor, School of Agricultural Economics and Rural Development, Renmin University of China

Principal Authors of Background Reports

Cai Fang	Director and Senior Research Fellow, Institute of Population Studies, Chinese Academy of Social Sciences
Han Jun	Director, Rural Research Department, Development Research Center, State Council
Hu An'gang	Director, Center for China Study, Chinese Academy of Sciences
Li Shi	Professor, School of Economics and Business, Beijing Normal University
Shang Xiaoyuan	Professor, Institute of Social Development and Public Policy, Beijing Normal University
Wang Rong	Professor and Head, Department of Education Economics and Administration, Peking University
Wang Shaoguang	Professor, Department of Government and Public Administration, Chinese University of Hong Kong
Zhang Zhenzhong	Vice Director, Institute of Health Economics, Ministry of Health
Zhao Renwei	Senior Research Fellow, Institute of Economics, Chinese Academy of Social Sciences

Director of Project Office

Wang Xu	Deputy Secretary General, China Development Research Foundation

Members of Project Office

Wang Chunhua	China Development Research Foundation
Zhang Changdong	China Development Research Foundation
Du Zhixin	China Development Research Foundation

Abstract

Equity as a Development Goal

To reach its human development goals, China must achieve social equity. The first step toward this goal is to establish a concept of social equity accepted by all of society and comprising two main objectives. The first is equality in fundamental human rights and opportunities. These include political rights such as the right to participate in public affairs, and to vote and be eligible in elections; freedom of expression and belief; and social and economic rights. The second objective is the universal ability of people to improve their capabilities. This assumes every citizen is guaranteed a basic standard of income, medical care, and access to education.

Social equity is sometimes understood to mean equality of income; and indeed, widening income disparities are perhaps the most dramatic manifestation of inequity in China. But this report goes beyond income distribution by examining the extent to which rights and capabilities fundamental to the establishment of social equity are (or are not) being realized. It examines unequal rights and capabilities among different population groups, reflected in such factors as freedom of migration, the right to employment, and the right of equal pay for equal work. When combined with income distribution, such issues form the threads that make up the fabric of social equity, and therefore of balanced and complete development.

Amid impressive growth, growing disparities

China has made remarkable progress in human development since reform and opening up began in the late 1970s. Its HDI ranking has risen continuously over the past 20 years, to 85th in 2003 among 177 countries. Life expectancy and some other health indices are higher today than average levels in developing countries and roughly the same as in medium-income countries. China's primary school enrollment rate was 11 percent higher than the average level of developing countries in 2002, and was at the same level as medium-income countries. Adult and youth literacy rates are also above average levels in developing countries and equal to those in medium-income countries. In the past 26 years, GDP has grown 9.4 percent a year on average, and the absolute poor population in rural areas has dropped from 250 million to 26.1 million.

Nevertheless, China remains plagued by imbalances in development—most notably between urban and rural areas, between regions, between sexes, and between different population groups. This year's Human Development Report calculates for the first time separate human development indices for urban and rural areas (0.81 and 0.67). The widening human development gap between urban and rural areas, especially since 1997, has to a large extent been caused by growing income inequality between these areas. The World Bank estimates China's national Gini coefficient for income distribution rose from 0.30 in 1982 to 0.45 in 2002, a 50 percent increase in two decades. China ranks 90th among 131 countries in terms of the Gini coefficient for income distribution. The average income of the highest-income decile group is eleven times that of the lowest-income decile group.

Inequity exists in other dimensions as well. Urban citizens receive much better education than those living in the countryside. As of 2000, just 2.5 percent of China's urban population between 15 and 64 years of age had received no education whatsoever; in rural areas the proportion was 8.7 percent. Gender disparities persist, with illiterate and semi-literate women outnumbering men 2.6-to-1. With respect to property distribution, wealth continuously accrues to urban citizens. Among the 10 percent of the population possessing the least property, urban citizens made up 25 percent, while rural residents constituted 75 percent.

Who is Vulnerable?

■ The groups most vulnerable to the inequities described above are as follows:

■ The rural poor: Both in terms of income and risk prevention capability.

The urban poor: Urban poverty has intensified after the restructuring of state-owned and collective enterprises.

Rural migrants in cities: Whether employed or not, they cannot receive social security benefits be-

cause of differential treatment.

Land-expropriated farmers: Urbanization and industrialization have caused many farmers to lose their land. Some have not received due compensation, remain jobless, and live in harsh conditions.

Challenges Faced by Vulnerable Populations

An insecure and unfair labor market

China's labor market has changed profoundly over the past 15 years. The number of laborers has increased rapidly, exceeding the growth in jobs. Enterprise restructurings have led to the unemployment of 40 million workers. The number of rural migrant workers seeking employment in cities and coastal areas has reached 140 million. Migrant workers face discrimination linked to the Hukou (household registration) System, which deprives many of access to education, healthcare, and social security. Other discriminatory practices include failure to pay migrants the same wages and benefits as urban employees; harsh working environments; large differences between job opportunities for migrants and urban workers; and access to employment services.

Men and women also have different employment opportunities. China's labor market is highly segregated by gender, and fewer women work in white collar jobs than men. Layoffs in urban enterprises have affected women disproportionately, and gender-based wage differences are growing as economic reforms continue.

Discrepancies in education opportunities and allocation of resources

Despite commendable progress in providing access to education, serious imbalances remain. Rural areas lag far behind cities and China's illiterate population is concentrated in rural areas. Great differences

remain in school quality, and the gap in educational opportunities widens as students get older.

There are also differences linked to gender. Opportunities for females to receive education are still far below those for males. The proportion of female students enrolled in all types of educational institutions is lower than it is for men, and decreases as girls get older. Within the adult population, the illiteracy rate for women is 2.6 times the rate for men.

Discrepancies in health and public medical care

Significant gaps also remain in the health of urban and rural residents and among residents of various regions. Rural child and maternal mortality are twice as high in rural areas as in cities. Urban maternal mortality is 33.1 per 100,000 births, while in the countryside it is 61.9 per 100,000 births. All indicators point to distinct gaps in nutrition between rural and urban children. More than 80 percent of urban households can get to the nearest medical institution within 10 minutes, while in the countryside, only 66.9 percent can.

Regions also differ in the number of available medical personnel, with western regions faring worst. Health resources are concentrated in large and medium-sized cities, with 67.7 percent of government funding going to hospitals (2002). In many rural areas, public health services are near collapse.

Embryonic social security

In 2002 and 2003, China established its first social security system based on urban residence (excluding rural migrants). Today the average social security expenditure per capita in urban areas is 10 times that in rural areas. Social security premiums for urban employees have risen steadily, exceeding the resources of enterprises and society. Even so, most Chinese laborers—rural migrant workers, employees

of township enterprises, and farmers—are virtually excluded from the social security system. Surveys show that less than 2 percent of rural migrant workers in the cities enjoy full or partial unemployment insurance.

At the end of 2004, 163.53 million people had basic pensions, including 122.50 million workers and 41.03 million retirees. Pension coverage is much broader for urban residents, with basic pension insurance currently covering only urban workers; farmers have virtually no access to such insurance. In addition, gender differences are notable, even in the cities, where three men have insurance coverage for every two women. There also exists an obvious gender difference in public health services and medical insurance, with coverage of males exceeding coverage of females by eight percentage points.

An unequal fiscal revenue and expenditure system

Great differences exist in public service provision between rural and urban areas. This discrepancy can be explained mainly by different fiscal expenditures among governments. Although county or village governments are responsible for providing public goods and services, their fiscal revenues and expenditures are limited. At the same time, their shares of national fiscal revenues and expenditures have decreased continuously over the past 10 years.

Promoting Development with Equity

The Chinese government is fully aware of the indispensable role social equity plays in attaining the UN's Millennium Development Goals and achieving China's own development objectives of building a well-off society in a comprehensive manner and constructing a harmonious society of common prosperity. Its new development targets and the new concept of

development have become the basic guidelines for the implementation of the 10th and the formulation of the 11th Five-Year Plans.

Achievements in poverty reduction, for example, have been duly recognized by the international community. The government has begun providing a guaranteed basic living wage for poor urban families, and recently has turned its attention to imbalances in economic and social development between urban and the rural areas. It has also tried to address these imbalances by concentrating efforts on agriculture and farmers.

To deal with imbalances among different regions, the government has designed and implemented specific policies for developing the west. These policies include enhancing investments in infrastructure and increasing fiscal transfer payments to western provinces. In addition, authorities have designed a strategy for invigorating the northeast, granting special support to industrial development, implementing preferential tax policies, and delivering inputs designed to transform the region's industrial technology. In recent years the government has also adjusted discriminatory policies and practices against rural migrant workers, granting them more equal rights and opportunities.

These combined efforts have narrowed income gaps between urban and rural areas. To reduce them even further, the government must increase opportu-

nities in urban areas, upgrade wage rates for rural laborers, focus attention on the poor and other vulnerable groups, and increase inputs into compulsory education and healthcare in undeveloped rural areas.

Ten specific recommendations made in the CHDR:

● Allocating public resources to promote human development
● Unifying the labor market and promoting informal sector development
● Improving rural infrastructure and living environments
● Investing in public education and promoting people's capabilities for development
● Strengthening public health and improving basic healthcare

Improving the social security system
● Eliminating social discriminative barriers and promoting social harmony and mutual assistance

Improving the rule of law and transparency
● Reforming the taxation and fiscal systems for equitable distribution

Promoting government reform and improving governing capacity

Some of China's most important problems have emerged during the course of reform and development. They should also be solved in the course of further reform and development.

Chapter I

Development and Equity: The State of Human Development and the Conceptual Framework

Extreme poverty or affluence should be avoided.
—— Quoted from *Guanzi: Wu Fu (Guanzi: The Five Aids)*(About the 3rd century B.C.)

Concept of human development

Concept and indicators of human development

As defined by the UNDP Human Development Reports, the concept of human development refers to the expansion of people's capabilities and choices to lead lives they value. It views people as both objects and subjects/agents of development approaches. Capabilities refer to several values and goals including (1) the capability to live a long and healthy life; (2) the ability to acquire education, culture, and technology and share the benefits of social progress; (3) and the ability to live a life free of poverty with adequate living standards. A society's achievements in human development are measured by the human development index (HDI), a weighed index of three measures: life expectancy; level of education (measured by a combination of literacy rates and combined primary, secondary, and tertiary school enrollment ratios); and level of economic development (measured by GDP per capita).

Human development differs from economic development. While the former places greater emphasis on outcomes of development on human beings, the latter recognizes the wealth of a society and its economic

growth, and is measured by GDP. In principle, a society could achieve rapid economic growth in the short term without seeing an improvement of human development. In the long run, however, economic growth without human development can lead to unsustainable and unequal growth.

Human development also differs from social development, though the two have much in common.[1] Social development places greater emphasis on the development of social sectors and public services, and consequently emphasizes the supply of public goods and services such as schools and hospitals. Human development, on the other hand, focuses on how members of a society can enhance their own capabilities, income and contribute to social development. Thus, human development advocates for people's freedom to choose the lives they want. As Amartya Sen emphasized in *Development as Freedom,* enhancing freedom is ultimately the goal of human development, the means to achieve it, and its guarantee for sustainability.[2] Social development without personal freedoms is incomplete human development.

Because individuals ultimately live socially interconnected lives, the supreme goal of human development is achieved through the "two-C" concept of development: the common development of all members of society and the comprehensive development of each individual.

Human development is therefore consistent with the "human-oriented" approach to development put forth by the Chinese government and meshes with the goal of building a harmonious society.

Why human development matters

If human development could receive public recognition and support as a goal of national growth, it would stimulate enthusiasm and initiative for people to participate actively in their society. With public trust, participation and support, this mode of development would lead to sustained progress. Mobilizing public enthusiasm for participating in social and economic advancement—rather than passively accepting development's results—is therefore a linchpin of the "human-oriented" approach to development.

The adoption of such a goal does not mean neglecting economic development. On the contrary, long-term sustainable economic development and highly efficient and rapid economic growth are necessary for human development; without them, long-term objectives cannot be reached. Whereas today China has taken economic development as its central task, it is also trying to attain harmony between human development, economic growth, and social progress.

One basic prerequisite for synchronized economic growth and human development is the adoption of a more pro-poor growth pattern. It is generally understood that economic growth helps alleviate poverty and that widening income gaps impede poverty reduction. But some recent empirical studies based on international comparisons reveal that the correlation between economic growth and poverty alleviation is so complex that the effects of growth on poverty reduction actually vary greatly from time to time and from country to country.[3] This observation is supported by China's experience over the last 30 years. In the early 1980s, China's rapid economic growth was accompanied by a dramatic drop in rural poverty. But in the 1990s, although the economy continued to grow quickly, the reduction in poverty slowed down. One reason for this was widening income inequality. The lesson is that whether a country's economic growth helps reduce poverty depends largely on its choice of growth patterns. While some growth patterns are pro-poor and help reduce income inequality, others could have the opposite effect.

Which growth patterns are pro-poor and contribute to equity? First, they are patterns that increase employment. Jobs are extremely important to low-income and poor people, so providing more job opportunities is the most effective means to help them fend

off poverty. Second, pro-poor growth patterns encourage the development of labor-intensive industries and the application of labor-intensive technologies. To this end, there is a need to transform the investment system by increasing investment from non-government sources and developing small and medium-sized enterprises. Finally, because poor people are concentrated in rural areas and most rural incomes come from agriculture, promoting growth in agriculture and the rural economy helps reduce poverty and narrow income gaps.[4]

Comparing the state of China's human development

Progress in China's human development

Since the beginning of China's reform era, the country has seen radical improvements in some dimensions of the HDI.[5] These improvements stem from both economic and social progress. China's HDI rose continuously in the past 20 years, from 0.557 in 1980 to 0.755 in 2003. Its global ranking rose from 101st in 1991 to 85th in 2003 (See Figure 1.1).[6]

Figure 1.1 Changes in China's Human Development Index (HDI)
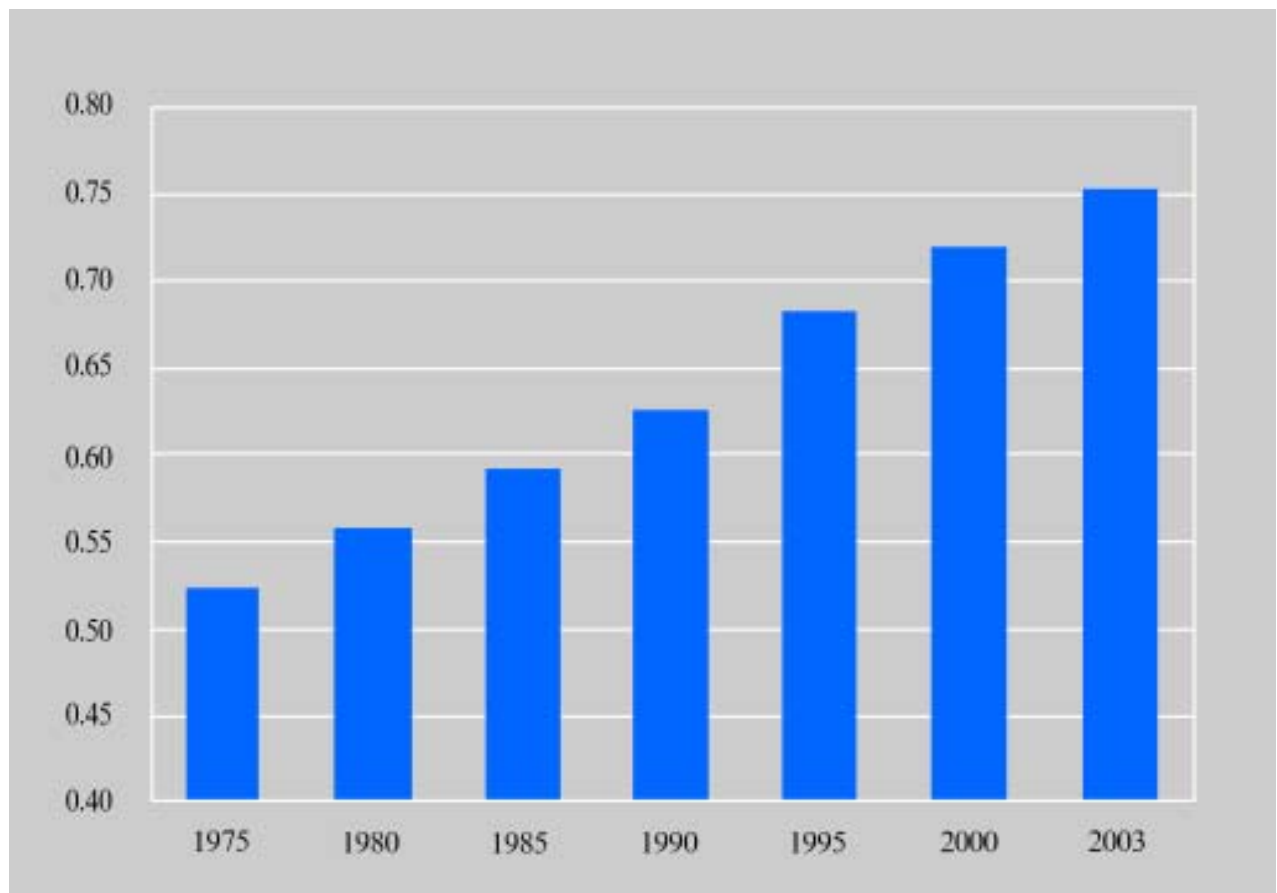
Source: Based on data from the UNDP, 2003; 2005.

Compared with other countries at the same level of economic development, China's human development is at a relatively high level. Its HDI ranked 85th in 2003 while GDP per capita (measured on a PPP basis) was 96th.[7] This means that compared with other countries, China's achievements in human development surpassed its achievements in economic development. At current exchange rates, China's per capita GDP at the beginning of the 21st century stood between 800 and 1,000 U.S. dollars. But life expectancy (71 years) was roughly equivalent to the average level of middle-income countries (71) and higher than that of developing countries (65).[8] In the past three decades, the life expectancy of the Chinese population increased by nearly eight years.

Some of China's health indicators are also testimony to this progress. Compared with the early 1970s, China's infant mortality rate dropped by 64 percent and its under-five mortality rate fell by 68 percent. The infant mortality rate and under-five mortality rate were 31 percent and 39 percent respectively in 2001, compared with average developing-country levels of 61 percent and 89 percent. That same year, average levels of infant mortality and under-five mortality in middle-income countries were 31 percent and 38 percent.

China's primary education has been outstanding among developing countries. Its primary school enrollment ratio in 2000 was 93 percent, 11 percentage points higher than the developing-country average and equivalent to the average enrollment ratio in middle-income countries.[9] In 2002, China's literacy rate was 85.8 percent for adults and 98 percent for youths, whereas average levels in developing countries were 75 percent and 85 percent respectively and literacy rates in middle-income countries were 86.6 percent and 95.4 percent. In other words, China's literacy rates for adults and for youths were respectively 11 and 13 percentage points higher than the average levels of developing countries and stayed at more or less the same levels as middle-income

countries. China's higher education has also seen rapid development in recent years. University enrollment in 2003 was 73 percent higher than in 2000 and 3.1 times that in 1995. The number of tertiary students enrolled was 11.09 million in 2003, 99 percent higher than in 2000 and 281 percent higher than in 1995.[10]

China's rapid economic growth over the past 26 years has been called a miracle, with GDP growing at an annual rate of 9.4 percent. The real annual growth rate of urban per capita disposable income reached 6.8 percent, while the real annual growth rate of rural per capita net income was slightly higher, at 7.1 percent. In the meantime, per capita housing space for both urban and rural residents rose respectively from 6.7 square meters and 8.1 square meters to 23.7 square meters and 27.2 square meters during the 1978-2003 period.[11] During the same period, the rural population in absolute poverty dropped from 250 million to 26.1 million, and the incidence of absolute poverty plunged from 31 percent to just 2.8 percent.[12]

Unevenness in China's human development

Despite these achievements, China's progress in human development has been uneven, as evidenced by disparities between urban and rural areas, among regions, between the sexes, and between different population groups.

Rural-urban disparity

Significant disparities in human development exist between urban and rural areas , as noted in the HDI (see Annex 2). For the first time ever, this year's Human Development Report calculates a separate HDI for urban and rural areas. Urban areas showed an HDI of 0.816; rural areas, only 0.685.

The disparity between urban and rural areas is based largely on uneven levels of economic development. Although population flows have made it impossible to calculate the GDP or per capita GDP

indicators for urban and rural areas, related indicators show an exceptionally large disparity. Urban per capita disposable income in 2003 was 3.23 times that of rural per capita net income, while urban per capita consumption was 3.6 times rural per capita consumption.[13]

As indicated in Chapter III of this report, large disparities in life expectancy and health also exist between urban and rural areas. The average life expectancy calculated on the basis of the 2000 national census was 75.2 years for urban residents and 69.6 years for rural residents, a difference of almost six years. Disparities in urban-rural life expectancy exist in every province and are greater in less developed ones, particularly in the west. For the 10 developed provinces in the east, the average urban-rural disparity in life expectancy is less than 3.5 years. For the 10 less developed western provinces, the disparity averages 8.2 years (See Figure 1.2). Disparity in life expectancy between provinces is also quite considerable in rural areas. The life expectancy for rural residents is less than 65 years in Tibet, Guizhou, and Yunnan, and more than 74 years in Hainan and Jiangsu.

In the area of education, disparities are also quite evident between urban and rural areas, among regions, and between genders. As indicated by 2000 national census data, 2.5 percent of the urban population aged 15 to 64 never received any education, while the figure for rural areas was 8.7 percent. Fourteen percent of urban populations had received primary education while in rural areas, the figure was 39 percent.

Figure 1.2 Urban & Rural Life Expectancy by Province in 2000 (years)
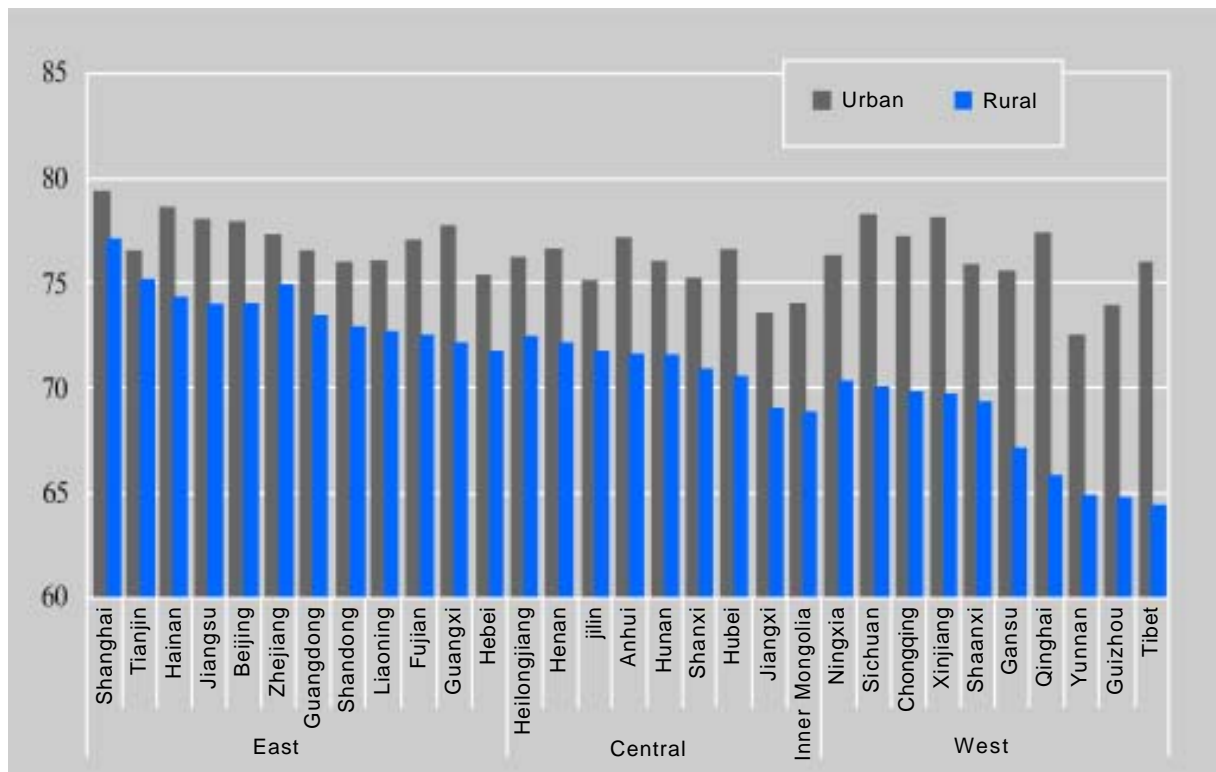
Source: Calculation of the authors.

Figure 1.3 Male & Female Illiteracy Rates by Province in 2003 (15 years & over)
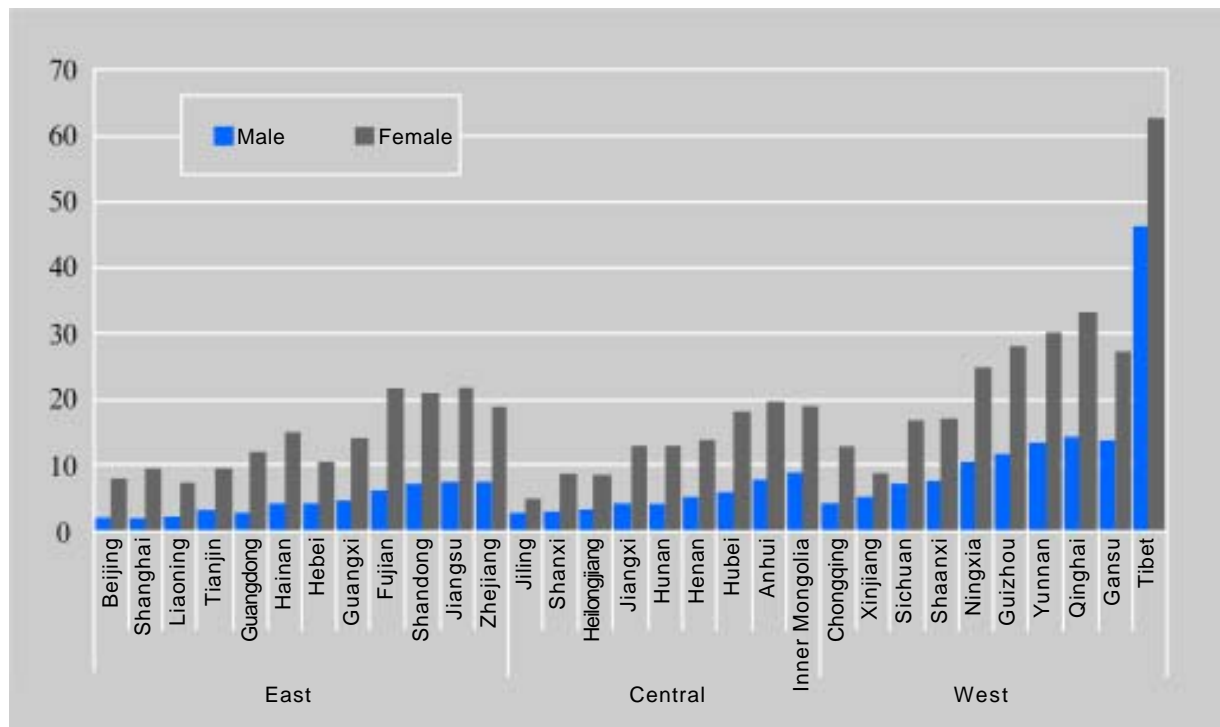
Source: National Bureau of Statistics, 2003.

The urban-rural disparity in the level of human development failed to narrow between 1990 and 2002, and even gradually widened after 1997 (See Figure 1.4). This trend was to a large extent caused by the widening income inequality between urban and rural areas.[14]

Due to the slow development of healthcare in rural areas, improvement in rural life expectancy lags far behind that of the cities. The difference in life expectancy between the urban and rural populations increased from 3.5 years in 1990 to 5.7 years in 2000. But thanks to the progress made in rural compulsory education, rural-urban gaps have narrowed in adult literacy and the enrolment rate for primary and secondary schools. The difference in junior high and middle school enrolment between urban and rural areas narrowed from 35.6 percentage points in 1990 to 18.1 percentage points in 2002.

Inter-regional disparities

Inter-regional disparities in human development should also be noted. These are measured by the HDI according to province in 2003 (see Figure 1.5). Except for Shanghai, Beijing, and Tianjin, provinces with a high level of human development were mainly concentrated in the coastal region, while those with the lowest human development level were mostly in the west. Levels of human development also vary greatly within certain provinces and autonomous regions.

Disparities are reflected in inter-regional variations in per capita GDP. Even if province-level municipalities are excluded, per capita GDP in Zhejiang Province (the highest in China) is 5.6 times that of Guizhou Province (the lowest). Inter-provincial disparities in life expectancy are also quite marked. The life expectancy for rural residents is less than 65 years in Tibet, Guizhou, and Yunnan, and more than 74 years

Figure 1.4 Changes in National, Urban & Rural HDIs, 1990-2002
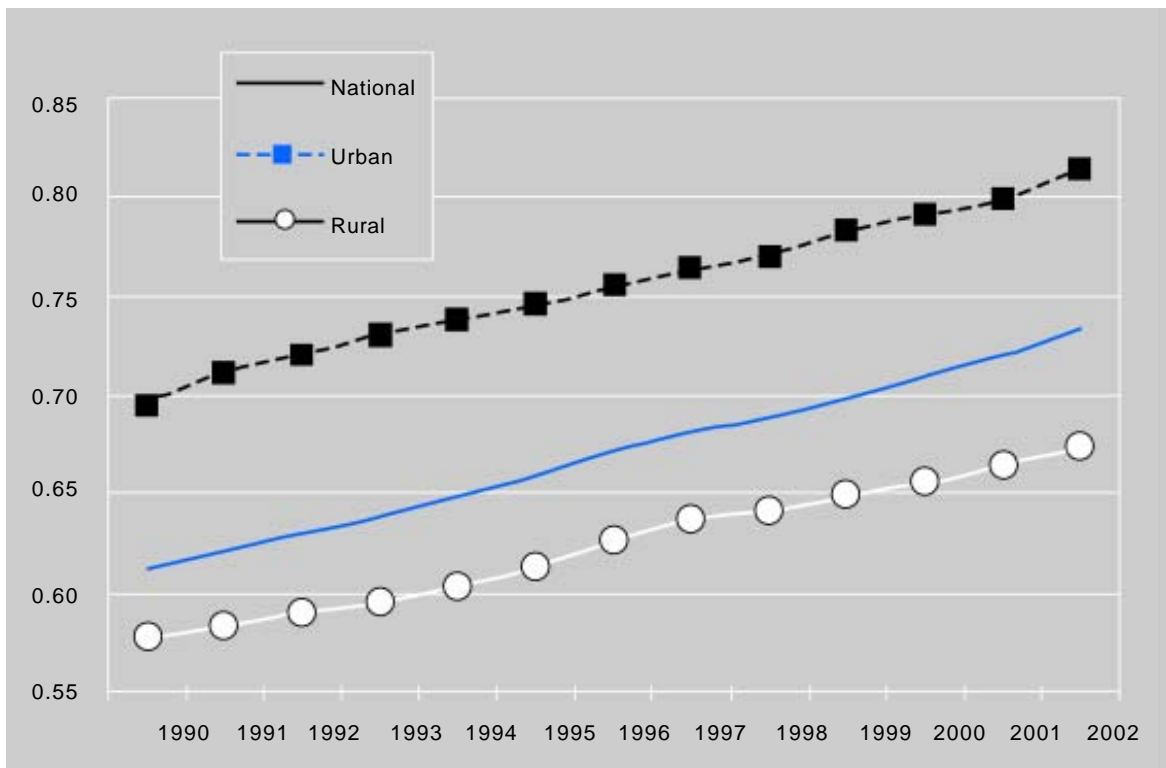
Source: Based on data provided by Song and Ma (2004).

in Hainan and Jiangsu. Nationwide, the rate of illiteracy for people aged 15 and above was 11 percent. Disaggregated, the rate stood at 6.1 percent for males and 15.9 percent for females, with female illiteracy 2.6 times greater than male illiteracy. Between provinces, there were large disparities in the rates of illiteracy for people aged 15 and above (See Figure 1.3). The male illiteracy rate was less than 3 percent for five provinces, 4 percent for eight provinces, and more than 10 percent for six provinces (the latter all in western China). With regard to the female illiteracy rate, the inter-provincial disparities were even more substantial. The rate was less than 10 percent for eight provinces, and more than 20 percent for eight provinces. In five provinces, female illiteracy stood at more than 25 percent, 10 percentage points higher than the national average. The gender disparity in the

illiteracy rate was even more noticeable in underdeveloped provinces. For example, the gender disparity was 18.7 percentage points for Qinghai Province, 17.8 percentage points for the Tibetan Autonomous Region, 16 percentage points for Yunnan Province, and 15.8 percentage points for Guizhou Province.

Yet, over the past 10 years, implementation of regional development strategies and increased input into nine-year compulsory education has narrowed inter-regional gaps in educational levels and life expectancy. For instance, Tibet's human development index was equivalent to 57 percent of Shanghai's in 1990 but rose to 70 percent in 2003. Its education index was about 69 percent of Shanghai's in 1990 but rose to 76 percent in 2003.[15]

Figure 1.5 Human Development Index by Province in 2003
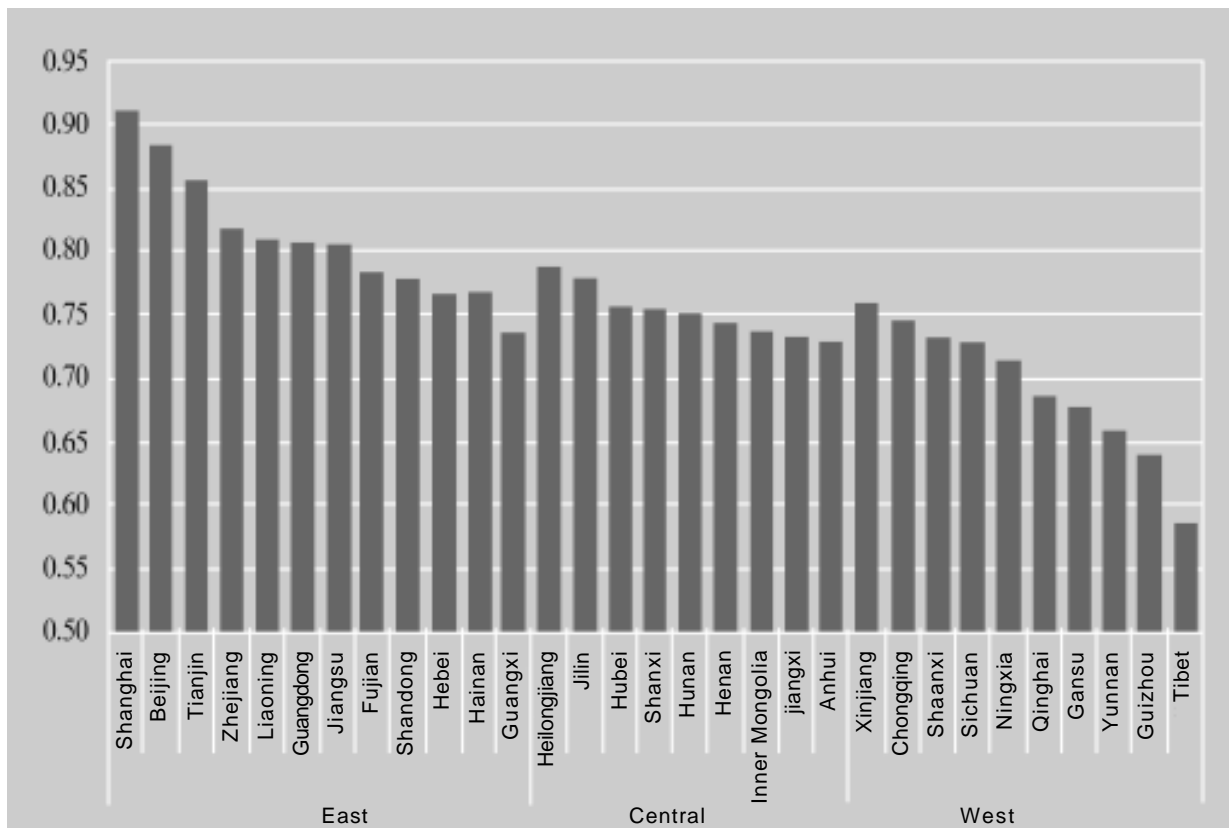
Source: Calculation of the authors.

Disparities and inequity

Since 1997, widening human development gaps between urban and rural China have largely been caused by growing income inequality.

There are diverse reasons for this trend. During the time of the planned economy, China had adopted an egalitarianism that suppressed income inequality and wage differences. The system did not necessarily reward hard work and led to neither efficiency nor equity. In the transition to a market economy, widening income inequality was to a certain degree in line with the process of economic growth and economic reforms.

Since the beginning of reform and opening-up, the most striking change in income distribution has been the growing influence of human capital. This means the returns to education have risen[16], leading to a gradually widening income gap between well edu-

cated people and poorly educated people. In the centrally planned economy, less educated people such as manual laborers actually earned more than intellectuals. Such a reward system was criticized as inequitable, however, and nowadays it is more generally accepted that highly educated people receive higher pay. Another example is the widening intra-rural income disparity arising from the development of non-farm occupations in rural areas. Non-farm occupations in township and village enterprises spurred rapid development in some regions, dramatically raising farmers' income levels and living standards. But these new opportunities led to widening income gaps among rural areas and households, exacerbating inequality in income distribution. Still, such inequality may not violate the principle of equity, as it is based on equality of opportunity.

Compared with the early days of reform, China's inequality in income distribution has increased sharply. This phenomenon has been noted both in urban and rural areas, between cities, between regions, and between population groups, and is leading to a widening gap in wealth distribution between the rich and the poor.

World Bank experts estimate that China's national Gini coefficient for income distribution rose from 0.30 in 1982 to 0.45 in 2002 if living costs are not adjusted (see Figure 1.6). These figures were similar to calculations by the Income Inequality Project conducted by the Economic Research Institute of the Chinese Academy of Social Sciences.[17] If the migrant population in urban areas is included, the national Gini coefficient for income distribution in 2002 was 0.46.

According to the latest data from UNDP, of the 131 countries for which data are available, China ranks 90th in terms of the Gini coefficient for income distribution. Only 31 countries manifest higher income inequality than China (See Figure 1.7).

A quantitative measurement of inequalities would be better understood if people's subjective perceptions of inequality were examined. While most people's personal judgments about social equity may not be based on objective facts, these judgments can influence people's behavior. Once judgments are formed, they become the reality with which the government must reckon. These subjective judgments depend to a large extent on historical tradition and ideological views, which can affect the level of tolerance of inequality. For example, some studies indicate that the tolerance of inequality among the American public is far higher than in European countries.[18]

Figure 1.6 Gini Coefficient for China's Income Distribution
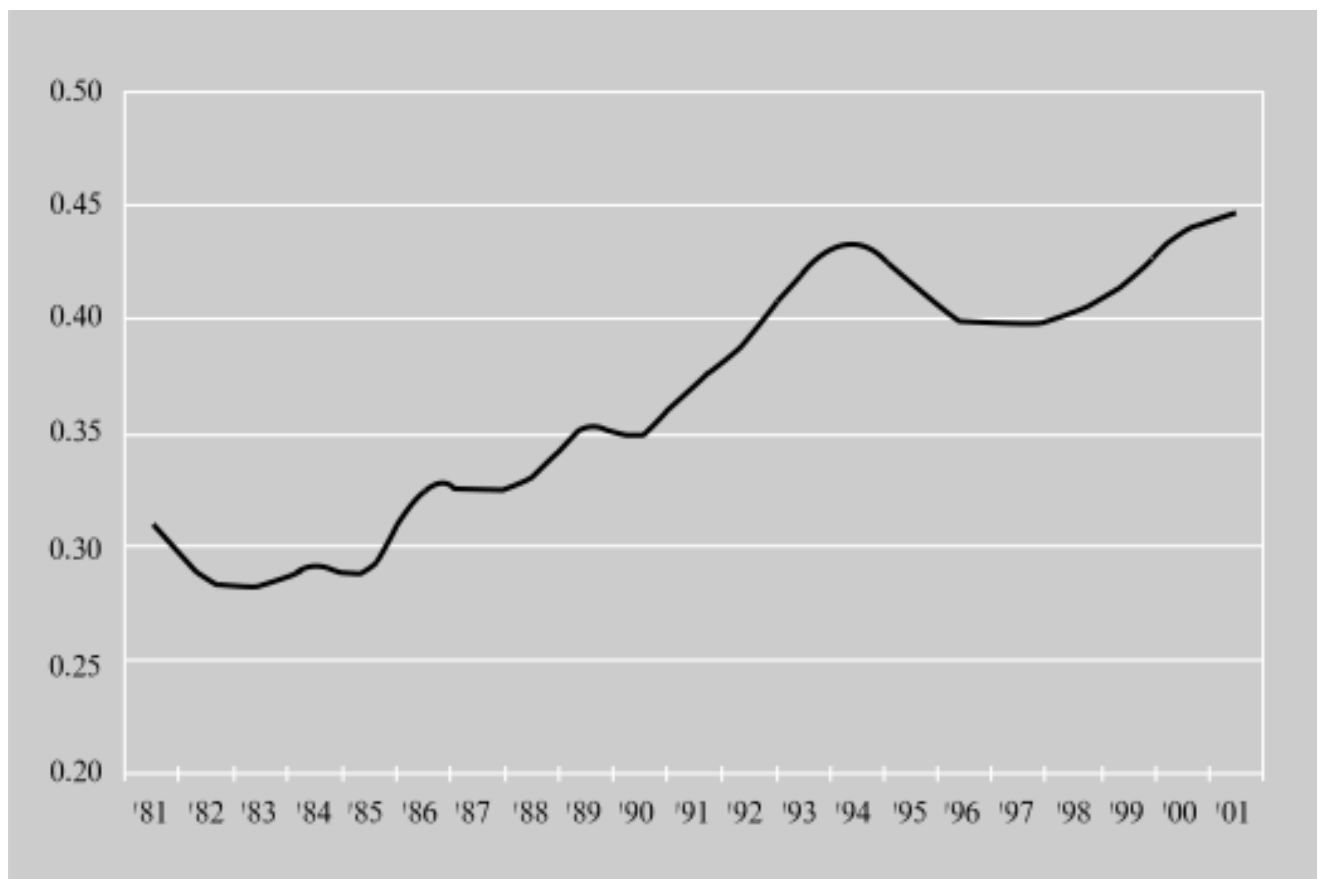
Source: Ravallion and Chen, 2004.

Figure 1.7 Comparison of the Gini Coefficients of Various Countries in 2000
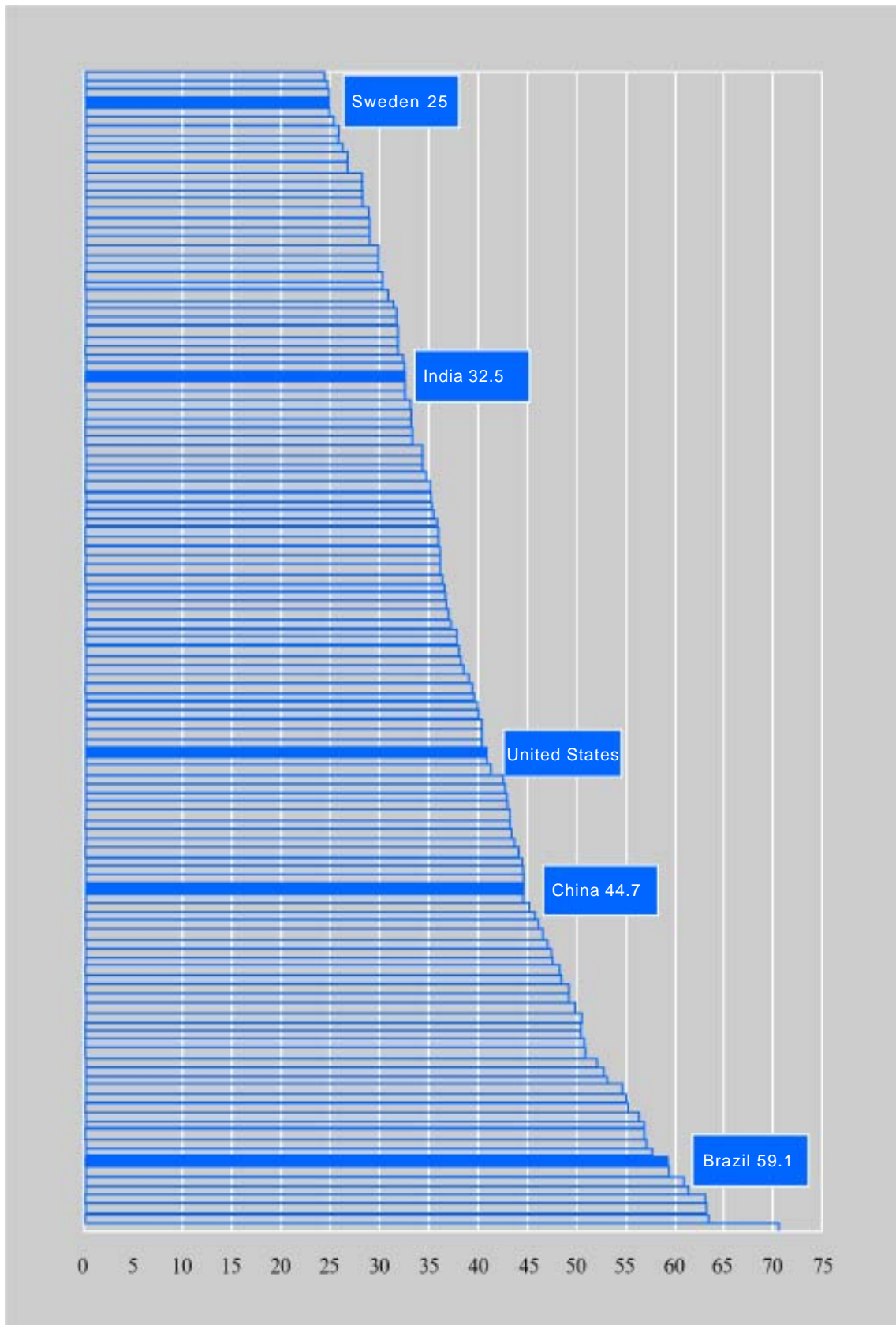
Source: UNDP, 2004: Table 14.

Concept and theory of equity

Distinguishing between equity and equality

Discussions around equity often involve three concepts: equality, equity, and justice. The lack of precise Chinese translations for these terms has caused confusion and misunderstanding. Equality is a positive concept that describes a distribution or a state of distribution. It only answers whether distribution among different people is different, but does not answer whether this distribution is "good" or "bad" or judge whether it is "reasonable" or "unreasonable." Equality can be measured. For example, the Gini coefficient[19], the coefficient of variation[20] and the Theil Index[21] are used to measure equality in income distribution. Nonetheless, an index of equality alone cannot be used to judge whether a distribution is reasonable or unreasonable. In other words, when a country's Gini coefficient for income distribution is higher than that of another, one cannot come to the conclusion that the former distribution is fairer without more information.

When discussing equity, we must first understand the concept of justice. Justice is a value and a norm for making judgment calls on social practices and human relations. As a concept, it involves "fairness" and "goodness" and is highly normative. Social justice is a moral pillar indispensable for any society, a basis for members of a society to reach consensus and cooperate, and a basis for resolving conflicts. But this does not mean all countries in the world share an identical principle of justice. The formation of a country's principle of social justice is a long process, subject to the influence of its history, traditions, culture, and religions. Even within a country, the principle may vary between ethnic groups due to their cultural differences. These differences enrich the diversity of the notion of social justice.

Equity is similarly a value judgment made on distributive mechanisms and outcomes using the principle of justice. Thus, "equitable income distribution" usually refers to an income distribution that conforms to a commonly accepted principle of justice, while an "inequitable" one refers to the fact that the mechanism or outcome of income distribution has completely or partially violated the principle.

Equality and equity are therefore two inter-related yet different concepts. In terms of income distribution, a completely equalized income distribution does not automatically mean equity and vice versa. For example, the traditional egalitarian distribution under the planned economy system was not only harmful to economic efficiency but also regarded as inequitable and hence rejected by most people. Conversely, an equitable income distribution is not necessarily an egalitarian distribution. In practice, people have different abilities that lead to different remuneration for their work in the labor market. The resulting income inequality between individuals could be accepted as being equitable by the public. As the results from a 2001 sample survey showed, even in post-reform China where income inequality was widening, most people accepted a certain degree of income inequality, a recognition that did not vary much between different occupational groups (see Figure 1.8).

Figure 1.8 Urban Residents' Recognition of Income Inequality: Should There Be Income Inequality? (Result of 2001 Sample Survey)
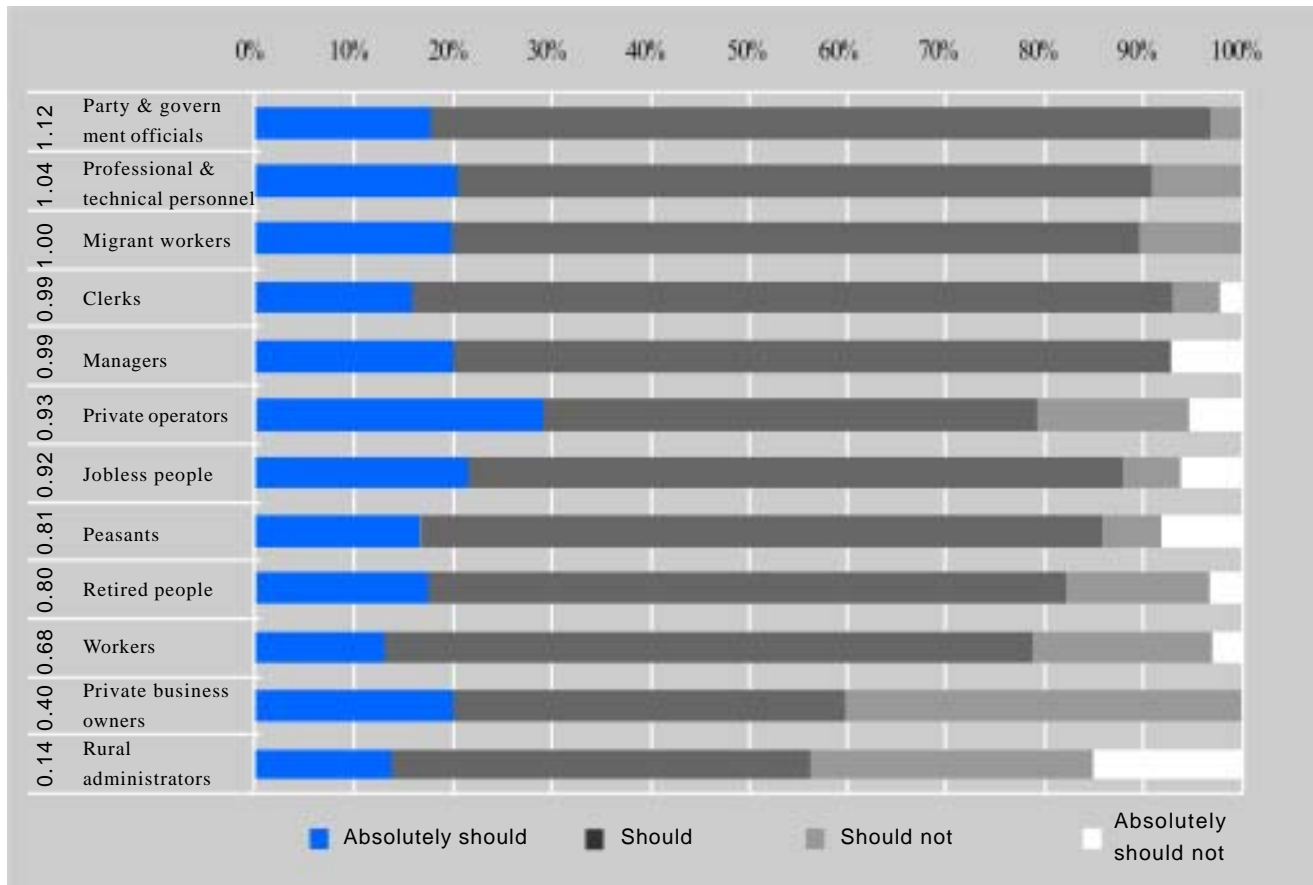
Note: The figures on the left represent the degree of recognition, and the weighing value is +2 for "absolutely should", +1 for "should",-1 for"should not",and -2 for "absolutely should not".
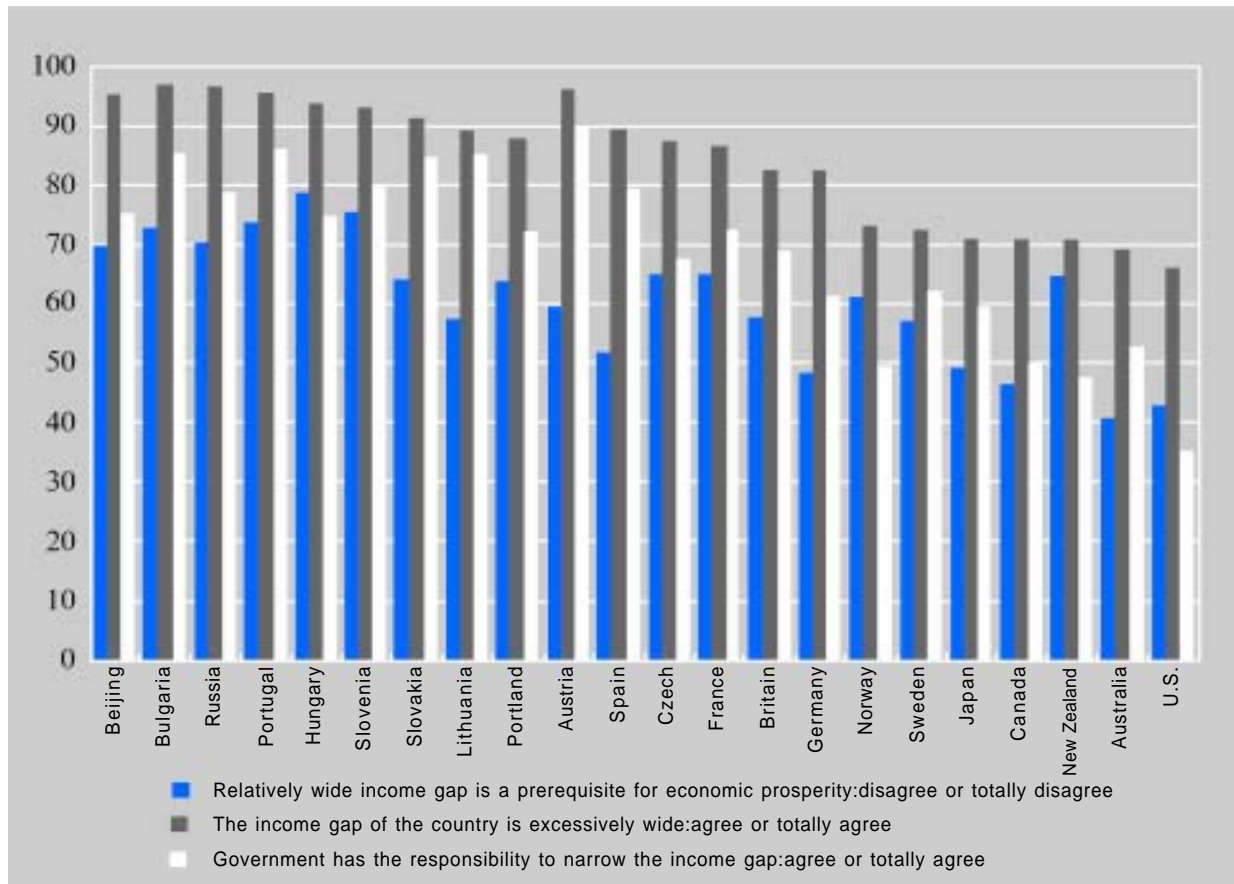Source: The figure is made by the authors, using data in Tang (2003).

China's reform has not only changed the economic system but also altered the public's ideological view and the concept of equity. Today, increasing numbers of people recognize the role of personal abilities, acquired or natural, in the determination of income and wealth. They also show greater tolerance for outcome inequality arising from equal opportunities. To some extent, equality in opportunities reflects both the principle of equity and that of efficiency.[22]

How much do ordinary Chinese tolerate inequalities and what is their subjective judgment on China's inequalities compared with that of their foreign counterparts? Figure 1.9 makes an international comparison; the data for China came from a survey con-ducted in Beijing.[23]

Apparently, people in China and the former social-ist countries have a lower tolerance for inequality. In these countries, more than 90 percent of people believed income inequality was too great; about 80 percent saw their governments as having the responsibility to reduce income inequality. Both ratios are higher than in Euro-pean and American countries. These attitudes are inher-ited from the culture and ideology left over from decades of socialism. China's Gini coefficient for income distribution, for example, is very close to that of the United States, but only 65 percent of Americans judge their income inequality as too great while in China the level is as high as 95 percent. Compared with the

Figure 1.9 Public Opinions on Inequalities in Various Countries in 2002

- ■ (blue) Relatively wide income gap is a prerequisite for economic prosperity:disagree or totally disagree
- ■ (grey) The income gap of the country is excessively wide:agree or totally agree
- □ (white) Government has the responsibility to narrow the income gap:agree or totally agree

Source: Whyte and Han, 2003; Redmond, Schnepf and Suhrcke, 2002.

former socialist countries, Chinese public expecta-
tions of the government are lower in this regard, with
only about 75 percent expecting the government to
take actions to narrow the income gap. Still, this num-
ber is higher than that in European and American
countries in general and in the United States in
particular.

How do the Chinese people judge the income
inequality in today's China? The urban household
survey conducted in 2002 by the Institute of
Economics, Chinese Academy of Social Sciences pro-
vided the relevant information. Based on the com-
ments of 7,000 urban households in 12 provinces cov-
ered by the household survey, less than 1 percent
believed income distribution was "very equitable" and
11 percent judged it as "fairly equitable." That means

more than 80 percent of those surveyed gave a nega-
tive value, judging income distribution inequitable.
In particular, 48 percent of respondents believed in-
come distribution was "not so equitable," and 34 per-
cent judged it as "very inequitable." The survey con-
clusions did not vary much between regions or in-
come groups. Figure 1.10 indicates that in each of the
12 provinces surveyed, those regarding income dis-
tribution as "not so equitable" exceeded 40 percent
and those regarding it as "very inequitable" exceeded
25 percent.

Figure 1.10 Public Opinions in Different Provinces on National Income Distribution
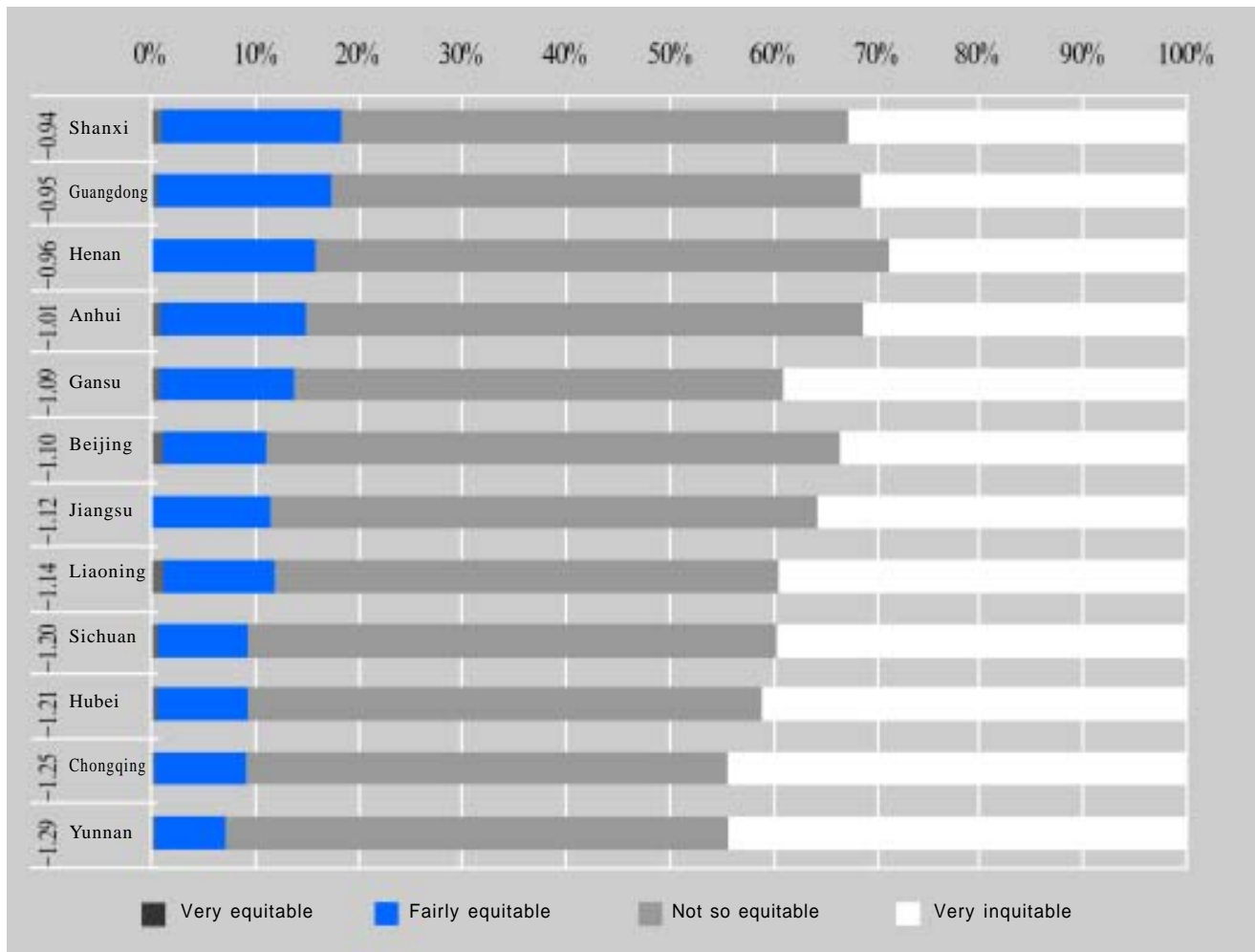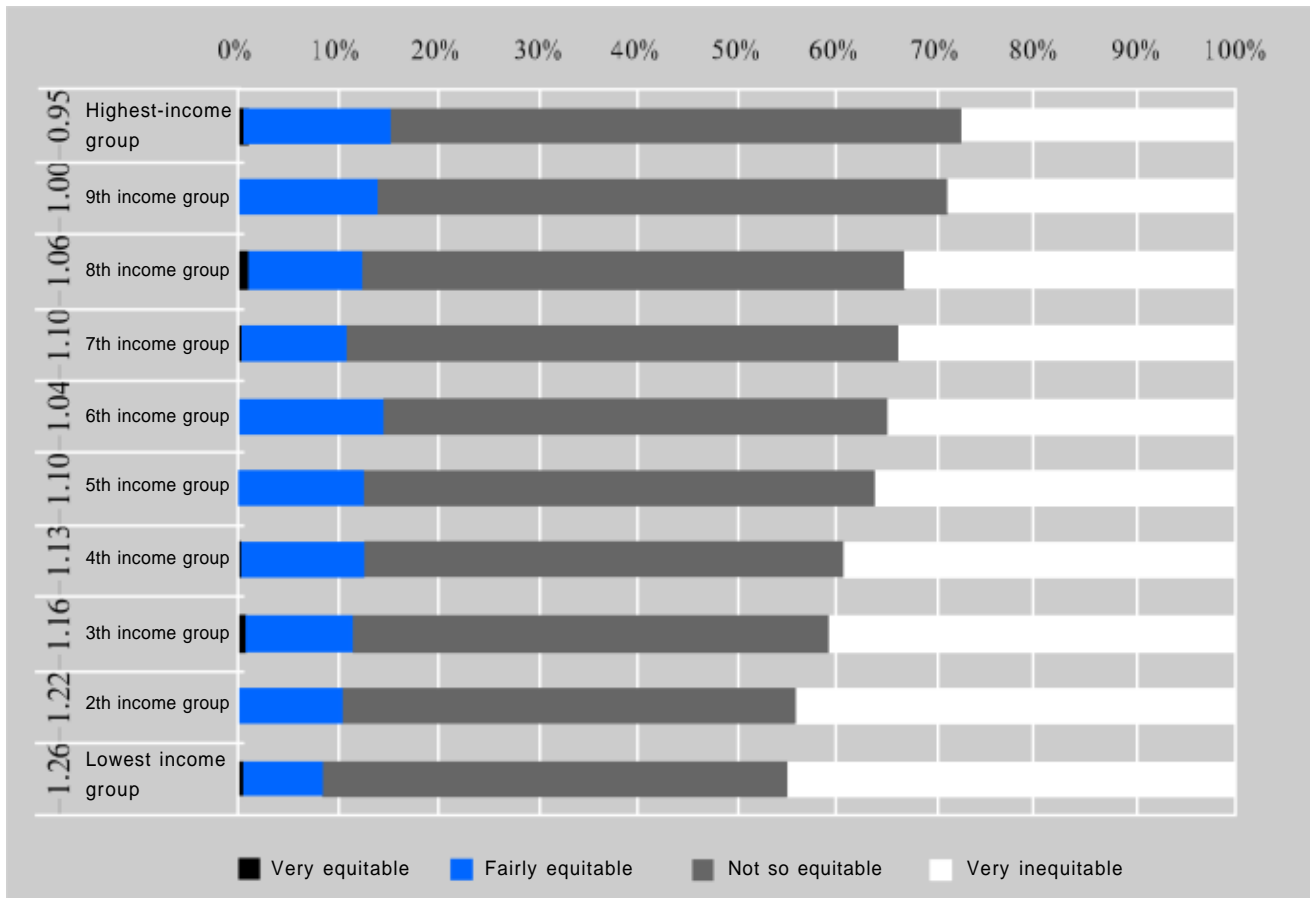

Note: The numbers on the left represent the degree of subjective equity, and the weighing value is +2 for very equitable, +1 for equitable, -1 for not so equitable, and -2 for very inequitable.
Source: The figure is made by the authors, using data from the urban household survey conducted in 2002 by the Economic Research Institute, Chinese Academy of Social Sciences.

According to general opinion, when income inequality is widening, the high-income group is always the beneficiary and the low-income group the victim or non-beneficiary. This could explain the difference in judgment between the two groups, with the former valuing inequality as more "positive" and the latter as more "negative." However, the 2002 survey data was unable to provide empirical support for this hypothesis. In Figure 1.11, households are divided into 10 groups (deciles) in terms of their income levels. Those believing income distribution "very equitable" account for only a small proportion of both the highest-income group and the lowest-income group. The proportion of those believing income distribution is "fairly equitable" is also small, below 14 percent for each group. This means all the income groups include a large number of respondents who are not in favor of the present income distribution. More than 80 percent of all income groups believe income distribution is "not so equitable" or "very inequitable."

Figure 1.11 Opinions of Different Income Groups on National Income Inequality

Note: The numbers on the left represent the degree of subjective equality, and the weighing value is +2 for very equitable, +1 for equitable, -1 for not so equitable, and -2 for very inequitable.
Source: The figure is made by the authors, using data of the urban household survey conducted in 2002 by the Economic Research Institute, Chinese Academy of Social Sciences.

Rising income inequality is a problem in China. A survey of Beijing residents in December 2002 by the Beijing Social Psychological Research Institute indicated 80 percent of respondents believed widening income inequality was a major social problem.[24] In response, to the question "What was the most serious social problem this year?", the top four answers were "excessive income inequality" (19.3%), "unemployment" (15.4%), "fake and inferior products" (13.2%), and "public order" (11.6%). When respondents were asked "Which social problem concerns you most?" the top three answers were "corruption" (18.2%), "excessive income inequality" (16.1%), and "unemployment" (14.7%). These factors are interrelated: High income inequality leads to a sense of

social inequity, which unemployment and corruption aggravate. All these are major factors in the deterioration of social stability.

The concept of equity that China needs

China is both a developing country in economic and social transition and one with a long cultural tradition. This means China's concept of social equity is undergoing profound changes. A number of scholars have in recent years explored the specific notion of equity that China needs today.[25]

China is engaged in achieving the development goals of what is called a "Xiao Kang" society[26]. A

Xiao Kang society involves the principles of comprehensive political, economic, and social development, as well as balanced development between urban and rural areas, between regions, between ethnic groups, and between people and nature. In short, it means building a harmonious society through equal development and common prosperity of all members of society.[27] Given that such a goal cannot be divorced from the social values universally accepted by all members of society, the academic community has identified this concept precisely as the notion of social equity that China needs today.[28] A Chinese concept of social equity should be comprehensive, and based not only on income and wealth distribution but also on social security and the basic rights of individuals. This concept should be relevant to the current stage of China's development, instead of being an unrealistic utopia.

China's concept of social equity may need to address two dimensions. First is equality in the basic rights of individuals and equal opportunities for all people. These basic rights, as identified in the Constitution of the People's Republic of China, include political rights such as the right to participate in public affairs, the right to vote and be elected, freedom of speech, and freedom of belief. To realize and guarantee the basic rights of individuals, equality in opportunities is also indispensable. This means each individual should have the same opportunity to participate in all social and economic activities and public affairs.

Second, the ultimate goal of social development is the enhancement of people's capabilities and substantial freedoms.[29] It is essential to ensure basic income to free people from poverty and hunger, access to medical services to guard people from illness and ensure a long and healthy life, and access to education to guarantee that people's aspirations are realized. Therefore, achieving equity by ensuring the basic capabilities of people should become another dimension of China's concept of social equity. Specifically, each citizen should be entitled to basic income security, basic healthcare, and compulsory education, no matter whether he/she is employed or jobless, physically healthy or disabled, old or young, a formal worker or a migrant worker, a worker of a rural enterprise or a farmer, a regular worker of a state-owned enterprise or a temporary worker of a private enterprise. Access to a decent life, essential healthcare, and compulsory education should therefore not be related to personal income. At the same time, however, providing for these basic securities should be socially affordable, and should not contradict long-term goals of social and economic development.

Chapter II

The State of Equity in China: Income and Wealth Distribution

The reason why people are restless is because among them there are the rich and the poor. When the poor people are so poor as to be unable to sustain life while the rich people, often complaining about being sought after, come up with mean measures to avoid giving them aid, the poor set their minds on scrambling for wealth.

——Quoted from *Ri Zhi Lu (Records of Things Knowledgeable in a Day),* Volume 6. by Gu Yanwu (1613-1682), the Ming Dynasty

The framework for analysis

To analyze the particularities of Chinese society today, this report proposes an analytical framework to answer two questions: who is the subject of equality, and what is the object of equality? (see Table 2.1). The subject of equality can be divided into three major classifications: urban and rural residents, residents in different regions, and different population groups. The population groups include males vs. females, rural mi-grants vs. local urban residents, and vulnerable groups vs. ordinary groups. The object of equality comprises the following major variables: income, wealth, job oppor-tunity and wage, education, health, social security, and government fiscal spending. The subject and the object of equality together constitute a matrix, which clearly indicates the dimensions of the inequality highlighted by this report.

Table 2.1 The Analytical Framework for Inequality	(1) Between urban & rural areas	(2) Between regions	(3) Between population groups			
			(3a) Between rural migrant people & urban residents	(3b) Between genders	(3c) Vulnerable groups	(3d) Others
Distribution outcome						
1. Income distribution	△	△	△		△	△
2. Wealth distribution	△	△			△	△
Opportunities and Capabilities						
3. Job opportunities & remuneration		△	△	△	△	△
4. Educational attainment & public education resources	△	△	△	△	△	△
5. Physical health & public medical care	△	△		△	△	△
Rights and others						
6. Social security	△	△	△	△	△	△
7. Taxation system & fiscal revenue and expenditure system	△	△		△	△	△

The report analyzes three dimensions of current inequality and inequity. The first is inequality of distributional outcome, which includes a description and analysis of inequality in income and wealth distribution. The second dimension is inequality in the capabilities of different population groups. Here we shall discuss inequality problems in the labor market, including restrictions on labor flow, lack of equal right to employment, and loss of the right to "equal pay for equal work." We will also concentrate on two related inequalities, namely inequalities in compulsory education and in basic medical care, for these two areas constitute the basic prerequisite to ensure the basic capabilities of people in a modern society. To a certain degree, these deficits are often related to inequality in distribution outcome. The third dimen-

sion is inequality in the right to social security and inequity in the underlying fiscal system, such as inequity in paying taxes and benefiting from fiscal expenditure, and the situation of the vulnerable groups whose right to survival is not properly ensured.

As an exploration of these inequalities requires considerable in-depth analysis, we shall discuss them in three chapters. This chapter is primarily devoted to the description and analysis of the inequality in distribution outcome in China, while Chapter III and Chapter IV will concentrate on inequality in other aspects.

Inequality in income distribution

Since China's reform and opening-up, its

economy has witnessed rapid growth together with a substantial increase in household income. Sustained rapid economic growth has led to an increasingly larger "pie" for distribution, while economic reform has also brought about changes to the distribution mechanism. As a result, remarkable changes have occurred in the distribution pattern and income inequality among the Chinese citizens. This chapter analyzes the characteristics of income inequality between urban and rural areas, within rural and urban areas, and across the entire country.

Income inequality under traditional system

Before reforms began, China had a planned economy where the means of production and some means of livelihood were nationalized. Urban factories, shops, and other means of production as well as residential housing were basically state-owned or collectively owned. In rural areas, land and all other means of production were owned by people's communes and the production teams under them. In cities, people received low wages and enjoyed rudimentary yet universal welfare including basic healthcare and compulsory education. In the countryside, the state monopolized the purchase and sale of grain, cotton, and other key agricultural products with implementation of an even income distribution system among members of production teams or communes.

Egalitarianism was not only the dominant ideology, but also a goal that the government pursued actively. To minimize income inequality, government adopted policies on income distribution and redistribution that carried distinctive planning and administrative features. In the urban economy, workers' wages were centrally planned and administered, with the central government setting unified wage standards and scales. As the concept of egalitarianism gained increasing popularity, differences between high and low wage scales diminished.

As a result, income inequality in urban areas was very low. According to estimates by the National Bureau of Statistics, the Gini coefficient for income inequality among urban residents at the end of the 1970s was about 0.16.[30] The income-setting mechanism in rural areas, however, was different from that in urban areas. The people's commune system and the related distribution system could only guarantee a limited equality in income distribution within villages and communes. Income distribution mechanisms for residents between localities were simply nonexistent. Consequently, there were relatively large income gaps between villages, between townships, between counties, or between provinces. Compared with urban areas, income inequality in rural areas was far greater in the planned economy.[31] To pursue industrialization, the government invested substantial funds in urban industries and regarded rural areas as a base for the supply of grain. To accumulate more funds for industrialization, authorities deliberately suppressed the price of grain and other farm products, aggravating the urban-rural income gap. In 1978, urban per capita income was 2.6 times rural per capita income.[32]

At the time, China's overall level of economic and social development was low: Approximately 250 million rural people lived below the poverty line. While egalitarianism figured prominently in income distribution in cities, it did not apply nationwide. There was considerable income inequality within rural areas and a clear income gap between urban and rural areas.[33] This meant China's reform and transition did not begin from an egalitarian pattern of distribution and that today's widening income inequality is more or less tied to past income inequality.

Between 1979 and the early 1990s, China carried out a series of economic reforms. The "production responsibility system" linking remuneration with output was introduced for agricultural production. A "dual-track" pricing system was adopted for industrial and agricultural products. The government followed a policy of "profit-sharing and decentralization"

by allowing local governments and state-owned enterprises to retain part of their revenue/profits. Meanwhile, the central government opened the country wider to the rest of the world by designating Shenzhen and three other cities Special Economic Zones. Over time the opening-up policy was extended to all coastal regions, which consequently saw rapid economic growth and a widening development gap with interior regions. In the early days of the economic transition, market forces were immature and resulted in some economic distortion. Some commodities and services were in short supply and the "dual-track" pricing system induced rent-seeking activities. Various flaws in the tax system allowed some people to become wealthy by exploiting them. Farmers and private firms who took the lead in assuming market risks also saw their income rise significantly. Moreover, as the "revenue-sharing" scheme and contract system were phased in, there were continuous drops in the share of government revenue in the national income and in the percentage of fiscal revenue going to the central government. These moves compromised the government's ability to reduce income disparities and enforce social policies.

During the early years of reform, although an uneven strategy of regional development was pursued, economic reforms and growth affected most people's lives. Although gains varied from person to person and income gaps widened within rural areas, within urban areas and nationwide, the level of inequality was acceptable to most people.[34]

Starting from the mid-1990s, urban China saw deeper economic reforms and the effects of market forces were felt more broadly. The state sector witnessed steady drops as a percentage of the overall economy, while the non-state sector experienced dramatic growth. Prices of most products, including grain and coal, were determined by the market as the "dual track" system was dismantled. In 1994, reforms were undertaken in the fiscal system, introducing a "tax-sharing" scheme between the central and local

governments. From the mid-1990s, the government reformed the state sector by privatizing small and medium-sized state-owned enterprises. Owing to competitive pressures, state-owned enterprises across the board resorted to cutting payrolls to improve efficiency. As a result, hundreds of thousands of workers were laid off. Due to lagging reform of the social security system, urban poverty loomed large. On one hand, there was a booming economy in urban areas and more opportunity to earn high income. This was especially true for elite groups who profited from their political and economic power, and for a small number of people who took advantage of loopholes in the system. On the other hand, there was a decline in income for the unemployed and laid-off workers.

The same period saw fluctuations in growth in rural incomes. In 1994 and 1995, the government substantially raised the price of agricultural produce, resulting in rapid income growth in rural China. From 1997 onwards, however, a steady decline in grain prices slowed income growth for rural households. The widening urban-rural income gap emerged as the leading factor contributing to China's growing income inequality.

Recent changes in urban-rural income gap

Since the beginning of reform and opening up, there has been rapid growth in the incomes of both urban and rural residents. From 1979 to 2003, both urban and rural per capita income increased more than four-fold. But this income growth for urban and rural residents took place in different periods. As a result, the income gap between urban and rural residents remained volatile on occasion. Figure 2.1 indicates that the growth rate of income of rural households since the 1990s has clearly been lower than that of urban residents, and that the gap in absolute income between the two has been widening year after year. At current prices, urban per capita income was 824 yuan higher than that of rural residents in 1990. It was 1,578 yuan

higher in 1995, 4,027 yuan higher in 2000, and 5,850 yuan higher in 2003. In other words, the difference in the absolute amounts of income between urban and rural residents rose more than six-fold over the past 13 years.

Figure 2.2 shows changes in the income ratio between urban and rural residents. Since the 1990s, the ratio has undergone a widening-narrowing-widening process. If we use it to represent income inequality between urban and rural residents, we can see that inequality widened from 1990 to 1994, with the ratio rising from 2.2-fold to 2.6-fold. After that, inequality narrowed for only three years, with the ratio dropping from 2.6-fold in 1994 to 2.2-fold (the 1990 level) in 1997. But from 1998 on, the ratio rose sharply, from 2.2-fold in 1997 to 2.5-fold in 2000 to 3.23-fold in 2003.

The continuous widening of the urban-rural income gap was also manifested in the concentration of high-income residents in urban areas and destitute people in rural areas. According to data from an income survey conducted in 2002 by the Institute of Economics under the Chinese Academy of Social Sciences,[35] urban and rural residents accounted for 93 percent and 7 percent respectively of the highest decile nationwide and 1.3 percent and 98.7 percent respectively of the lowest decile. This is an exceptionally sharp contrast.[36] There is evidence that this urban-rural divide between the rich and the poor is more striking than in the past.[37]

The widening income gap between urban and rural areas depends to a large extent on the growth of rural household income. This is because the income growth in urban households has always been high,

## Figure 2.1 Trends in per Capita Income Changes of Urban and Rural Residents 1990-2003 (at variable prices)
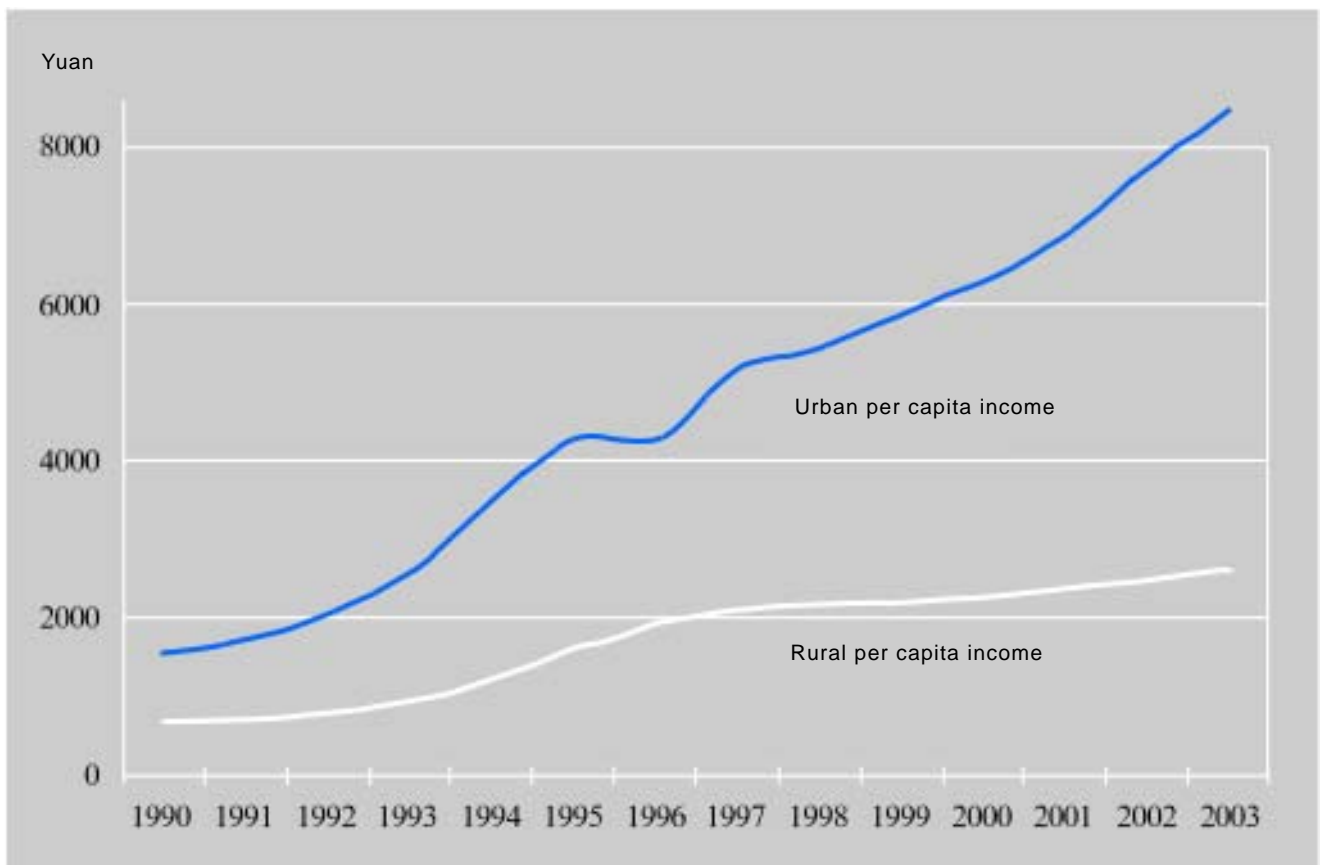
Source: Based on data of National Bureau of Statistics, 2004: 357.

largely in step with the macroeconomic growth rate,[38] while the growth of rural household income basically tracks changes in the price of farm products and changes in the farmers' opportunity to work outside their place of origin. When the price of farm products goes up, rural income increases and the urban-rural income gap becomes smaller. If the prices of farm products remain unchanged or decline, the urban-rural income gap will widen. In addition, if farmers receive less income from farming, they can make up for the loss by taking up non-farm occupations. But if farmers face restrictions on working elsewhere and if alternative occupations are insufficient to cover the decline in the income from farming, rural incomes inevitably drop.

We should note that per capita income of urban residents in 2003 was more than three times that of rural residents, a fairly big gap. But as many scholars point out, this gap is underestimated. This is in part because the income of urban residents defined by China's National Bureau of Statistics (NBS) excludes all types of subsidies in kind enjoyed by urban residents, which are beyond the reach of rural residents. For example, many urban residents are entitled to free medical care, which is denied to rural residents. Urban primary and middle schools may receive large state subsidies, while subsidies to rural schools are minimal and farmers themselves often must raise funds for school operations. Urban workers are entitled to pensions, unemployment insurance, and a minimum living allowance. These are a luxury to rural laborers. Some experts believe that if all these factors were taken into account, the urban-rural in-

Figure 2.2 Changes in China's Urban-Rural Income Inequality, 1990-2003
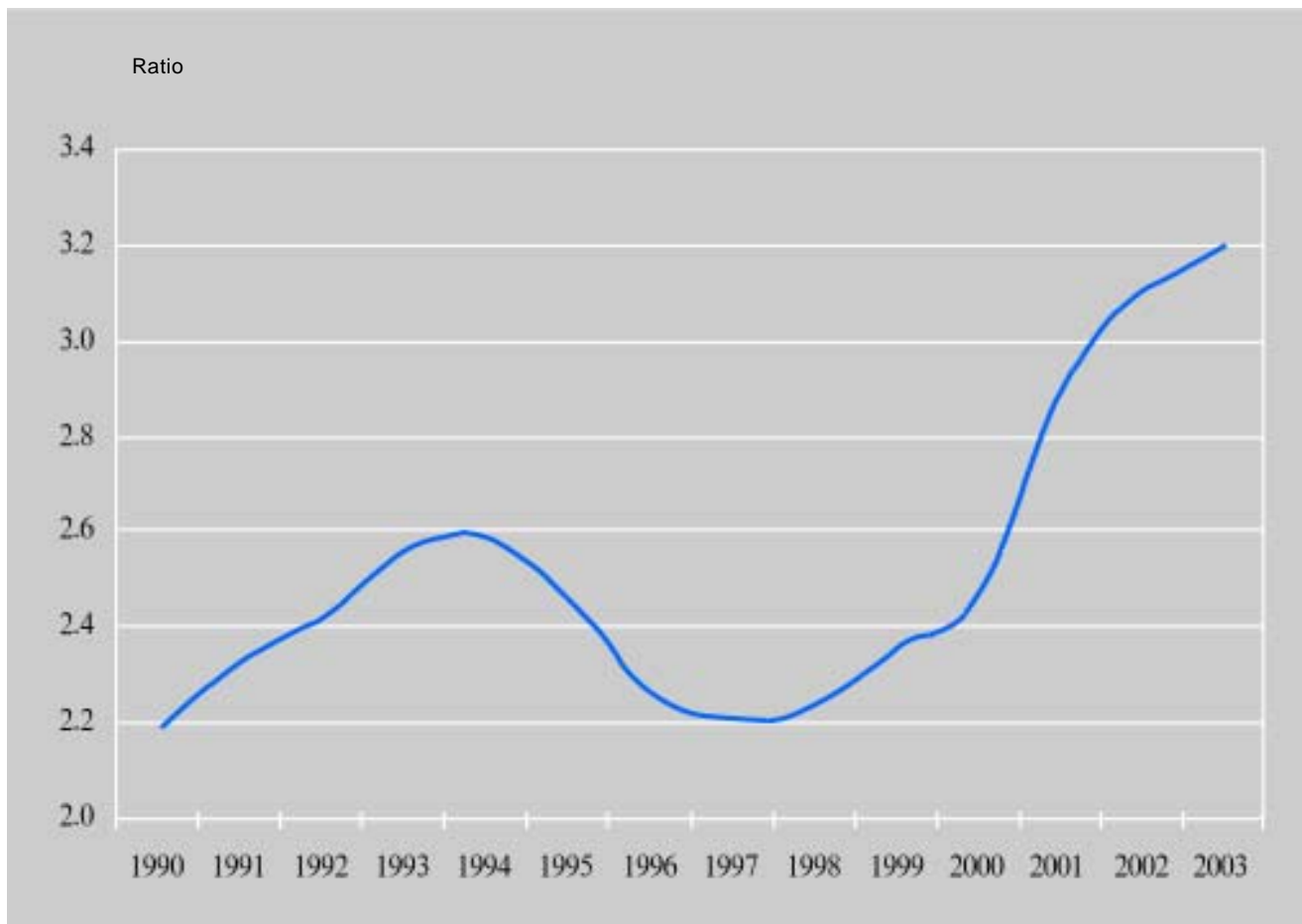
Source: Based on data of National Bureau of Statistics, 2004.

come gap would be much wider. In fact, recent research indicates that if public housing subsidies, private housing imputed rent, pension, free medical care, and educational subsidies were included, the actual per capita income of urban residents in 2002 would increase by 3,600 to 3,900 yuan, bringing the urban-rural income ratio to about four-fold instead of the 3.2-fold acknowledged by official figures.[39]

Thus, China's urban-rural income gap is at a fairly high level and constitutes the most striking feature of China's pattern of income distribution. It is also the most important factor contributing to the continuous widening of income inequality in China overall. China's Gini coefficient is lower than in some Latin American and African countries, but its urban-rural income inequality is perhaps the highest in the world.[40]

Rural income inequality

Since the beginning of the reform era, income inequality among rural residents generally has widened. The rural Gini coefficient dropped 1 percentage point in 1995 over the previous year, and 1 percentage point again in 1997 over 1996. But since 1997, rural income inequality has widened continually, with the Gini coefficient rising from 0.33 in 1997 to 0.37 in 2002. Relevant studies indicate that the Gini coefficient for rural income distribution was 0.22 in 1978, when reforms first began. That means that during the

past 25 years of economic transition and development, rural income inequality has increased by two-thirds.

Based on household survey data collected in 2002 by the Institute of Economics of the Chinese Academy of Social Sciences (CASS), it is possible to calculate the relative income shares of different groups. From Table 2.2 we can see that in 2002, the richest one percent of rural residents earned six percent of the total rural income. The richest five percent earned 18 percent of the total rural income and the richest 10 percent earned 28 percent. On the other hand, the poorest five percent earned only one percent of total rural income, while the poorest 10 percent earned just 2.5 percent. This indicates that the average income of the richest five percent was nearly 18 times that of the poorest five percent, while that of the richest 10 percent was more than 11 times that of the poorest 10 percent.
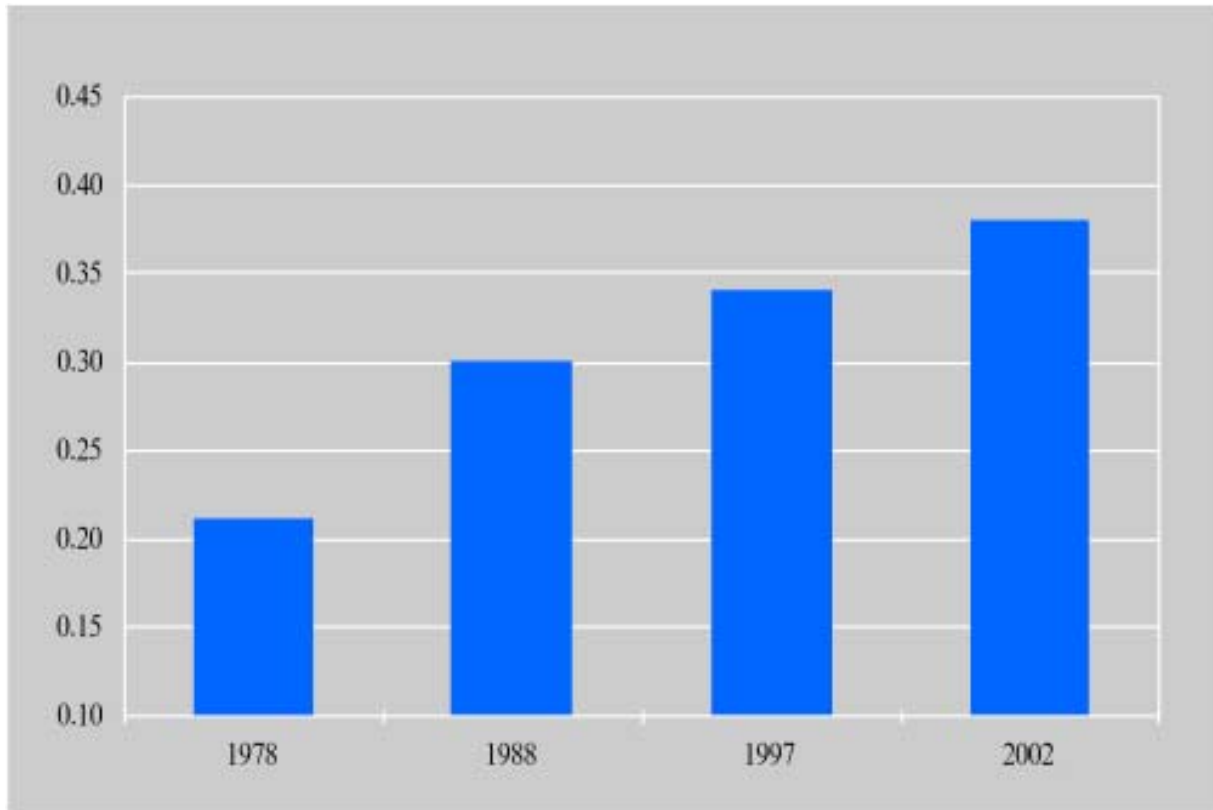
The widening of rural income inequality is also manifested in widening inequalities across regions. The pace of rural income growth in the central region has been slow, resulting in a widening income disparity with the east region. The ratio of rural income between the central and east regions was 1:1.42 in 1997, 1:1.44 in 1998, 1:1.46 in 1999, 1:1.47 in 2000, 1:1.49 in 2001, 1:1.50 in 2002, and 1:1.52 in 2003.

Table 2.2 National, Urban & Rural Income Shares of Different Income Groups in 2002						
	Income share of highest-income group (%)			Income share of lowest-income group (%)		
	National	Urban	Rural	National	Urban	Rural
1%	6.1	4.4	6.0			
5%	19.8	14.8	17.8	0.6	1.2	1.0
10%	31.9	24.4	28.1	1.7	3.0	2.5
25%	57.2	46.1	50.0	6.2	10.3	9.1
50%	81.0	71.8	74.5			

Source: Li and Yue, 2004.

Figure 2.3 Changes in China's Rural Income Inequality (Gini Coefficient)

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS; Calculation of the National Bureau of Statistics.

The widening of rural income inequality is thus mainly due to changes in the share of agriculture and the components of rural income. As more rural laborers move to non-farm sectors—either by finding employment in rural enterprises, starting their own businesses, or migrating to the urban industrial, construction, or service sectors—the proportion of non-farm income in rural income will continue to rise. Because non-farm job opportunities are mainly in wealthier regions such as the coastal areas, households that have certain opportunities and operational capacity will find it easier to benefit. For this reason, the growth of non-farm income will widen rural income inequality at the initial stage of rural industrial development. According to the household survey data collected in 2002 by the Institute of Economics, CASS, the wage income of rural households accounted for 29 percent of their total annual income. As this income dis-tribution was more unequal, its contribution to the total income inequality was as high as 36 percent. By contrast, net farming income accounted for 39 percent of farmers' total income. But as the distribution of farming income was more equal, its contribution to the total income inequality was only 27 percent.[41] Therefore, the widening of rural income inequality is more closely linked to the development of the rural economy.

Urban income inequality

Income inequality in urban China began widening in the mid-1980s, coinciding with the early stage of urban economic reforms. But international comparison indicates that income inequality among China's urban residents was still at a fairly low level.[42]

Widening inequality in urban personal income became dramatic after 1992, when Deng Xiaoping made his famous tour of southern China, spurring another wave of economic reform. Estimates from the Institute of Economics based on a second sample house-

Figure 2.4 Changes in China's Urban Income Inequality (Gini Coefficient)
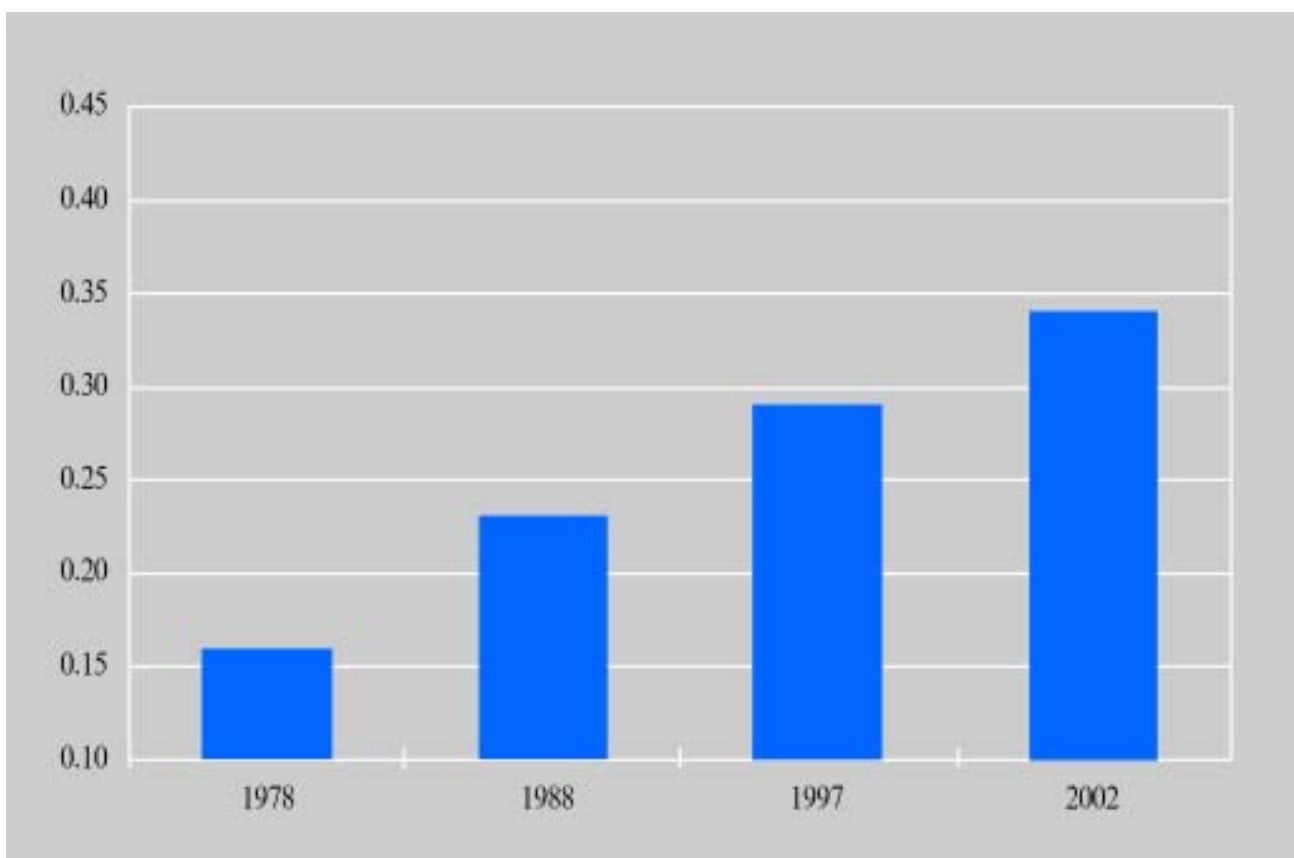
Source: Based on data from household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS; Calculation of the National Bureau of Statistics.

hold survey indicate the Gini coefficient for personal income in 1995 rose to 0.33, 10 percentage points higher than in 1988. This widening trend was also reflected in the estimates made by the National Bureau of Statistics.[43]Table 2.2 indicates that in 2002, the richest one percent of urban residents earned 4.4 percent of total urban income; the richest five percent earned

15 percent, while the richest 10 percent earned 28 percent. By contrast, the poorest five percent earned 1.2 percent of the total, while the poorest 10 percent made less than three percent. This means that the income of the richest five percent of urban residents was nearly 13 times that of the poorest five percent, while the income of the richest 10 percent of residents

was nearly 10 times that of the poorest 10 percent.

Inequality in urban incomes is also reflected regionally, manifested most strikingly in wage disparities among different provinces. As of 2003, the highest average provincial wages was 2.6 times the lowest, and the gap continues to widen.

Many scholars believe actual urban income inequality is even larger than the estimates based on household survey data because when the household surveys were conducted, most high-income households were reluctant to participate. Under-representation of these households in the survey may have led to an underestimation of income inequality. This is not a phenomenon unique to China, but insufficient legal protection of private properly made some people reluctant to reveal their incomes, whether they had earned their money legitimately or not.

National income inequality

The national income inequality and changes to it can only be treated on the basis of some research estimates. According to data from the first household survey conducted by the income distribution research team of the Institute of Economics, CASS, the national Gini coefficient was estimated at 0.382 in the late 1980s. At that time, income in kind and housing subsidies given to urban households as well as imputed rent of private houses were included in disposable income.[44] Based on the national samples, the income share of the highest-income group in 1988 was 7.3 times that of the lowest-income group.[45] The same research team conducted another national household survey in 2002, showing the national Gini coefficient for that year was

Figure 2.5 Changes in National Income Inequality (Gini Coefficient)
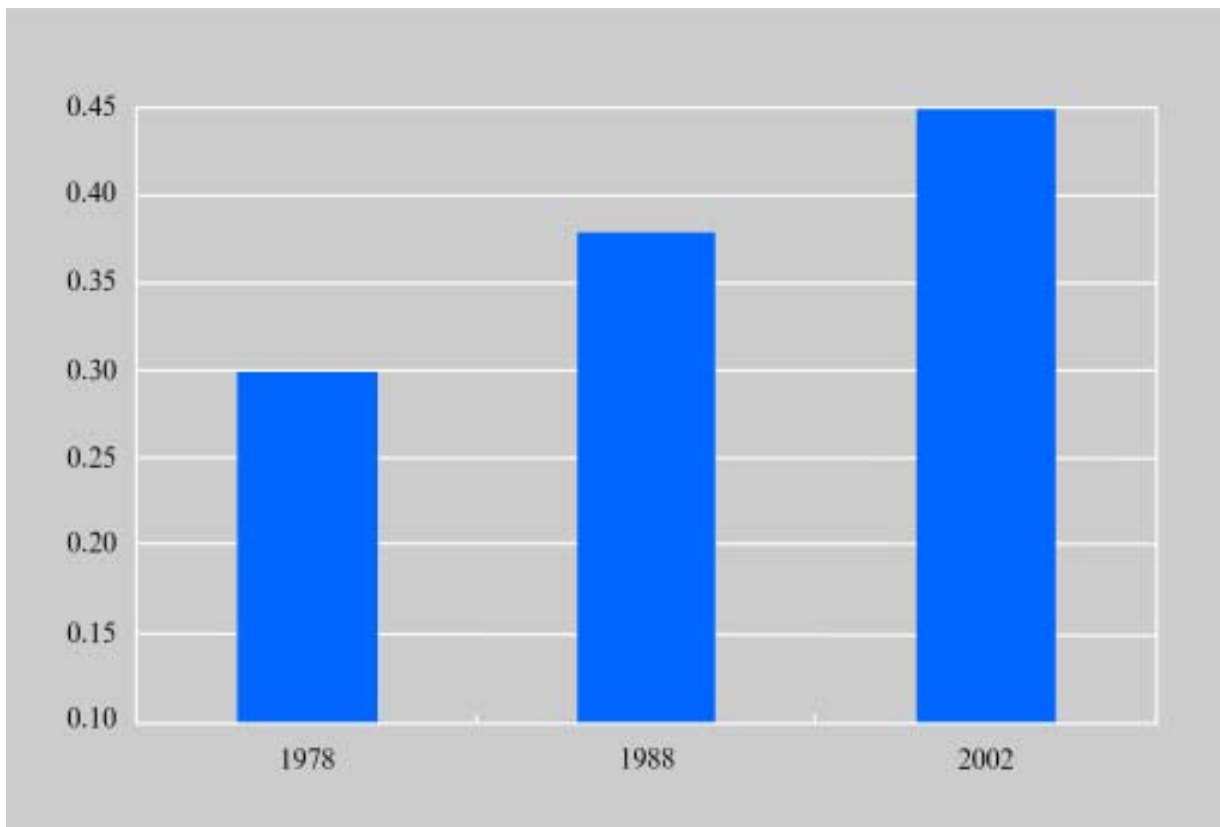
Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS; Calculation of the National Bureau of Statistics.

close to 0.46. When comparing the income shares of different income groups in 2002, as seen in Table 2.2, the one percent with the highest income controlled 6.1 percent of the total. The top five percent controlled nearly 20 percent of total income, while the top 10 percent controlled nearly 32 percent. The average income of the highest decile was 11 times that of the lowest.

Using the Theil index, national income inequality is divided into three parts: urban, rural, and urban-rural. The first two parts are called within-group inequalities; the last, a between-group inequality. As seen in the estimates presented in Table 2.3, from 1988 to 2002, within-group inequalities in the absolute value

of the Theil index rose by nearly one-third, but their contributions to the national inequality declined by nearly five percentage points. By contrast, the contribution of between-group inequality (the urban-rural gap) to national inequality rose from 38 percent to 43 percent. This means two-fifths of national income inequality in 2002 came from the urban-rural income gap.

Based on estimates made by some scholars about the national income inequality during the early years of reform, the Gini coefficient was 0.30. Today it has reached 0.46, which means the national income inequality has widened by more than 50 percent in the last two decades. The widening was more evident in rural income inequality in the late 1980s, in urban in-

Table 2.3 Urban-Rural Breakdown of National Personal Income Inequality in 1988 & 2002		
	Intra-urban & Intra-rural	**Urban-rural**
2002		
Theil index (a=0)	0.209	0.157
Contribution rate (%)	57.0	43.0
1988		
Theil index (a=0)	0.160	0.099
Contribution rate (%)	61.8	38.2

Source: The 1988 data originated from Gustafsson and Li (2001) and the 2002 data from Li and Yue (2004).

come inequality in the early 1990s, and in urban-rural income gap since the late 1990s.

Inequality in wealth distribution

Wealth distribution in rural areas

Wealth of rural households is measured in this report in terms of six items: land, housing, financial assets, production assets, durable consumer goods, and non-housing debt. Housing value is calculated on the basis of the total value of housing minus outstanding housing debt. The non-housing debt refers

to all debts other than the housing debt. The total value of all these items, after non-housing debt is deducted, constitutes the net wealth value.

Data from the 2002 rural household survey indicate that wealth per household was more than 50,000 yuan and wealth per capita was close to 13,000 yuan. Wealth per household was equivalent to 5.3 times per capita net income and 3.9 times per capita disposable income in the same year.[46] In terms of wealth composition, land and housing were the two largest items, accounting for about 74 percent. Research done on rural wealth in the 1980s and 1990s[47] indicates that since the late 1980s and especially since the mid-

Table 2.4 Level & Composition of Rural per Capita Wealth in 2002		
Wealth & components	**Average value (yuan)**	**Percent**
Total wealth (net value)	12937.8	100
Land value	3974.3	30.72
Housing value	5565.0	43.01
Financial assets	1592.6	12.31
Production assets	1181.6	9.13
Value of durable consumer	793.3	6.13
goods	−169.0	−1.31
Non-housing debt		

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

1990s, the scale and structure of rural household wealth have undergone notable changes. First, the scale of total household wealth has expanded rapidly. The real growth rate of total household wealth was 86 percent from 1988 to 2002, but only 19.6 percent from 1995 to 2002. This implies that the real growth rate (55 percent) from 1988 to 1995 was far higher. This result is consistent with changing trends in rural income growth over the same period.

Next, the land value of rural households declined by 26 percent from 1995 to 2002. As a result, the proportion of land value in relation to total wealth fell sharply, from 59.9 percent in 1988 to 50.3 percent in 1995, and further to 32.7 percent in 2002. At the same time, the proportion of net housing value to total wealth rose from 30.9 percent to 33.4 percent and then to 45.8 percent, while the proportion of financial assets to total wealth rose from 2.8 percent to 10.8 percent and then to 13.1 percent. Reasons for the declining value of land are as follows. First, the use of farmland for industrialization and urbanization dramatically reduced per capita land possession in rural areas. Second, the decline in the prices of farm products led to lower income from land: Farmers could make virtually no gains from farming in the late 1990s.

The inequality in rural wealth distribution can be measured with the Gini coefficient, which was 0.40 for rural personal wealth in 2002. Compared with a coefficient of 0.31 in 1988, [48] rural wealth inequality clearly widened from 1988 to 2002. Table 2.5 indicates that the poorest 10 percent owned only 2 percent of the total wealth while the richest 10 percent owned as much as 30 percent of the total wealth in rural areas. Of all wealth items, financial assets were most unevenly distributed. The richest 20 percent owned 55.3 percent of the total financial assets, while the poorest 20 percent owned only 4.5 percent. The ratio between the two groups was 12.2:1. The distribution of housing value was also unequal. The richest 20 percent accounted for 50.9 percent of the total housing value and the poorest 20 percent accounted for only 4.7 percent. The ratio was 10.8:1. Of all wealth items, land distribution was most equal. This means that the equality in China's rural land distribution has offset the inequality in wealth distribution among rural households, and has been frequently cited by international scholars as a positive policy for economic equality. [49]

To have a deeper understanding of the distribution of wealth in rural areas, we need to further examine the relationship between the distribution of total wealth and that of various wealth items. Methodologically,

Table 2.5 Proportions of Wealth Held by Deciles of Rural Population in 2002 (%)

Deciles	Total wealth (net value)	Land value	Net housing value	Financial assets	Production assets	Value of durable consumer goods	Non-housing debts
1 (Lowest)	2	3	2	2	3	3	33
2	4	5	3	3	4	4	10
3	5	7	4	4	5	6	7
4	6	8	5	5	5	6	5
5	7	9	6	6	7	7	8
6	8	10	8	7	8	8	6
7	10	11	9	9	10	9	7
8	12	13	12	11	12	11	5
9	16	15	16	16	14	15	7
10 (Highest)	31	19	35	39	32	31	11

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

the Gini coefficient for total wealth inequality can be expressed by shares of wealth items and their distribution.[50] Table 2.6 shows the shares of various assets in the total wealth and their respective Gini coefficients and concentration rates. In contrast to land distribution, the concentration rates of financial assets and housing value are far higher than the Gini coefficient for total wealth. This is an indication that the distribution of the two wealth items clearly widens the inequality in the distribution of total wealth.

Table 2.6 Inequality in Distribution of Rural per Capita Wealth in 2002

Wealth	Average value (yuan)	Proportion (%)	Gini coefficient	Concentration rate	Contribution rate (%)
Total wealth (net value)	12937.8	100	0.399		100
of which : Land value	3974.3	30.72	0.452	0.260	20.02
Net housing value	5565.0	43.01	0.538	0.456	49.15
Financial assets	1592.6	12.31	0.681	0.492	15.18
Production assets	1181.6	9.13	0.665	0.394	9.02
Value of durable consumer goods	793.3	6.13	0.659	0.377	5.79
Non-housing debts	−169.0	−1.31	0.950	−0.246	0.81

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Wealth distribution in urban China

The scale and composition of urban household wealth is examined first.[51] Per capita wealth in 2002 was 46,133 yuan, nearly six times per capita income. The two largest of the six wealth items (housing, financial assets, production assets, durable consumer goods, other assets, and non-housing debt) were housing and financial assets, which accounted for 90.3 percent of the total wealth. In particular, housing accounted for as much as 64.4 percent. This indicates that in recent years, urban households have converted more savings into housing. It also indicates the thriving real estate market in urban areas and the steady rise in housing prices.[52]

Table 2.7 Urban per Capita Personal Wealth and Its Composition		
Wealth & components	**Average value (yuan)**	**Ratio (%)**
Total wealth (net value)	46134	100
of which: Financial assets	11958	25.92
Net housing value	29703	64.39
Productive fixed assets	816	1.77
Value of durable consumer goods	3338	7.24
Estimated present value of other assets	620	1.34
Non-housing debt	−301	−0.65

Source: Based on the data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.8 shows that the highest decile held 34 percent of the total wealth. Moreover, the wealth share of the lowest quintile was only 3.2 percent, while that of the highest quintile was 51 percent, the latter being 16 times that of the former. In terms of the distribution of specific wealth items, housing distribution was most unequal. The highest quintile claimed a share of 52.4 percent of the total housing value, while the share for the lowest quintile was only 1.5 percent. With regard to the distribution of financial assets, Table 2.8 indicates that this distribution is not as unequal as imagined. The share of financial assets for the highest quintile was 50 percent.

Next, data from the 2002 household survey indicate that the Gini coefficient for the distribution of wealth was 0.475 for the year. Table 2.9 also indicates that of all wealth items, housing value had the greatest unequal distribution. The net value of housing per capita was 29,703 yuan, accounting for 64 percent of total wealth. Its concentration rate was 0.499, also higher than the Gini coefficient of 0.475 for total wealth. This means that housing distribution widened the inequality of total wealth. The concentration rate of financial assets was 0.444, lower than the Gini coefficient for total wealth, and generating an equalizing effect on the distribution of total wealth.

Compared with the distribution of wealth in 1995, the Gini coefficient for 2002 declined slightly from 0.496 to 0.465. The reason is probably the changes in the impact of public housing reforms. In 1995, housing reform was still in its initial stage with few households benefiting from privatization. By 2002 widespread privatization of urban public housing had led to a decline in inequality in the distribution of housing value, which considerably reduced inequality in the distribution of total wealth.

Table 2.8 Proportions of Wealth Held by Deciles of Urban Population in 2002 (%)							
Group (from low to high)	Total wealth (net value)	Financial assets	Net housing value	Productive fixed assets	Value of durable consumer goods	Estimated present value of other assets	Non-housing debt
1 (Lowest)	0.2	2	−1	0	4	2	32
2	3	3	2	4	5	4	10
3	4	4	4	5	5	4	12
4	5	5	5	5	7	6	4
5	7	6	7	4	8	6	3
6	8	8	8	7	9	9	8
7	10	10	10	9	10	13	9
8	13	12	13	16	11	11	6
9	17	18	17	14	14	16	4
10 (Highest)	34	32	35	36	27	28	11

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.9 Inequality in Urban per Capita Wealth Distribution in 2002					
	Average wealth value (yuan)	Proportion (%)	Gini coefficient	Concentration rate	Contribution rate (%)
Total wealth (net value)	46134	100	0.475	0.475	100
Of which: Financial assets	11958	25.92	0.596	0.444	24.22
Net housing value	29703	64.39	0.544	0.499	67.62
Value of durable consumer goods	3338	7.24	0.984	0.323	4.92
Production assets	816	1.77	0.502	0.484	1.80
Other assets	620	1.34	0.915	0.383	1.08
Non-housing debt	301	−0.65	0.978	−0.260	0.36

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

National wealth inequality

As indicated in the previous two sections, wealth per capita was 46,134 yuan in urban areas in 2002; in rural areas it was 12,638 yuan. The ratio of the former to the latter was close to 3.7:1. Clearly there was a significant wealth gap between urban and rural China.

Moreover, in terms of the distribution of urban and rural population in different wealth groups, most urban residents were in the high-wealth groups while most rural residents were in low-wealth groups. Figure 2.6 indicates that one-fourth of the lowest decile

were urban residents[53] and three-fourths were rural residents. In the highest decile, urban residents accounted for 94 percent and rural residents accounted for only six percent.

Table 2.10 shows wealth per capita, specific wealth items, and their overall proportions in China.

The table indicates that wealth per capita was 25,897 yuan in 2002. The most important three items were housing, financial assets, and land, which combined to make up 89 percent of the total wealth. Housing and financial assets together accounted for 80 percent of the total wealth.

Figure 2.6 Proportions of Urban & Rural Residents in the Wealth Deciles in 2002

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.10 Per Capita Wealth and Its Composition in China as a Whole in 2002

Wealth & components	Average value (yuan)	Proportion (%)
Total wealth (net value)	25897	100
of which: Land value	2421	9.35
Financial assets	5643	21.79
Net housing value	14989	57.88
Production assets	1037	4.01
Value of durable consumer goods	1784	6.89
Other assets	242	0.93
Non-housing debt	−219	−0.84

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.11 Proportions of Wealth Held by Decile Groups in 2002 (%)							
Group	Total wealth (net value)	Land value	Financial assets	Net housing value	Production assets	Value of durable consumer goods	Other assets	Non-housing debt
1 (Lowest)	1	4	1	0	3	3	1	30
2	2	9	1	1	5	3	1	9
3	3	11	2	2	5	3	1	6
4	4	14	2	3	8	4	1	6
5	5	15	3	4	9	5	2	7
6	6	16	4	5	12	6	3	7
7	8	14	7	8	11	9	7	9
8	12	8	12	12	10	13	12	5
9	18	6	19	19	14	18	24	11
10 (Highest)	41	3	48	47	24	36	49	11

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.12 Inequality in Wealth Distribution in China as a whole in 2002					
	value per capita (yuan)	Proportion (%)	Gini coefficient	Concentration rate	Contribution rate (%)
Total wealth (net value)	25897	100	0.55	0.55	100
of which : Land value	2421	9.35	0.67	−0.05	−0.77
Financiol assets	5643	21.79	0.74	0.63	24.92
Net housing value	14989	57.88	0.67	0.63	66.32
Production assets	1037	4.01	0.84	0.30	2.16
Value of durable consumer goods	1784	6.89	0.64	0.48	6.01
Other assets	242	0.93	0.97	0.69	1.16
Non-housing debt	−219	−0.84	0.97	−0.17	0.27

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Chapter III

The State of Equity in China: Opportunities and Capabilities

Poverty must be seen as the deprivation of basic capacities rather than low income alone. Unfortunately, equating economic inequality with income inequality is a common occurrence in economics.
—— Quoted from Amartya Sen, *Development as Freedom* (1999)

This chapter first analyses equity in the labour market. It then looks at imbalances in capabilities — specifically in access to education and healthcare — between urban and rural areas, and between different regions and population groups.

The labor market

Workers can suffer discrimination in both employment opportunities and wage determination. In the case of employment opportunities, women or ethnic minorities may find it more difficult to compete for certain jobs, as do Chinese migrant workers. In the case of wages, workers may not receive equal pay for the same work because pay may be determined by identity or social status rather than contribution or productivity. Here too, in both wage setting and welfare entitlement, rural migrant workers in urban areas face discrimination compared to urban workers.

Figure 3.1 Number of Unemployed and the Registered Unemployment Rate, 1981-2004
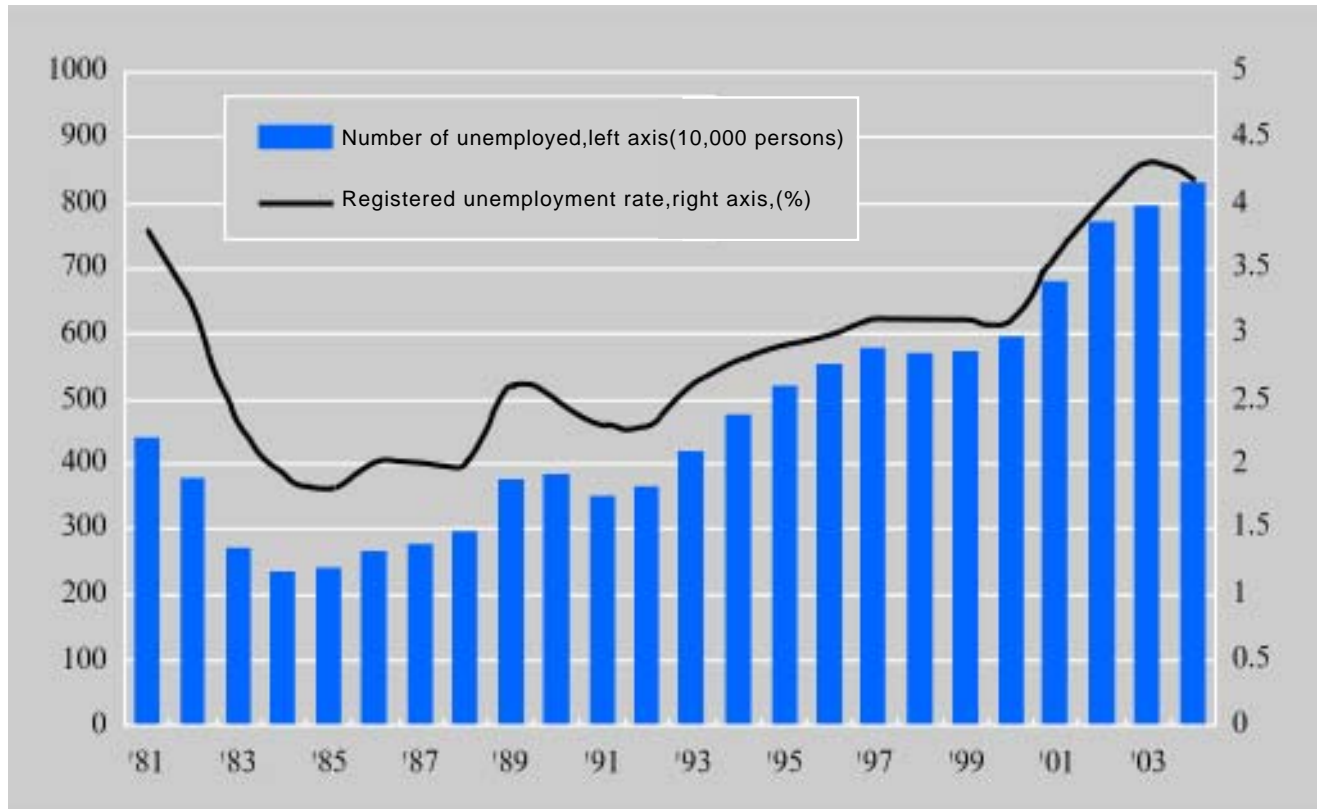
Source: National Bureau of Statistics and the Ministry of Labour and Social Security, 2003: 140.

Drastic changes in the labor market

Since the mid-1990s, both urban and rural labour markets have changed drastically. First, the number of labourers has risen faster than the number of jobs, putting increased pressure on urban employment. From 1991 to 2003, the total labour force rose from 660 million to 760 million, while the total number employed only increased from 655 million to 744 million. By 2003, the total number of unemployed laborers had reached 16 million.[54] In urban areas, the number of employees increased by 80 million, from 175 million to 256 million. But by the end of 2004, the number of registered unemployed stood at 8.27 million. In rural areas, the number of surplus workers was estimated at more than 150 million.

Figure 3.2 Changes in Labor Force and Employment

10,000 people
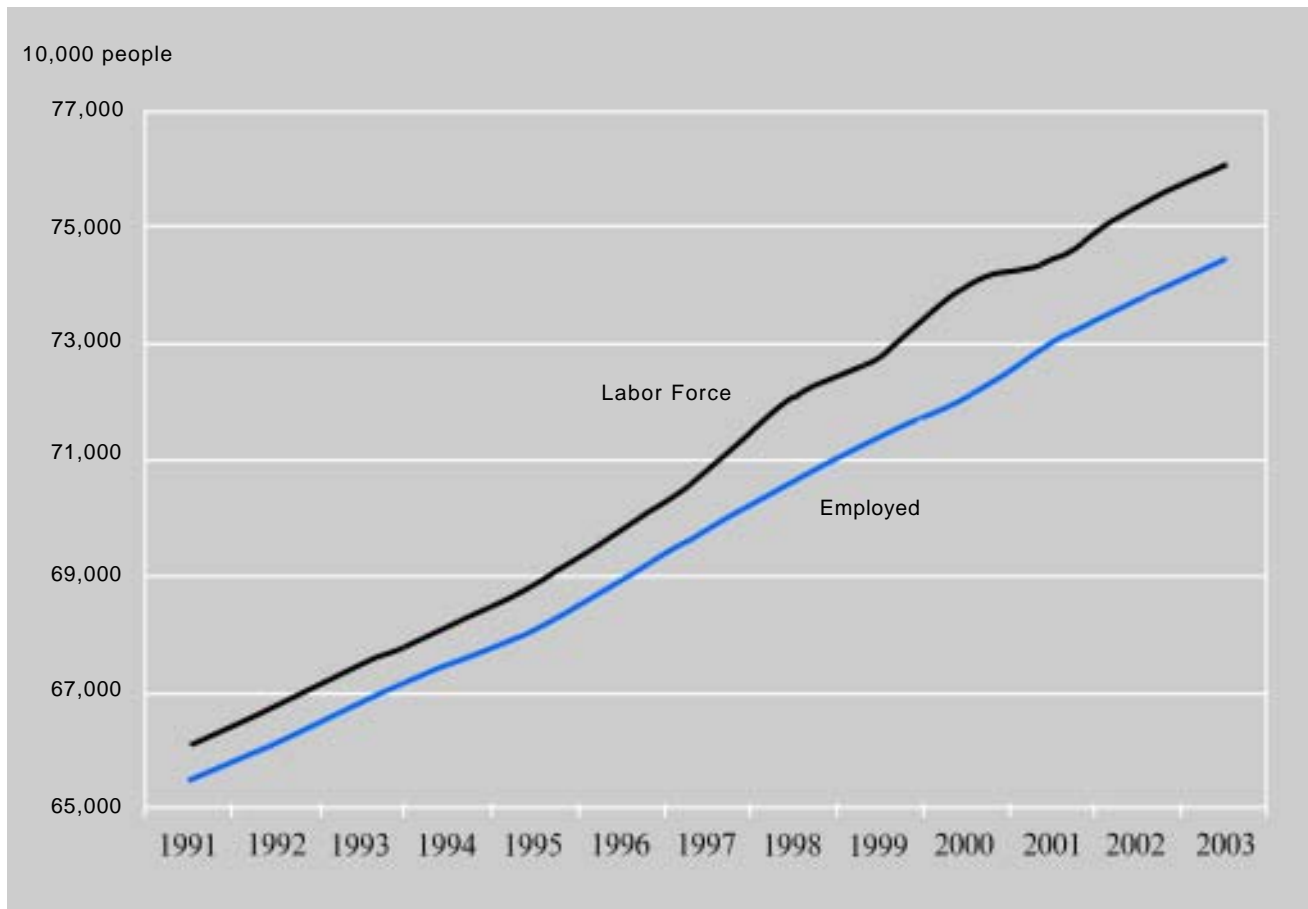
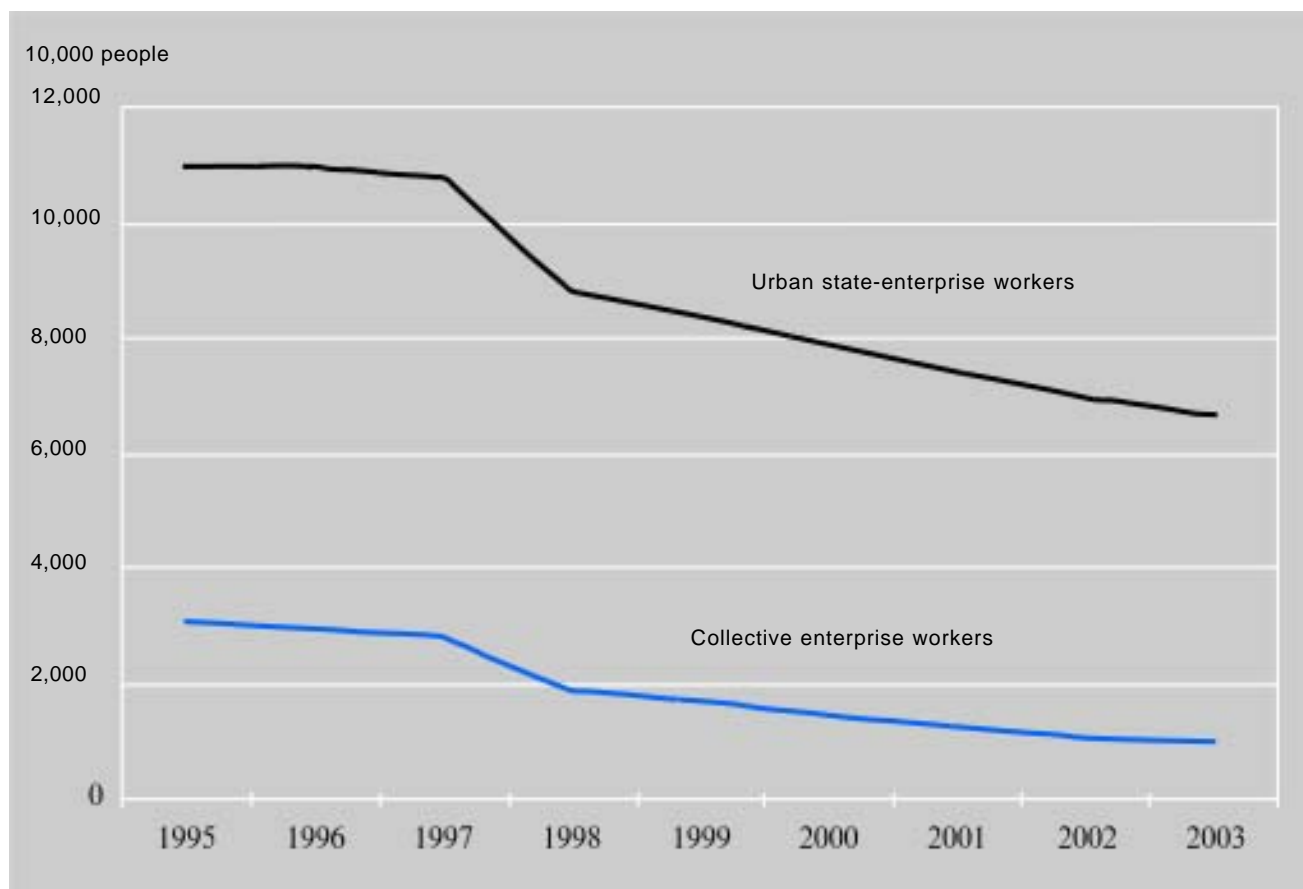Source: National Bureau of Statistics, 2004.

The second major change is that since the mid-1990s, reforms have caused many workers to be laid off. Although the exact number is unknown, the China Labour Statistical Yearbook 2003 indicated that from state-owned enterprises and other public sector entities, 27.15 million workers were laid off from 1998 to 2002. The Yearbook did not provide the number of workers laid off from other types of enterprises, but estimated that number to be roughly 50 million.[55]

One way to estimate the number of workers laid off is to look at the change in the total number of employees in state-owned and collective enterprises in urban areas. This number dropped year after year, especially in 1998 (Figure 3.3). Between 1995 and 2003 the number of workers in state-owned enterprises dropped from 110 million to 66 million while the num-

ber of workers in collective enterprises fell from 31 million to 10 million. By the end of 2004 the decline had levelled off, but there were still 1.5 million employees laid off from state-owned enterprises. [56]

The third change is rural-urban migration. While outward migration has eased unemployment in the countryside, it has exacerbated it in the cities. Data on the number of migrant workers in cities are inconsistent, but according to the Fifth Census in 2000, the migrant population was 131 million. Of this number, 43.7 percent consisted of migration within counties, 56.3 percent across counties. The migration can also be considered with respect to provinces: 73.6 percent of migration occurred within provinces while 26.4 percent took place across provinces. Moreover, 74.9 percent of inter-provincial migrant workers moved to eastern areas. [57]

Figure 3.3 Labor Forces in Urban State-Owned and Collective Enterprises, 1995-2003

Sources: National Bureau of Statistics: 2004.

Discrimination against migrant workers

From 1958 to 1978, migration across regions was subject to many restrictions. But since 1978, more rural labourers have sought employment in cities and coastal areas. By 2004, the number of rural migrants reached 140 million, representing the largest population movement in China's history. After moving into the cities, however, migrant workers faced many forms of discrimination.

The Hukou system

According to the Hukou system, most rural labourers are not entitled to legal permanent residence in cities. And since certain policies discriminate between populations with different domiciles, rural mi-

grants usually get fewer employment opportunities and less access to social security and public services. Urban restrictions on the employment of rural migrants, which had previously been relaxed, tightened again in the mid-1990s, reinforcing barriers to movement.

Job-hunting and employment laws and policies

Rural migrant workers in cities often face discrimination as a result of local regulations. This was evident in the late 1990s, when urban enterprises were restructuring and streamlining.[58] It was common for urban labour administrations repeatedly to dismiss rural migrant workers from enterprises to accommo-

date laid-off local workers. Migrant workers were charged 'administration fees' and 'service fees'that increased their costs of working in the city.

Wage growth and employment opportunity

Even if rural migrant workers have the same employment opportunities as urban employees, they do not get the same wages and welfare benefits.[59]   In addition to wages and bonuses, urban employees enjoy various subsidies and benefits including pensions, public healthcare, paid holidays, maternity leave for women, subsidies for one-child families, unemployment insurance, and so on. Urban workers who are formal employees also benefit from economic growth because their wages are linked to the profits of their firms. Migrant workers, on the other hand, receive wages determined solely by supply and demand for labour. If many rural workers flow into the cities looking for jobs, the excess labour supply cause wages to stabilize or drop. Over the past decade, in areas where migrants were plentiful, such as Guangdong and Fujian, the nominal wages of rural migrant workers have risen by a small margin while real wages remained constant or declined.

Wage discrimination

On average, migrant workers earn roughly 80 percent of the wages of local urban workers with the same skills and have little access to public housing, health insurance, and pensions.[60] One research project found 82 percent of the wage difference between urban and migrant workers was caused by differences in pay for the same occupation.[61] Migrant workers basically earn much less for the same work. Another study concluded that 41 percent of the wage difference between rural migrants and local urban workers came from pay differential within the same job. Of the wage differences within the same job, 61 percent were found to be the result of differences in human capital, because urban workers were more productive; the remaining 39 percent, however, stemmed from

discrimination.[62]   Another survey in Wuhan found that much of the difference in income between rural migrants and urban workers was linked to Hukou. [63]

Working environment

Migrant workers also face a harsher working environment. Typically they are doing hazardous, dirty, and demanding jobs that endanger their health and safety. Without urban Hukou they remain unprotected by the Labour Law and other protective rules, suffering from unstable employment, as well as harsh and inadequate working conditions. Moreover, they may not receive their wages on time, forcing them to work more hours to survive. According to the fifth census, nearly twice as many rural migrants as urban workers worked six days a week, and as many as 58 percent of rural migrant workers worked seven days a week.

Job allocation

Migrant workers generally have lower education levels and therefore find it difficult to enter many sectors and occupations. Most work at unskilled occupations in non-state or informal sectors.[64] Thus while 32 percent of urban workers have white-collar jobs, only 8 percent of migrant workers do, and while 23 percent of urban worker work in high-pay industries, only 5 percent of migrant workers do.

Table 3.1 Years of Schooling of Migrant and Urban Workers				
	Low-pay industries		High-pay industries	
	Proportion of employees (percent)	Years of schooling	Proportion of employees (percent)	Years of schooiling
Migrant workers	94.77	8.88	5.23	9.33
Urban workers	76.84	9.93	23.16	11.97

Note: According to the average level of wages in 16 industries in 2001 published by NBS, the industries are ranked from low to high and divided into 8 low-pay and 8 high-pay industries.
Source: Calculation is on data from the Fifth Census in 2000.

Employment service and assistance

What workers receive in terms of employment security and re-employment services depends on the type of enterprise in which they are employed. The best off generally are those working in state-owned enterprises, followed by those in urban collectives. Workers without formal employment or from the countryside are treated very unfavourably. Since they cannot rely on government support, rural migrants must rely on themselves. Few find jobs through governmental departments and most find work on their own or through relatives or friends.[65]

Workers laid off from state-owned enterprise have been able to benefit from services provided by' re-employment service centres'first established in Shanghai in 1996 and nationwide from 1998 onward. These centres grant laid-off workers a basic living allowance; pay for their pension, medical, and unemployment insurance; and organize re-employment training.

Funds for the basic living allowance come from three sources. One third comes from the government budget, one third from enterprises, and one third from social funds pools including unemployment insurance. Overall, the centers receive around two thirds of their funding from various levels of government.[66] Nevertheless, in 2002, when an additional 2.1 million workers were laid off, only 1.62 million received re-employment services because of insufficient funds.

Other forms of assistance have also been biased towards urban workers. In 2002, the Ministry of Labour and Social Security launched a re-employment training program which aimed, over a three-year period, to provide job training for 30 million workers—the government's largest vocational training program. Most of these programs, however, were for urban workers.

Migrant workers without urban Hukou are thus at a severe disadvantage in the urban labour market. Until the Hukou system is thoroughly reformed, they will continue to face employment and wage discrimination.

Gender differences in employment and wages

The labour market also shows clear gender discrimination. Women make up a smaller proportion of the white-collar workforce than men, as Table 3.2 indicates. Also, a smaller proportion of women than men have highly paid jobs (Table 3.3). On the other hand, women in white collar jobs and in the highly paid sectors often have more education than their male counterparts.

Table 3.2　Occupation and Years of Schooling of Male and Female Workers

		National		Urban		Rural	
		Female	Male	Female	Male	Female	Male
White collar	Proportion of workers (percent)	9	12	25	26	2	4
	Years of schooling	12	12	13	12	11	11
Blue collar	Proportion of workers (percent)	91	88	75	74	98	96
	Years of schooling	7	8	8	9	6	7

Note: "State organs, Party and people's organization, enterprise and institution chiefs", "professional and technical personnel" as well as "administrative personnel and relevant personnel" are defined as "white collar" workers; "Commercial and service personnel," "personnel engaged in farming, forestry, animal husbandry and water conservancy", "personnel operating production and transport equipment as well as relevant personnel" and "personnel engaged in other occupations" are defined as "blue collar" workers.
Source: the Fifth Census in 2000.

Table 3.3　Industrial Distribution and Years of Schooling of Male and Female Workers

		Nationwide		Urban		Rural	
		Female	Male	Female	Male	Female	Male
Low-pay industry	Proportion of workers (percent)	95	90	85	78	99	96
	Years of schooling	7	8	9	10	6	8
High-pay industry	Proportion of workers (percent)	5	10	15	22	1	4
	Years of schooling	12	11	12	11	10	10

Note: According to the average level of wages in 16 industries in 2001 published by NBS, the industries are ranked from low to high and divided into 8 low-pay and 8 high-pay industries.
Source: Calculation is on data from the Fifth Census in 2000.

The gender wage differences are smaller in China than in some other countries, but they are increasing.[67] Between 1988 and 1995, the ratio of female-to-male earnings dropped from 0.84 to 0.82.[68] Another indication of growing inequality is that wage differences between male and female urban workers have increased. In the 1988 wage function, the estimated coefficient of female workers was 1.8 percent lower than that of men; in the 1995 wage function, however, it was 16 percent lower.[69]

These gender differences tend to be much lower in the state sector than in the non-state sector, where wages are market-based and are generally higher.[70] These wage differences stem partly from discrimination, although the explanatory portion of gender discrimination appears to be declining from the state sector to private sectors.[71]

Wage differences between economic sectors

Urban areas show significant wage differentials between economic sectors. Although labour mobility tends to narrow differences between economic sectors, inter-sector wage differences appear to be increasing recently. Table 3.5 shows differences in average wages among different economic sectors in 1993, 1996, 1999, and 2002. As measured by inequality indices—the Theil Index and the Atkinson Index—the gaps have been widening. Although between 1993 and 1999 inter-sector wage differences declined as a proportion of the total, it nevertheless increased dramatically from 1999 to 2002. This widening wage differential has come about mainly because monopoly industries and enterprises tend to have higher profits, which can be turned into higher pay and better benefits for workers.[72]

Figure 3.4 shows the trend of average pay in some monopoly industries compared with the average pay in manufacturing (set as 1). In the early 1990s, the gap was less than 30 percent but by 2002 had increased to 40 ~ 80 percent.

Table 3.4 Changes in Industrial Differences in Wages, 1993-2002				
	1993	1996	1999	2002
Theil index				
Total wage difference	0.030	0.056	0.066	0.058
Inter-sector difference	0.017	0.026	0.027	0.036
The proportion of inter-sector difference in the total difference	56.7	46.4	40.9	62.1
Atkinson index				
Total wage difference	0.061	0.101	0.116	0.102
inter-sector difference	0.036	0.047	0.051	0.066
The proportion of inter-sector difference in the total difference	59.0	46.5	44.0	64.7

Source: Ministry of Labor and Social Security, and National Bureau of Statistics. 2003.

Figure 3.4 Differences in Average Wages Between Monopolized Industries and Manufacturing Industry
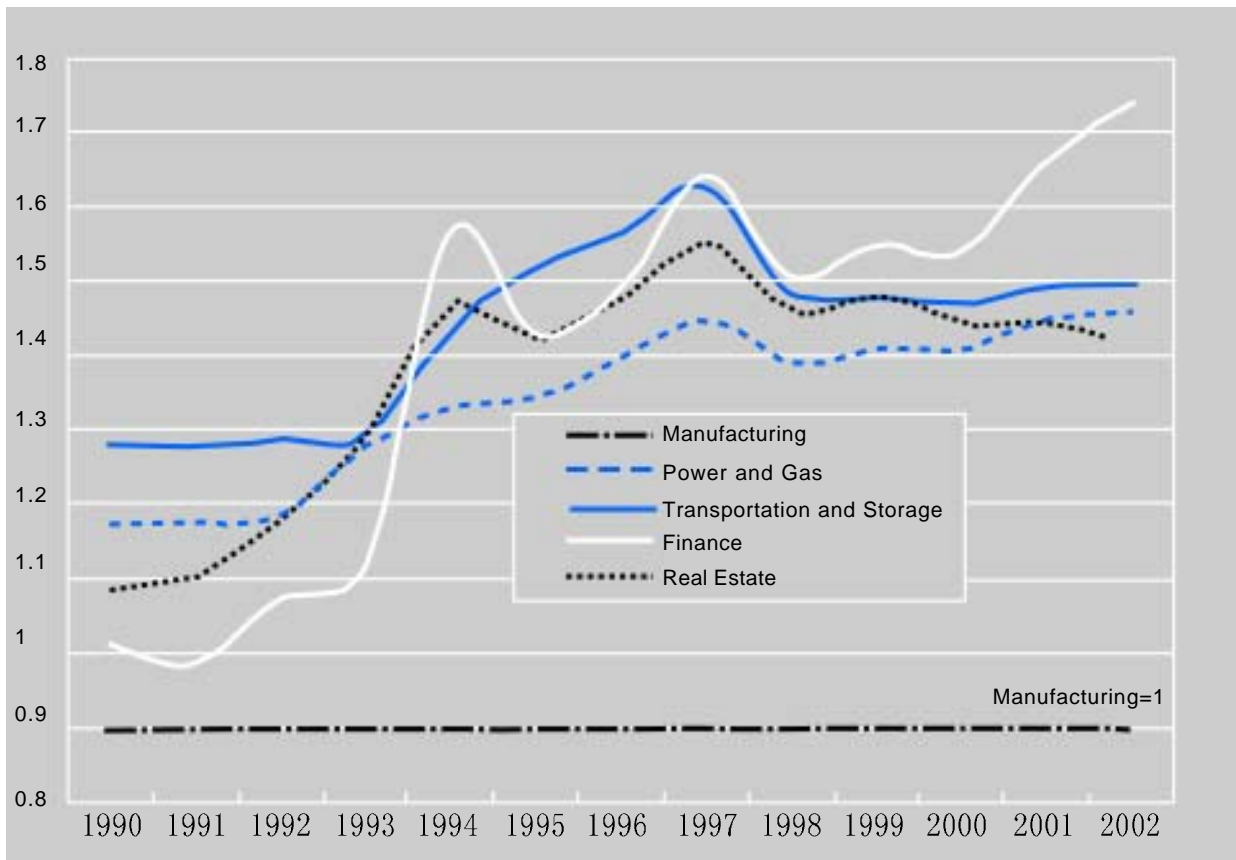
Source: Based on data from the National Bureau of Statistics, 2004.

Disparities in education

Since its founding, the People's Republic of China has made remarkable achievements in education. Before 1949, only 20 percent of children were enrolled in school and 80 percent of the population was illiterate. Between 1964 and 2000, mean years of schooling increased from 3.2 to 7.6 while the illiteracy rate fell from 52 percent to 9.5 percent.

The government's 1993 Education Reform and Development Programme stated that by 2000, China would eliminate youth illiteracy and ensure all students received nine years of compulsory education. By 2002, these goals had been realized in areas inhabited by 91 percent of the national population, and in 87 percent of all counties. Over the same period, the government reduced illiteracy

for citizens over 15 years of age to 9 percent, far below the global average for that period.[73] China also made noticeable progress in higher education: By 1999, the gross enrolment rate for higher education had reached 15 percent (Figure 3.5).

Nevertheless, China's education system suffers from serious imbalances—not only between urban and rural areas and between regions, but also in the quality of education. This leads to great differences in individuals' capabilities.

Figure 3.5 Educational Enrollment and Average Years of Schooling, 1964-2000
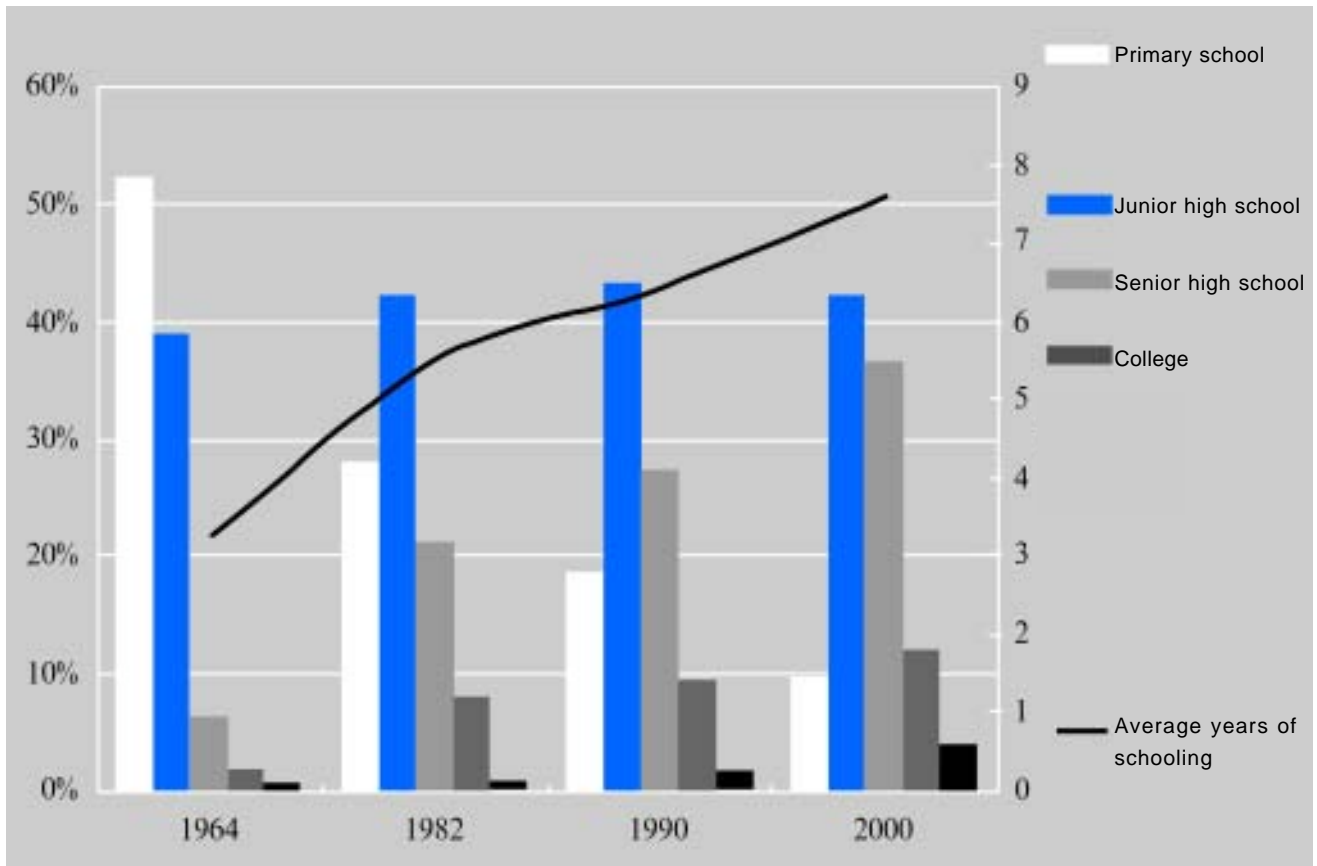
Source: Compiled by Yao and Yin (1994); based on data from the National Bureau of Statistics (2002), according to the Fourth Census.

Urban-rural differences

China's illiterate population is mainly concentrated in rural areas. According to the fifth census, rural labourers in 2002 had 7.3 years of schooling on average, 2.9 years fewer than labourers in urban areas. There were corresponding differences in illiteracy: In 2000, the illiteracy rate among those 15 years and older was 4.6 percent in cities and 6.5 percent in towns but 11.6 percent in villages. This was mainly because few rural people were educated beyond senior high school. In the countryside, only 8.5 percent were educated beyond high school, 35 percentage points lower than in the cities.[74] Rural areas have also been slow to achieve universal nine-year compulsory education: By 2002, 15 percent of counties had failed to reach the

goal. This failure affected 108 million people in poor and remote rural areas, roughly 9 percent of the total population. [75]

Administration and financing of primary schools has been delegated to townships or villages. Most face financial constraints and have difficulty paying civil servants and teachers. County governments give more support to secondary schools than to primary schools.

Rural-urban gaps are further reflected in the quality of teachers. In urban primary schools, 57 percent of teachers have been educated to above junior college level, while in the rural areas, the proportion is only 25 percent. In urban junior high schools, 43 percent of teachers have at least a college education,

Table 3.5 Proportions of City, Town and City Populations Aged 15-64 Years by Education Level and Years of Schooling, 2000							
	Never attended school or any literacy class	Primary school	Junior high School	Senior high School	Junior college or more	Including: college or more	Average years of Schooling
Cities	2.5	14.3	40.0	29.2	14.0	5.5	10.2
County towns	4.2	21.4	44.3	23.8	6.3	1.3	9.1
Villages	8.7	38.9	43.9	7.8	0.7	0.1	7.3

Source: Based on data in the fifth census; the Research Team for Report on Education and Human Resources, 2003.

while in the countryside the proportion is only 11 percent. Rural primary schools also rely on a large number of substitute and part-time teachers: more than 94 percent of substitute teachers—450,000 people— teach in rural and township schools.[76]

Rural-urban gaps also widen after the period of compulsory education. Between 1999 and 2002, the proportion of urban junior high students entering senior high school increased from 55 percent to 74 percent. In rural areas the proportion only increased from 19 percent to 29 percent. The expansion of colleges has thus mainly benefited urban students.

Figure 3.6 Numbers of Teachers at Different Education Levels, 1952-2000, unit: 10,000
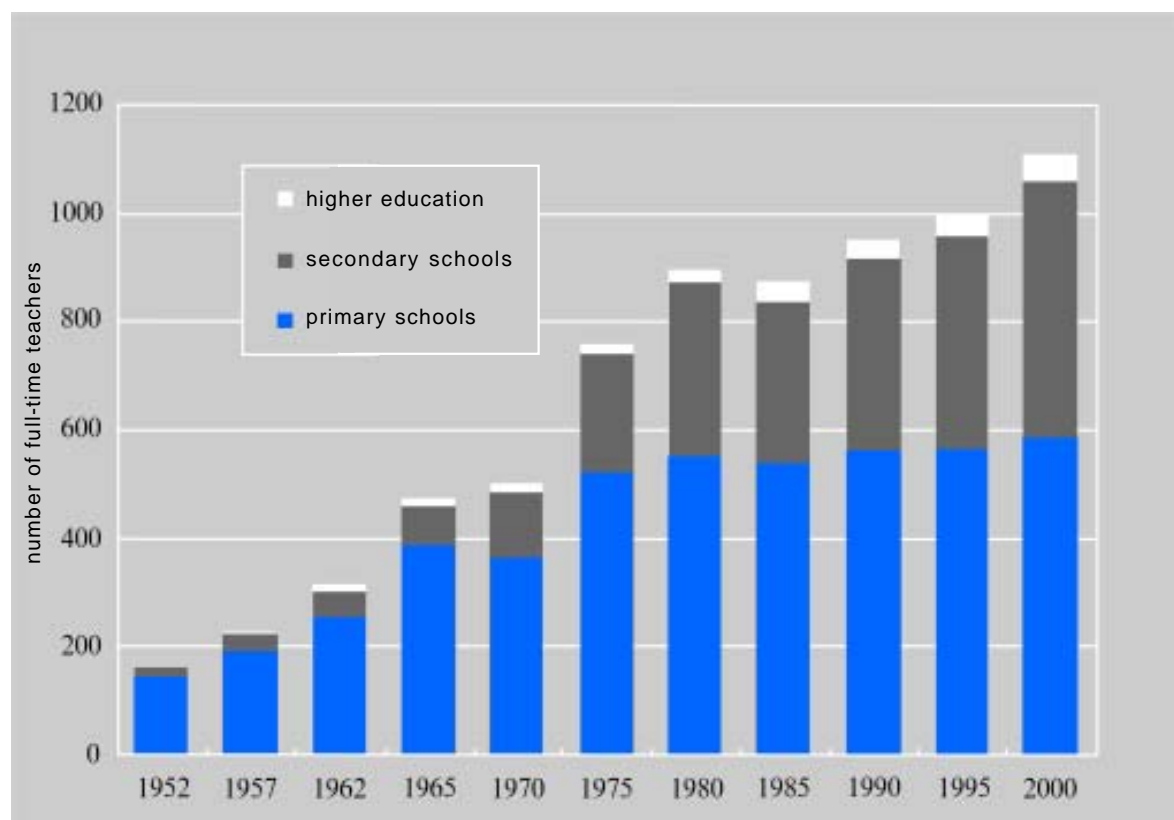
Source: Based on the data from the National Bureau of Statistics, 1987 and 2001.

Regional differences

One analysis of the Fifth Census divides China into four types of area according to educational achievement. [77]

Type I - Has the highest levels and includes Beijing, Shanghai, and Tianjin. Illiteracy is lower than 7 percent, while 67 percent of the population have at least junior high-school education and more than 9 percent have at least a junior college education.

Type II - Includes the eastern provinces, all the central provinces except Anhui, and Xinjiang and Shaanxi in the west. Illiteracy rates in these regions range from 5 percent to 12 percent. Between 48 percent and 68 percent have at least a junior high-school education, and 3 percent to 7 percent have at least a junior college education.

Type III - This group includes Sichuan, Chongqing, and Ningxia in the west, and Anhui in the east. The illiteracy rate ranges from 9 percent to 16 percent. The population with at least a junior high-school education is between 43 percent and 47 percent, while the number of people with at least a junior college education ranges from 2 percent to 4 percent.

Type IV - Includes Yunnan, Guizhou, Gansu, Qinghai, and Tibet in the west. The illiteracy rate in these regions ranges from 15 percent to 26 percent. The population with at least a junior high-school education accounted for between 32 percent and 40 percent, while those with at least a junior college education accounted for 2 percent to 4 percent. In Tibet, the illiteracy rate was 47 percent, and only 13 percent of people had attended at least junior high school while less than 2 percent had junior college education.

In recent years, China's educational development strategy has concentrated on western regions that have failed to meet targets on youth illiteracy or on compulsory education. The provinces or autonomous regions with the largest populations that had failed to meet these two basic goals in 2002 were Ti-

bet (82 percent), Guizhou (56 percent), Ningxia (43 percent), Inner Mongolia (30 percent), Guangxi (30 percent), Xinjiang (28 percent), Gansu (27 percent), Qinghai (27 percent), and Yunnan (23 percent). The western region suffers from a number of problems in education, including high drop-out rates. Among fifth-grade students, the drop-out rate was higher than 20 percent in a number of western provinces, including Ningxia (27 percent), Tibet (24 percent), Gansu (22.3 percent), and Qinghai (21 percent).

At the same time, western regions suffer from an outflow of talented people. In 2002, 28 percent of western college graduates who attended school away from their hometowns did not return after graduation. The rate exceeded 60 percent in Inner Mongolia, 40 percent in Ningxia and Qinghai, and 20 percent in Xinjiang, Gansu, Guangxi, and Guizhou. Most of these graduates were absorbed by the municipalities of Beijing, Shanghai, and Tianjin, along with the provinces of Zhejiang, Jiangsu, Liaoning, and Shandong. Those who do return to their hometowns face a bleak job market. In Ningxia, Qinghai, and Inner Mongolia, the employment rate for new graduates was only between 30 percent and 50 percent.[78] Overall the rate for western provinces, excluding Shaanxi, is lower than for the eastern and central regions. Hence, despite their comparatively low educational level, western provinces actually export professional resources, hurting the region's socio-economic development.

Gender inequality in education

Within the adult population, the illiteracy rate of females is 2.6 times that of males. Despite the government's efforts, females still have fewer educational opportunities than males. A smaller proportion of female students enrol in almost all types of educational institutions. The disparity is greatest at institutions of higher learning, where in 2002 only 44 percent of students were female, and in special education where only 36 percent were. This latter statistic

Figure 3.7 Percentage of Female Students in Various Educational Institutions, 2000 and 2002.
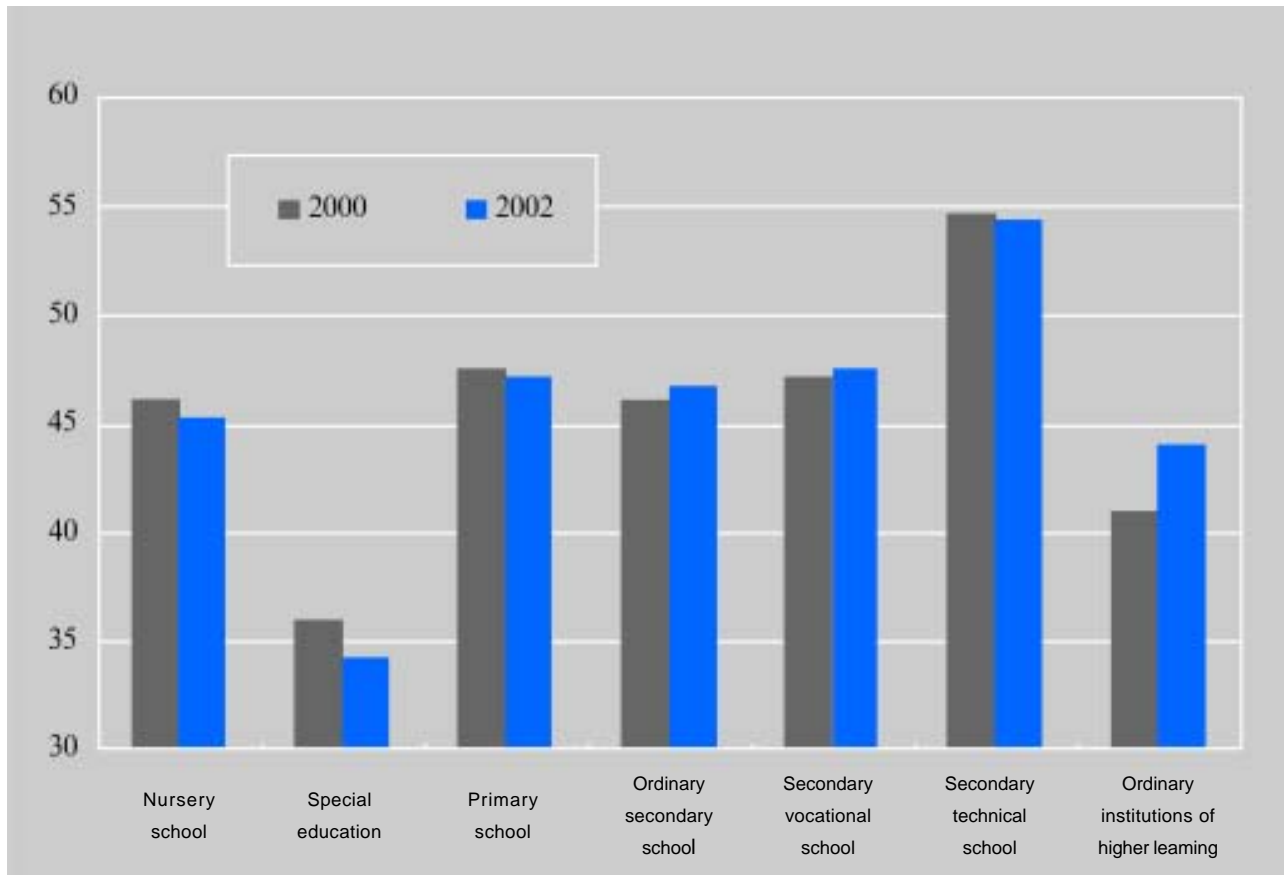
Source: National Bureau of Statistics, 2000; 2002.

means disabled girls have even fewer opportunities to receive an education.

Allocation of public resources

The clear gap in educational levels between the cities and the countryside is related to the differences in their share of government inputs. Like all countries, China invests in public education to accelerate national development, to fulfil the rights of children, and to promote equity. Yet by international standards, its expenditure on education is fairly low. Despite its goal, set in 1985, of spending 4 percent of GDP on education by 2000, and despite a steadily rise in nominal expenditure (Figure 3.8), by 2002 the proportion of funds spent on education was still only 3.4 percent. This is significantly lower than the international average (Figure 3.9).

Figure 3.8 Public Expenditure on Education (100 Million RMB, Current Prices, 1978-2001)
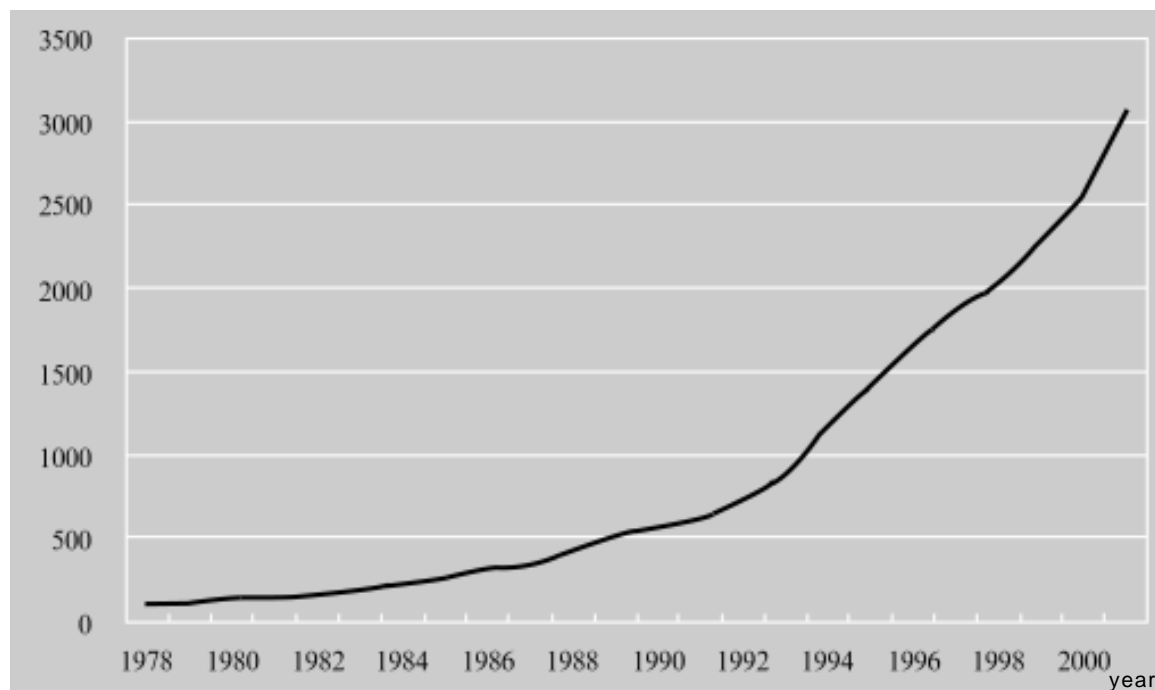
Source: Research Team for Report on Education and Human Resources, 2003.

Figure 3.9 Public Expenditure on Education as a Percentage of GDP
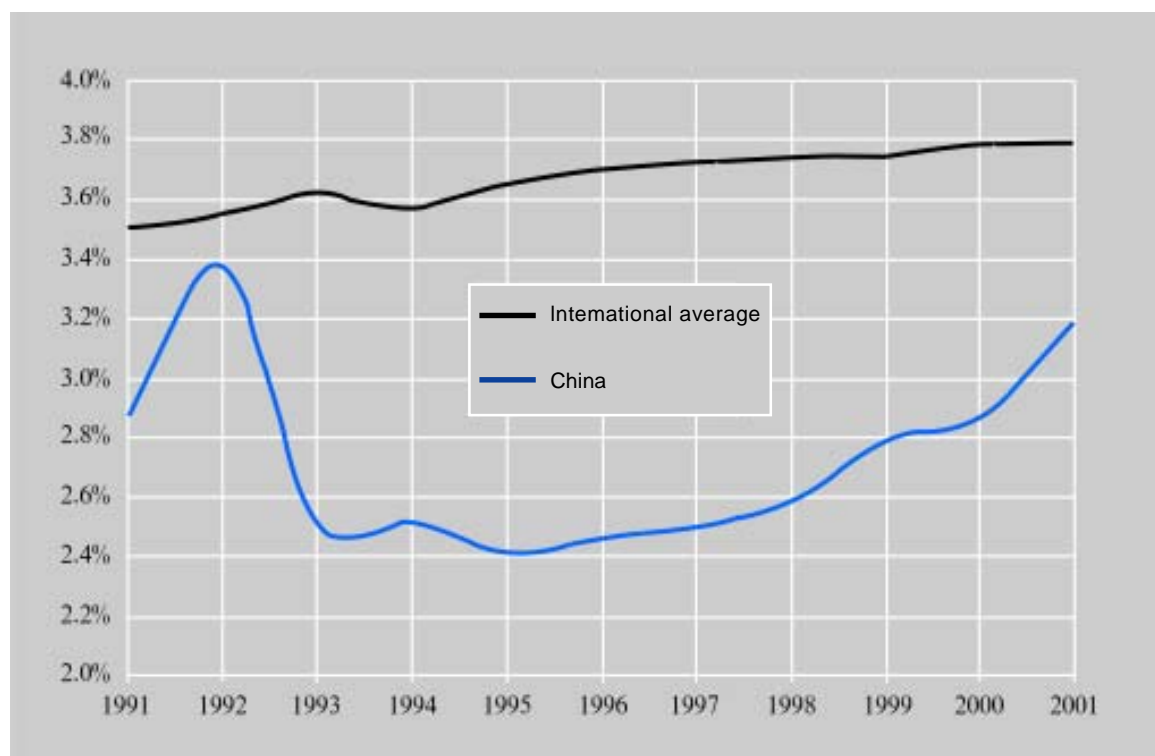
Note: The international average is derived from a regression analysis of public expenditure on education against GNP per capita, using data from 53 countries that between 1986 and 1997 had a population of more than 10 million.
Source: Research Team for Report on Education and Human Resources, 2003.

Because they lack sufficient government funding, schools must rely heavily on extra-budgetary income, including overly high tuition fees. This has serious implications for social equity because it excludes many poor children. Indeed the situation appears to have deteriorated in recent years. In 1980, more than 75 percent of educational funding came from the government; by 2000, however, this had dropped to just 54 percent—a much lower proportion than in a number of OECD countries (Table 3.6).

Table 3.6 The Proportions of Government Expenditure on Educational Funding in China and Some OECD countries			
China	2000	**Some OECD countries**	1998
Proportion of fiscal spending on educational funding		Proportion of education funding from government expenditure	
Primary school	78	Portugal	100
Junior high school	75	Italy	99
Senior high school	56	Hungary	92
Proportion of budgetary expenditure on educational funding		Spain	89
Primary school	62	Czech	88
Junior high school	56	Mexico	86
Senior high school	36	Korea	79
		Turkey	78

Source: Ministry of Education, 2002; OECD, 2002, quoted from the Research Team for Report on Education and Human Resources, 2003.

Moreover, there are wide disparities in government education spending in urban and rural areas. China's public expenditures for compulsory education are covered by a system of locally run schools whose costs are shared between governments (mainly local) and parents. As a result, expenditures vary depending on the financial capacity of the governments and the parents. Richer areas have more financial resources to support education and collect more funds from extra-budgetary channels. Funding per pupil is therefore highest in provincial-level municipalities, followed by provincial capitals, small and medium-sized cities, and finally rural counties (Figure 3.10). Per-student educational funding in municipal districts is usually triple that in rural counties. In elementary education, the gap in funding stems mainly from extra-budgetary funds. But rural residents—in addition to paying tuition fees and contributing to operational funding through educational surcharges—also bear most of the construction costs associated with compulsory education. [79]

Just as there are overall disparities between urban and rural areas, there are also striking regional disparities in educational development. Even though western regions receive more funds (in the form of transfer payments and overall expenditures, both budgetary and non-budgetary), spending is clearly much higher in the eastern regions than in the central and western parts of the country.

Figure 3.10 Urban-Rural Comparison of Operation Funds per Student (Yuan)
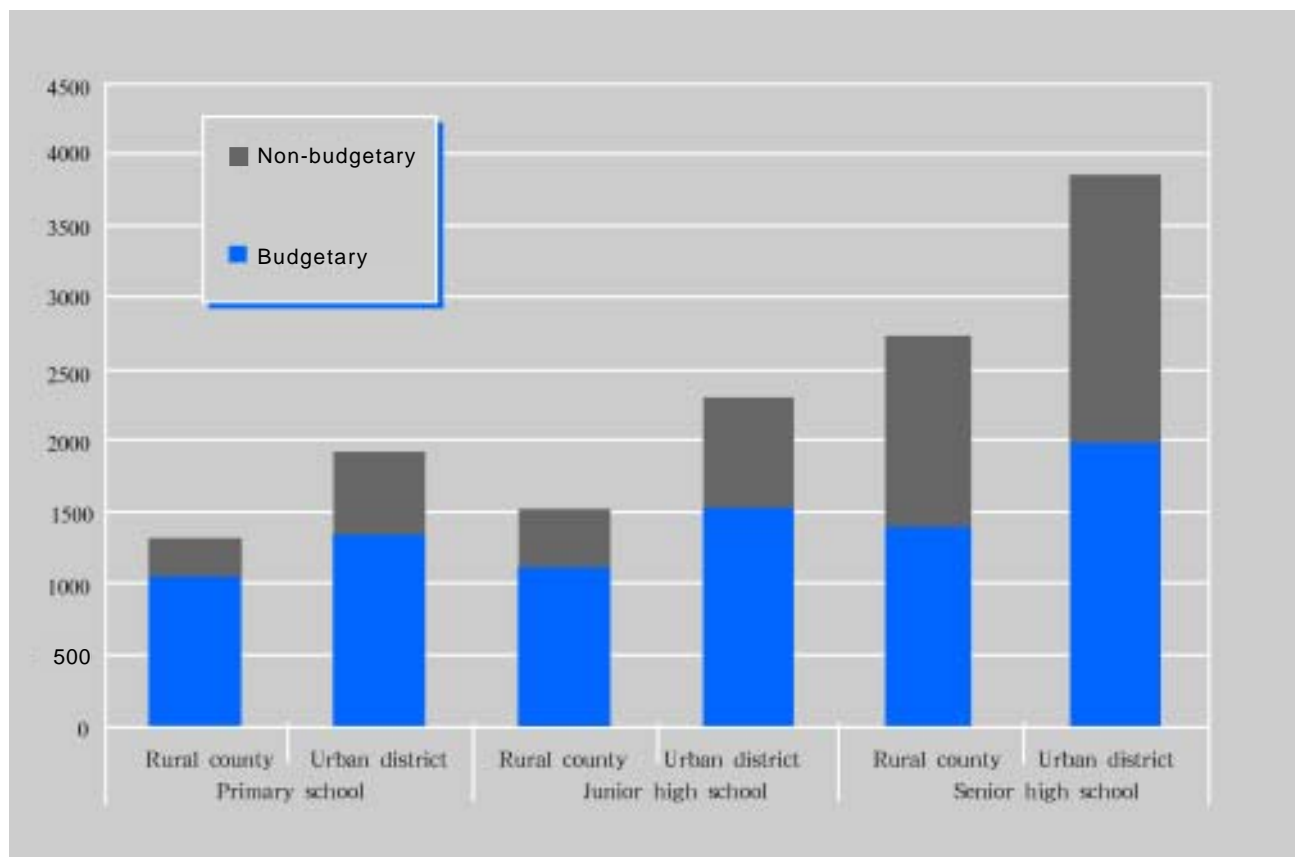
Source: Ministry of Education, 2003.

Box 3.1 The Evolution of the Responsibility System for China's Elementary Education

Local management of compulsory education is based on the "Educational Reform and Development Program" issued by the State Council in 1985 and the Compulsory Education Law passed some time later. According to a document issued by the State Council in July 1994, the central government formulates China's overall educational policy and plans, which are then implemented by local governments. Provincial governments are responsible for planning the development of basic education and helping meet the need for operating funds in the counties. In large cities, the duty of implementing compulsory education rests with district governments. In the countryside, it lies with county governments. Township governments are responsible for guaranteeing the right of school-age children to receive an education.

The vague delimitation of responsibilities between township and county governments has led to excessive decentralization of power. In many places, township governments have actually become salary providers for local school teachers as well as supplying other funds. In March 2001 the State Council pronounced the "Decision on the Reform and Development of Compulsory Education," aimed at reforming this system.

Starting in 2001, county governments were made responsible for managing and paying rural school

teachers. In areas where township governments previously held this responsibility, governments were to pay a certain proportion of their fiscal revenue to the county governments.

At the same time, the provincial governments are responsible for setting out a funding rate for basic operating funds for rural schools, excluding teachers'pay. County and township governments are obliged to offer extra funding to schools that cannot cover such expenses through tuition fees.

In May 2002, the State Council issued a new document to further emphasize the importance of reforming the rural compulsory education system. This document further emphasized the responsibility of township governments for providing educational funds, although it also mentioned that county governments should comprehensively manage schools' operating funds.

Disparities in health and public medical care

As a result of China's socio-economic development and better medical care, the population has become healthier. Between 1949 and 2000, life expectancy rose from 35 years to 71 years (Figure 3.11). Much of this progress reflects improved child and maternal health. Between 1991 and 2001, under-five mortality fell from 61 percent to 39 percent, infant mortality from 50 percent to 31 percent, and maternal mortality from 0.8 percent to 0.5 percent.

Figure 3.11 Life Expectancy, 1949-2000
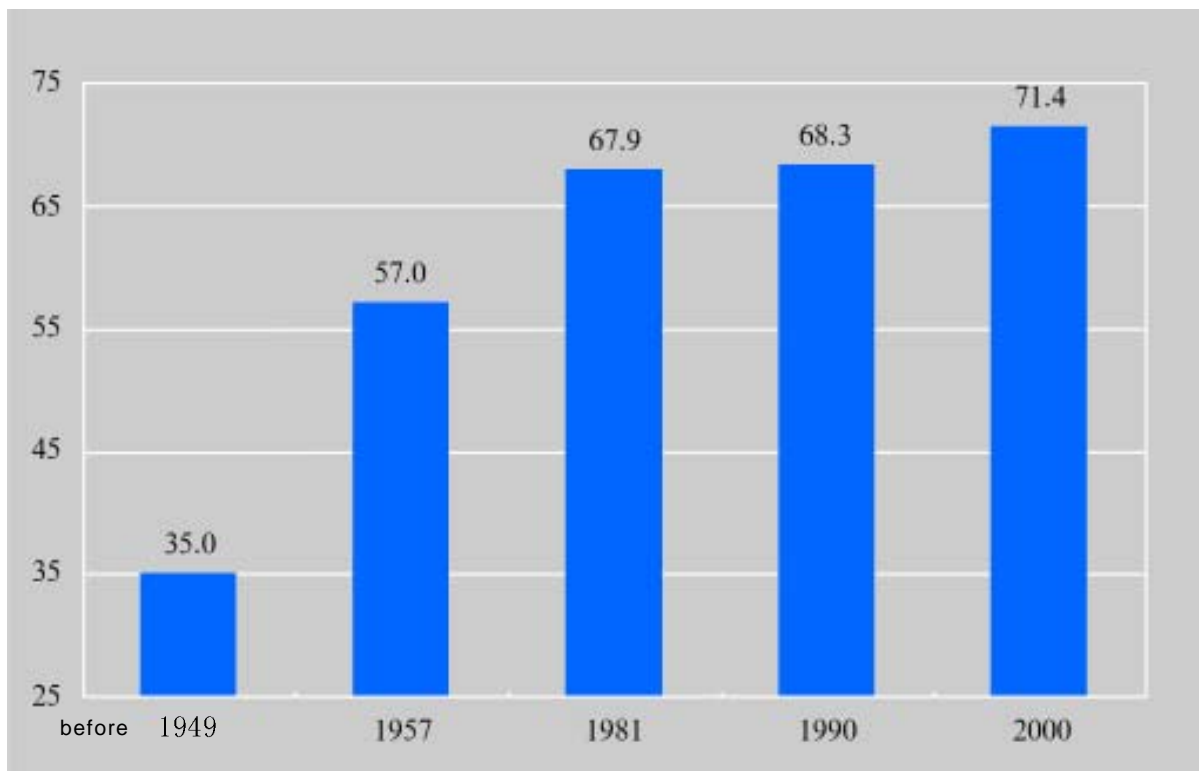
Source: National Bureau of Statistics, 2004c.

Improvements in health also correspond to better nutrition. Between 1992 and 2004, the proportion of underweight children fell from 18.1 percent to 7.8 percent and the average height of children aged from 3 years to 18 years increased by three centimeters. There are also fewer people suffering from micronutrient deficiencies. Iodine deficiency, for example, has been eliminated. Ke-shan disease and fluorine poisoning have also steadily been reduced.

The government is also making efforts to tackle HIV/AIDS, pledging to invest 1.75 billion yuan from 2003 to 2007. The government has promised to provide free medicine for infected people who are poor or live in rural areas, as well as anonymous testing in key regions. It will also provide free mother and baby screening, waive tuition fees for orphans of AIDS patients, and grant financial assistance to infected people suffering economic difficulties. [80]

Urban-rural disparities

Although considerable progress has been made, it has occurred faster in some places than in others. There are, for example, notable contrasts in mortality rates between urban and rural areas. Under-five mortality was 16 percent in urban areas but 40 percent in rural ones. Urban infant mortality is 14 percent while rural infant mortality is 34 percent, and urban neonatal mortality is 11 percent while rural neo-natal mortality is 24 percent. And while the maternal mortality rate was 0.33 percent in the cities, it was 0.62 percent in the countryside (Figure 3.12).

Figure 3.12 Child and Maternal Mortality Rates, 2001
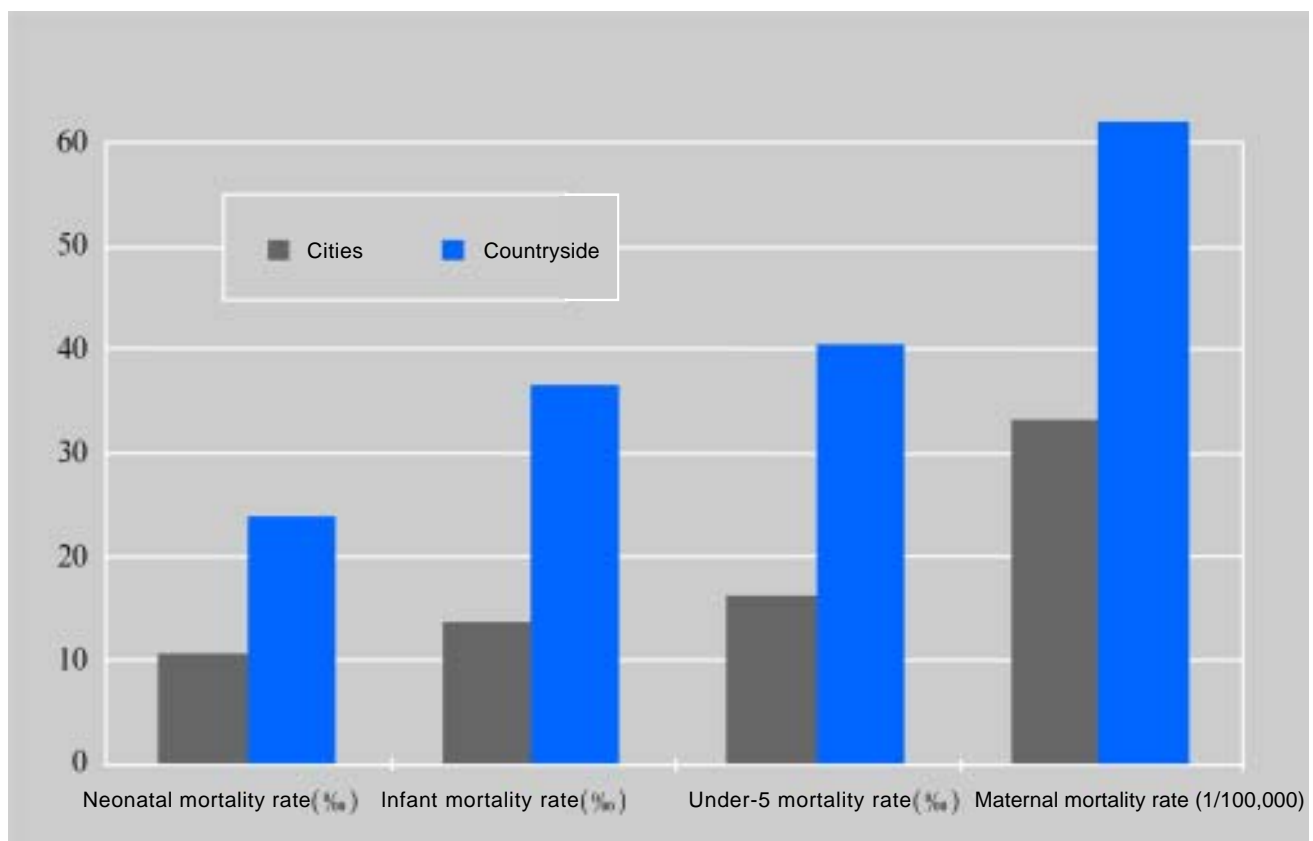
Source: Center for Statistics Information, Ministry of Health, 2003.

The incidence of disease over a two-week period for rural residents was slightly lower than for urban residents. In 2003, the incidence was 153 percent for urban residents and 139 percent for rural residents. [81] As shown in the second national health survey in 1998, the incidence of chronic disease in the cities was higher than in the countryside, but the incidence of infectious disease in two weeks in the countryside was higher than in the cities.

Children in rural areas are also more likely to be malnourished. In 2000, the proportion of children under five who were underweight was only 3 percent in the cities but 14 percent in the countryside. Similarly, the proportion of children who were stunted was only 3 percent in the cities but 20 percent in rural areas.

Figure 3.13 Urban-Rural Comparison of Proportion of Children Underweight or Stunted
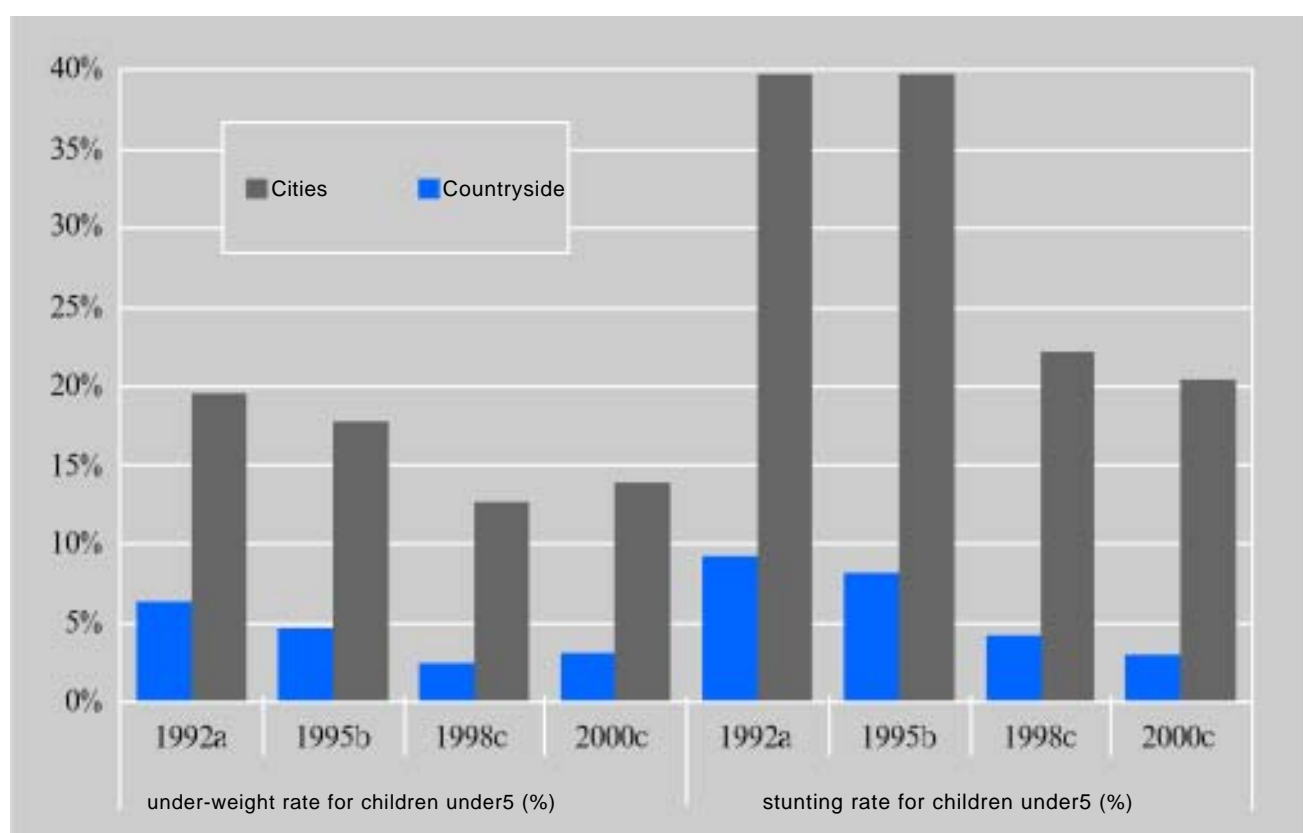
Sources: a. 1992 sample survey of Chinese children; b. 1995 data of mid-term NPA review by National Bureau of Statistics; c. National Bureau of Statistics, Research Team of Rural Surveys, 2003.

Regional disparities

Standards of health also tend to be much lower in western China. Thus while life expectancy was 71.9 years in the east, it was only 68.4 years in the west. There are similar contrasts for maternal mortality. China's 12 eastern provinces all had maternal mortality rates below the national average. But of the nine central provinces, seven had above average rates; and of the 10 western provinces, nine had rates above the national average (the exception being Inner Mongolia, which was about average).

There are also regional disparities in malnutrition. In 2000, the rates for both underweight and stunting were both twice as high in the west as in the east.

Figure 3.14 Regional Comparison of Children Underweight or Stunted, 1992-2000.
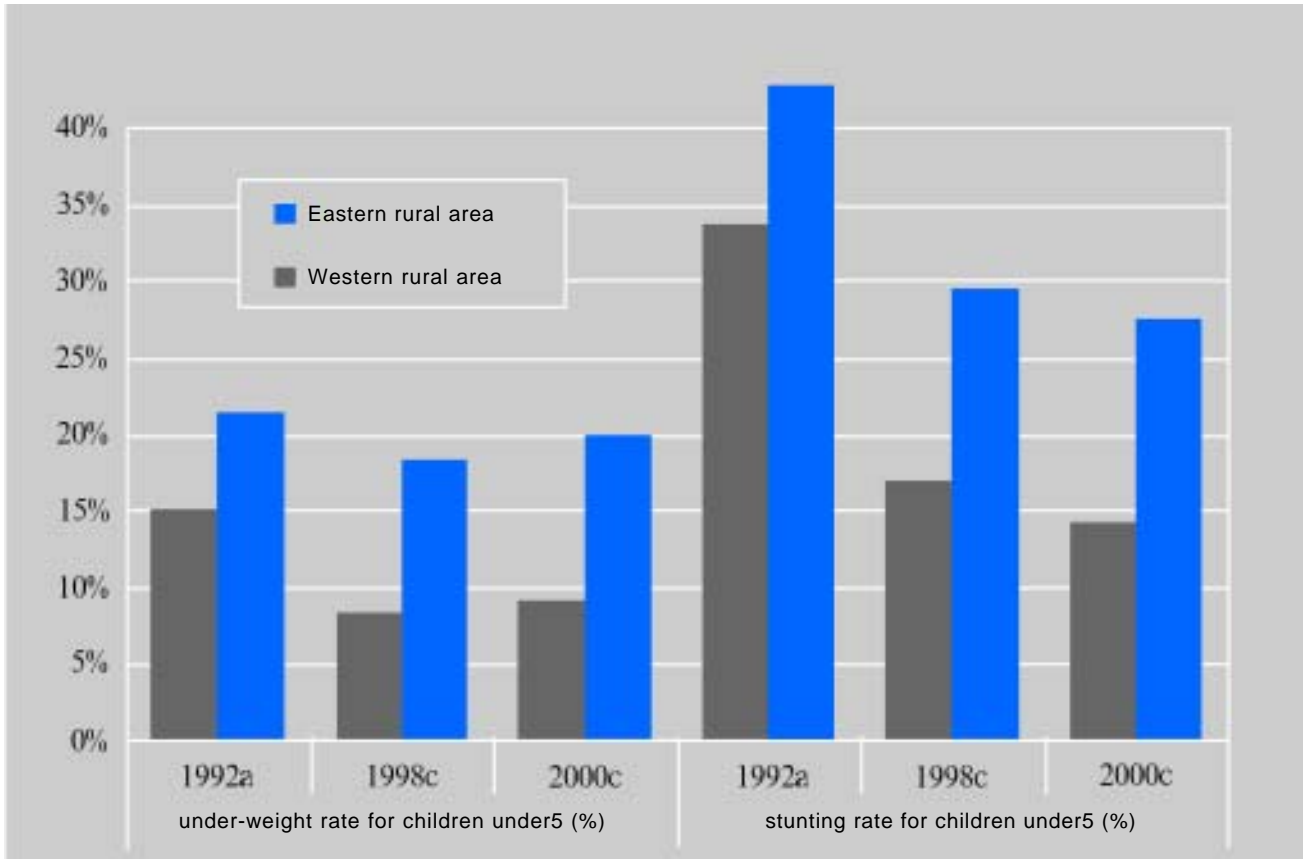
Sources: a. 1992 sample survey of Chinese children; b. 1995 data of mid-term NPA review by National Bureau of Statistics; c. National Bureau of Statistics, Research Team of Rural Surveys, 2003.

Disparities between income groups

Poor people suffer from much worse health than those who are better off. This is evident from World Bank data in Table 3.7 showing infant mortality is twice as high in the lowest quartile than in the highest quartile. People in the poorest quartile in the rural areas suffered an incidence of chronic diseases more than twice the rural average and almost three times the national average.

The incidence of diseases in two weeks for residents in poor areas was 1.6 times as high as the rural average, and the number of sick days in two weeks was 1.95 times the rural average.

Table 3.7 Health of Rural Residents by Income, 1993				
	Highest quartile	**Second quartile**	**Third quartile**	**Lowest quartile**
Infant mortality (deaths per thousand live births)	29	34	44	72
Life expectancy (years)	71	69	68	64
Incidence of infectious diseases (‰)	3.3	5.1	5.4	9.5

Source: World Bank FHC, 1997.

Disparities in medical services

People in rural areas also are less likely to get access to medical services. According to the third national health care survey in 2003, the proportion of people in urban areas who could reach the nearest medical institution in ten minutes was 82 percent. In the countryside, it was only 67 percent; moreover, 7 percent needed more than 30 minutes. Rural people also have fewer doctors to look after them: In the cities there are 5.2 medical personnel per 1,000 residents, whereas in the countryside there are only 2.4. And in the case of doctors specifically, the respective proportions are 2.3 and 1.2. People at the township and village levels are usually the worst off. Roughly half of all rural clinics are run by one person, and some villages have no clinic at all.

Even worse, the number of health personnel in rural areas appears to have declined, dropping by around 12 percent since 1980. Many of these healthcare workers have received very little medical education; few receive more than short-term training. The number of rural village doctors and health workers per 1,000 residents has decreased from 1.79 in 1980 to 1.41 in 2001.

Most health resources are concentrated in large and medium-sized cities because the bulk of the available funds are used for hospitals. Of China's total health expenditure in 2002, 67.7 percent went to hospitals, 50.5 percent went to urban hospitals, and just 7.3 percent to health centres.

Although hospitals can easily obtain government funding for expensive and sophisticated medical equipment, very little expenditure is devoted to public health—only 6.3 percent of the total.[82] This reduces the prospect of preventing and controlling infectious diseases. Some vaccination departments, for example, have been unable to buy the equipment they need, while others have even had difficulty in paying wages. Many have had to raise funds to make ends meet.

The lack of funds for public health has impaired the state's capacity to provide public goods and prevent and respond to infectious and epidemic diseases. This reality was exposed during the 2003 outbreak of SARS, which caused panic in urban and rural areas and cost both money and lives. The epidemic did prompt China to make greater efforts to review its public health system.

There are also disparities between the regions, and again, the western region fares the worst. Some poor and mountainous areas have no clinics, so farmers must go to hospitals in townships or county towns. The disparity between regions is evident in the proportion of the population that lives more than five kilometres from the nearest hospital. One survey in 2002 found this proportion to be only 8 percent in the eastern region, but 13 percent in the central region and 22 percent in the western region.

Another indication of disparity is the allocation of hospital beds, indicated in Figure 3.15: more than six beds per thousand residents in Shanghai, but fewer than two

beds per thousand in Guizhou. Over the past 20 years or so, medical provision in the eastern coastal areas has improved rapidly while the central and western regions have seen much slower progress. There are comparable disparities in the allocation of medical personnel, as indicated in Table 3.8. In the east, there are 3.9 medical personnel per thousand residents, but only 3.2 per thou-

sand in the central region and 3.0 per thousand in the western region. Even these figures understate the disparities since they take no account of quality. People in the east also benefit from a higher population density because they have a greater choice of facilities within easy reach.

Figure 3.15 Number of Beds in Hospitals and Health Centres, by Province, 2002 (per 1,000 Residents)
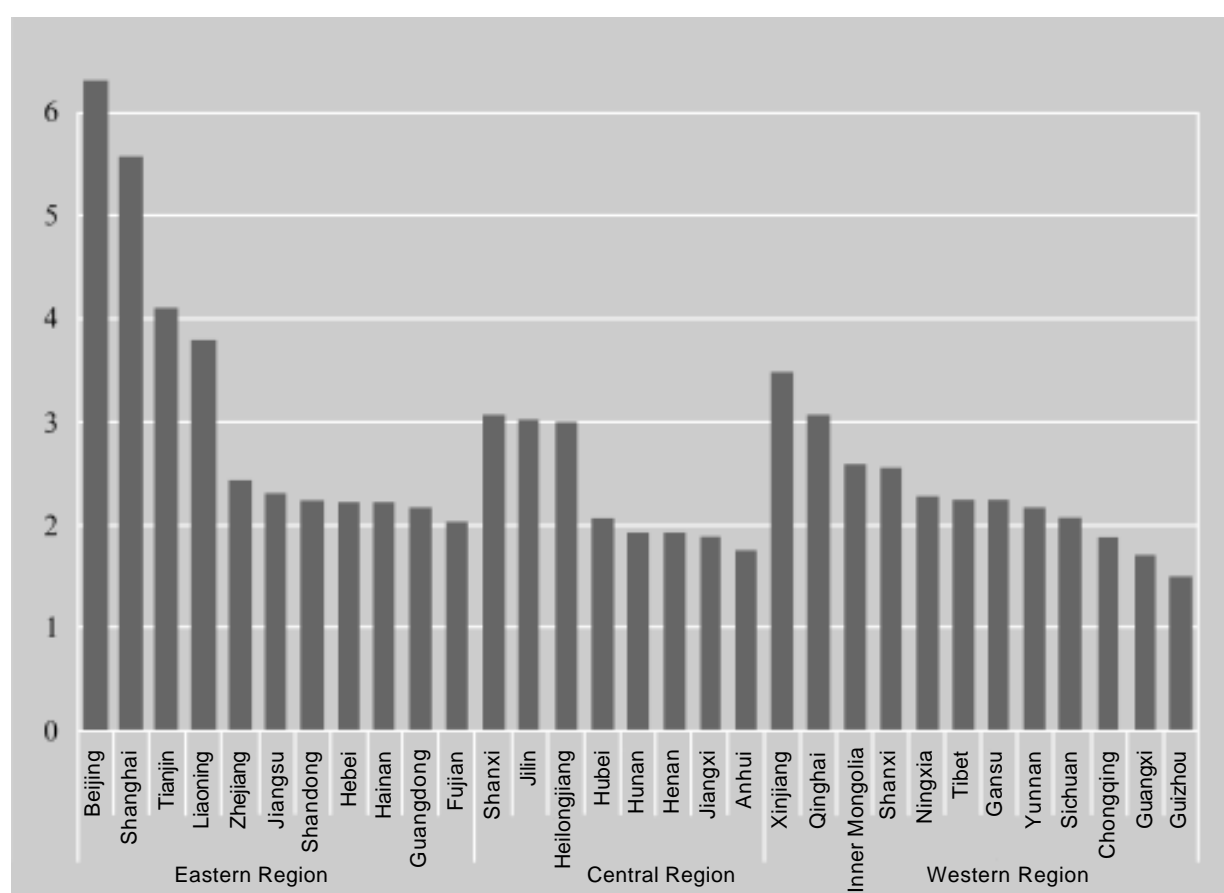
Source: Ministry of Health, 2003: Table 3.7.

Table 3.8 Medical Personnel per 1,000 Residents, by Region, in 2002		
	Number of medical personnel per 1,000 residents	**Number of practicing (assistant) doctors per 1,000 residents.**
Eastern region	3.8	1.7
Central region	3.2	1.4
Western region	3.0	1.4

Source: Calculated on the basis of Ministry of Health (2003).

Disparities in the use of medical services

According to China's third national health care survey in 2003, although rural people were more likely to require hospital visits, a smaller proportion of them were actually hospitalized. Rural residents were also more likely than urban residents to leave the hospital without receiving treatment - 14 percent versus 10 percent - usually because of financial difficulties. Even those who did receive treatment often had to leave early because they could not afford to stay, a problem that appears to be increasing. Of the patients who left hospital early, 34 percent of urban residents asked to leave, and of these, 53 percent of them did so due to financial difficulty. In the countryside, 47 percent asked to leave hospital, 67 percent because of financial difficulty.

An important indicator of the use of hospital services is the proportion of births that take place in hospitals; hospital births can substantially reduce maternal mortality. Nationally the proportion of hospital births in 2002 was 79 percent but there were wide regional differences. These ranged from virtually 100 percent in the major cities to roughly one-third in Tibet and Guizhou. The lowest rates occurred in the West (Figure 3.16).

The proportion of patients who need to see a doctor but do not do so is 22.1 percent for low-income families and 13.5 percent for other income groups. Among members of poverty-stricken households, 66.6 percent did not visit a doctor owing to financial difficulty. In low-income households the proportion was 65.9 percent, in other households, 61.5 percent.[83] Among poverty-stricken households, the main reason not to visit hospitals is financial difficulty (66.6 percent), followed by distance (23.5 percent). These figures imply that financial difficulty and an unreasonable allocation of medical resources are the main reasons rural people, especially the poor, are unable to make use of medical services.

Figure 3.16 Hospitalized Delivery Rates in Various Provinces (percent), 2002
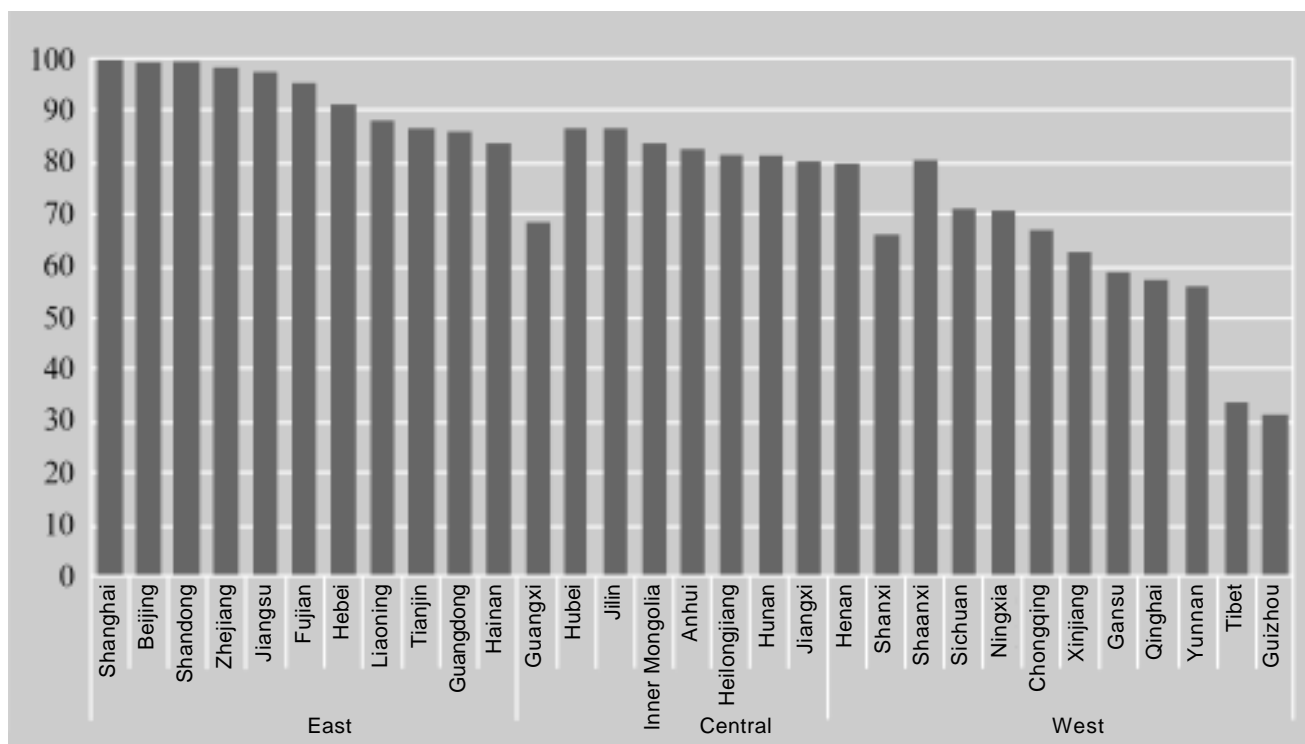
Chapter IV

The State of Equity in China: Social Security and Public Expenditure

For all affairs let there be adequate preparation. With preparation there will be no calamities.
——Quoted from The Charge to Yue from The *Shangshu (The Book of Historical Documents)* (?——200 A.D.)

It was entirely due to the stores accumulated through the system of equable marketing and the hoard in public granaries that the troops were provided for and the distressed people succored. Thus the goods of equitable marketing and the capital of the Treasury are not for the purpose of exploiting the people or solely for military uses, but also for the relief of the needy and as a recourse against flood and drought.
——Quoted from *Yan Tie Lun (Discourses on Salt and Iron, A Debate on State Control of Commerce and Industry in Ancient China)* (the Han Dynasty), by Sang Hong Yang (152 B.C.——80B.C.)

Social security in China

Since the mid-1980s, China has been dedicated to establishing a social security system to match the development of its market economy. The Amendments to the Constitution, adopted in March 2004, state clearly that "the State should construct an all-round social security system which goes well with the pace of economic development."

China's social security system consists of two main parts. One is social insurance, including medical insurance, pension, unemployment insurance, work injury insurance, and maternity insurance. Another is social assistance, including a minimum living standard scheme for urban residents; minimum living standard programs for semi-rural residents; assistance to those in difficulty or suffering from disasters; and poverty alleviation projects.

Items of China's social security	Main targets	Eligibility	Entitlement	Fund source
Social insurance	Urban employees	Employees of urban enterprises and institutions	Work Duration and Contribution record	Social insurance premium Subsidies from public finance
Urban social assistance	Urban low-income or non-income residents	Residents with urban Hukou	Household Income Level	Public finance
Rural social assistance Five-guarantee assistance Minimum income support program for rural residents Assistance to those in difficulties or suffering from disasters	Disaster victims Rural individuals or households enjoying the five guarantees Families with subsistence difficulties	Non-urban- Hukou residents	Information of Capability from Household, and Relative Survey	Public finance Fund raised from rural communities

Table 4.1 Main Items of China's Social Security

Source: Shang, Background Report.

Inequity in China's social security system has roots in both the system and policies. Due to a long-term public-ownership-biased system and the urban-rural division of labor markets, social security resources are not distributed evenly among different programs and population groups. The importance of state-owned enterprises and urban collective enterprises for employment is decreasing, but the social security resources expended by these enterprises are still rising. Economic development has also led to a growing number of social security programs, but they have limited coverage and are available to a privileged few. At the same time, the proportion of social aid and service for the underprivileged is shrinking over time.

Against such a backdrop, the system cannot guarantee equal social security rights to all groups. The social security system is also biased towards the urban population, and concentrates on social insurance, with a tiny proportion for social relief expenditures targeted at the poor. The average social security expenditure per capita in urban areas is 10 times that of rural areas.[84] Thus, the social security premiums of urban employees are continuously increasing, while rural migrant workers, employees of township enterprises, and farmers—who represent the majority of Chinese labor—are virtually excluded from the system.

Differences in pension system

Eligibility

To be eligible for pension benefits, recipients must have accumulated 15 years of personal contributions and be 60 years old if they are men and 55 if women. Currently, the basic pension of enterprise workers is based on a decree issued in 1997. The system covers all urban employees and the self-employed and is therefore accessible to urban workers only. The decree abolished restrictions based on the employer's ownership, workers'employment status, and place of Hukou, thus reducing social inequity based on identity. All those who have paid individual premiums for 15 years can also enjoy a basic pension, beneficial to workers in seasonal and flexible employment. Once this decree was issued, the Ministry of Labor and Social Security further specified that the conditions for contractual workers from rural areas were the same: 60 years of age for males and 55

for females, with 15 years of individual contributions. At the end of 2004, the number of people covered by the basic pension scheme was 163.53 million, including 122.50 million workers and 41.03 million retirees, but very few rural migrant workers.

Coverage

Coverage of China's pension scheme has two characteristics. First, there is a great difference among urban and rural areas. According to a survey by the China Research Center on Aging at the end of 2000, more than 70 percent of the urban elderly were covered by a pension scheme, as opposed to 3 percent of the elderly in the rural areas (Table 4.2). Second, gender differences are notable, even in cities, where male-female coverage ratio is 3 to 2. Such a difference is evident in both the developed eastern regions and the relatively underdeveloped west (Table 4.2).

Table 4.2 Pension Enjoyed by the Urban Elderly by Gender, Hukou and Location (2000)						
	Total		Male		Female	
	Number	Percentage*	Number	Percentage	Number	Percentage
Number surveyed	10171	100.00	4916	100.00	5255	100.00
Number of aged population enjoying pension	7132	70.12	4164	84.70	2968	56.48
Hukou						
Non-farming	6951	77.39	4063	92.67	2888	62.82
Farming	176	14.96	99	18.80	78	11.88
Localities						
Eastern region	3966	72.59	2208	85.23	1758	61.19
Central region	2228	67.51	1338	83.20	890	52.60
Western region	938	66.66	618	86.11	320	46.42

Note: In this table, coverage refers to the percentage of aged population covered by pension schemes in their age groups. The elderly who have never worked are not included.
Source: China Research Center on Aging, 2000.

Table 4.3 Pension Enjoyed by the Rural Elderly by Gender, Hukou and Location (2000)						
	Total		Male		Female	
	Number	Percentage*	Number	Percentage	Number	Percentage
Number surveyed	10084	100.00	4891	100.00	5193	100.00
Number of aged population enjoying pension	361	3.58	326	6.67	34	0.66
Hukou						
Non-farming	223	46.29	203	64.61	20	11.97
Farming	138	1.44	123	2.70	14	0.29
Localities						
Eastern region	166	4.33	143	7.91	22	1.10
Central region	140	3.51	131	6.69	10	0.48
Western region	55	2.43	52	4.64	2	0.21

Source: China Research Center on Aging, 2000.

Inequality

Elderly people enjoy different pensions according to their gender, location of residence, and workplace ownership. Table 4.4 illustrates that the amount of pensions for urban residents is 20 percent higher than for rural ones. In the cities, the per capita pension for the non-farming elderly is 110 percent higher than for farming residents. Pensions for urban males are 40 percent higher than for urban females, while pensions for rural males are 52 percent higher than for rural females. In the cities, the average pension for retirees from Party and state organs and institutions is 144 percent higher than that for collective enterprises, and this figure is 23 percent higher in the eastern regions than in the west.

Table 4.4 The Pensions Enjoyed by the Elderly People by Gender, Hukou, Unit and Location (2000) Unit: Yuan/month						
	Urban			Rural		
	Total	Male	Female	Total	Male	Female
Number of observations	668	759	541	404	420	277
Hukou						
Non-farming	677	769	548	565	568	531.62
Farming	321	350	284	176	196	57.69
Ownership of units						
Party and state organs and institutions	975	1026	863			
State-owned enterprises	627	684	535			

Collective enterprises	400	437	378			
Other types of enterprises or self-employed	554	787	303			
Localities						
Eastern region	717	819	588	384	405	269
Central region	618	709	482	421	430	324
Western region	582	654	444	419	435	171

Note: Pension is the average amount of pension of various groups
Source: China Research Center on Aging, 2000.

Differences in unemployment insurance

At present, unemployment insurance covers all urban enterprises and urban workers. A large proportion of rural migrant workers are excluded from the unemployment insurance system, although they are much more likely to be unemployed than urban workers. Current regulations do not require enterprises to pay for unemployment insurance for rural migrant workers. While official data are not available, surveys show rural migrants are largely bypassed by the system. For instance, a survey of the rural migrant population by the income distribution research team of the Institute of Economics, CASS shows that less than 2 percent of rural migrant workers in the cities enjoy or partly enjoy unemployment insurance. Once they lose their jobs in the cities, migrant workers tend to return to their land in the countryside—their last resort to social security. They represent a large proportion of the population and lack access to stable employment.

Discrepancies in medical insurance between rural and urban areas

Medical insurance is the core of medical care: It absorbs the most resources, covers the widest scope, and exerts the largest influence. Employees in cities are the main consumers of urban medical insurance.

The current system is jointly funded by social pooling and individual accounts, with the government, employers, and employees sharing expenses. The coverage rate of medical insurance has decreased dramatically because of reforms in State-Owned Enterprises (SOEs) and increasing informal employment. Consequently, the proportion of persons with no medical insurance increased from 27.3 percent in 1993 to 44.8 percent in 2003.

Although the coverage rate in urban medical insurance decreased continuously from 56.5 percent in 1993 to 34.2 percent in 2003, it was still higher than that in rural areas (Figure 4.1). Because of the income gap, the proportion of farmers' medical expenses to their income is far higher than that of urban residents. In addition, migrants from rural areas lack access to medical insurance in cities. These facts attest to inequitable access to medical insurance among rural and urban residents.

Figure 4.1 Coverage of All Kinds of Medical Insurance among Rural and Urban Residents
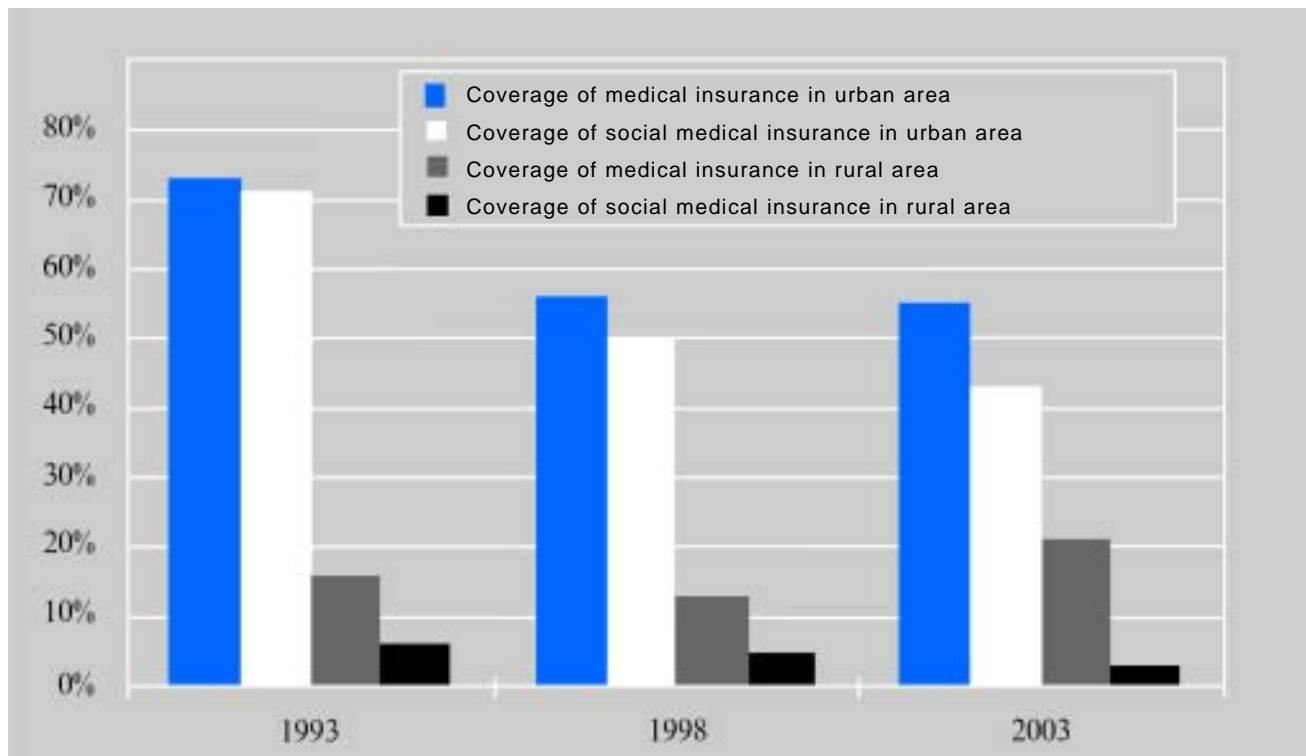
Source: Statistics and Information Center of the Ministry of Health, 2004a.

In 2002, the Chinese government introduced a publicly funded medicare scheme. Through the Decision on Further Intensifying Efforts on the Rural Health Administration (Zhong Fa [2002] No.13), the State Council introduced rural cooperative medicare and increased support of medical insurance for serious diseases. Still, there is a great gap in the coverage of these two independent medical insurance systems adopted in rural and urban areas. The scheme for urban employees has been established in every city to cover every category of laborers, while the rural cooperative medicare is only being experimented with in some regions. By the end of 2004, 310 counties with 1069.1 million residents were covered by this scheme, with 804.0 million persons actually participating. (See Box 4.1). In August 2005, the central government decided the proportion of pilot counties would increase from 21 percent to 40 percent in 2006, and the subsidy from public finance would increase from 10 Yuan to 20 Yuan. In addition, the government decided to subsidize agrarian counties in central and western areas and include the poor eastern counties in the pilot program. At the same time, local governments were asked to increase their share of resources while avoiding increases in standard fees at the expense of farmers.

Box 4.1 History of Rural Cooperative Medical Service and Current Reform in China

The basic medical care system practiced in rural areas in China is rural cooperative medicare. It is an important part of China's social security system.

The First Stage

Rural cooperative medicare was first established in the 1940s. By the end of the 1960s, Chairman Mao Zedong called for emphasizing cooperative medical services in rural areas. This led to further development of rural cooperative medicare and the use of millions of unqualified medical staff ("barefoot doctors") in rural areas. At the same time, local basic clinics and cooperative insurance programs grew rapidly at rural people's communes. By 1980, about 90 percent of villages provided cooperative medical service, and medical service covered 85 percent of the rural population. Even so, the quality of medical service was relatively low.

The Second Stage

During the 1980s, the rural cooperative medicare system had virtually disintegrated. Starting in 1993, the government tried to partly re-establish the system, limiting it to pilot areas and the suburbs for lack of funds. The second National Health Services Survey conducted by the Ministry of Health showed that in 1998, only 12.56 percent of rural residents had access to medical services, and the proportion to be covered by cooperative medical services was only 6.5 percent.

The Third Stage

By 2003, a new type of rural cooperative medicare was being tried, a system organized, guided, and supported by the government. It is a subsidized medical care system featuring mutual help and common benefit under a coordinated plan, funded by individuals, collectives, and governments and open to farmers on a voluntarily basis. Each family pays 10 Yuan per person annually to a fund (more for some of areas in eastern and central China). These contributions, together with a subsidy of 20 Yuan per person from governments at different levels, constitute a cooperative medical fund deposited in the special account of the county (city) State commercial banks or credit cooperatives. When farmers who participate in the system go to medical institutions appointed by the county, they can receive direct reimbursement for part of their expense.

The new type of rural cooperative medicare reform has just started and faces a number of problems. First, some farmers still mistrust the stability and credit of the system. Second, many pilot counties have not set up simple and effective payment mechanisms for farmers. In some places, the local cooperative medical service fund is mismanaged. Third, in some pilot areas, the system has low coverage and a low level of benefits for farmers. Fourth, there is a distinctive problem in fund-raising. Some townships with financial difficulties cannot allocate sufficient funds on time. Fifth, some rural medical services are below standard and drug prices are relatively high. Finally, the ability to manage cooperative medical services is weak.

Resource: China Economic, Educational, Scientific and Research website; People's Daily website; National Bureau of Statistics, 2004; 2005.

There also exists an obvious gender difference in public health services and medical insurance. According to a survey by the Women's Research Center of the All-China Women's Federation at the end of 2000 (Table 4.5), the coverage of male employees was 8 percentage points higher than that of females.[85]

Table 4.5 A Regional Comparison of the Coverage of Various Social Securities for Urban Workers by Gender (percent)

		Nationwide	East	Central	West
Free medical care or medical insurance	Male	60.2	59.9	58.8	64.5
	Female	52.3	52.0	49.3	61.7
	Difference	7.9	7.9	9.5	2.8
Unemployment insurance	Male	48.3	48.0	45.7	55.2
	Female	41.8	41.0	40.3	49.4
	Difference	6.5	7.0	5.4	5.8
Pension	Male	65.9	66.2	64.9	67.6
	Female	60.5	58.9	59.6	69.4
	Difference	5.4	7.3	5.3	−1.8
Work injury insurance	Male	57.3	56.6	56.0	62.6
	Female	46.8	44.7	47.1	54.2
	Difference	10.5	11.9	8.9	8.4
Sick leave pay	Male	62.1	62.6	61.4	62.3
	Female	55.1	54.6	53.4	61.6
	Difference	7.0	8.0	8.0	0.7
Child birth/maternal healthcare benefits	Male	71.3	72.3	69.7	72.1
	Female	63.3	62.4	61.5	71.8
	Difference	8.0	9.9	8.2	0.3
Housing subsidy/housing	Male	50.9	51.1	48.7	55.5
	Female	44.2	41.8	44.6	52.4
	Difference	6.7	9.3	4.1	3.1
Paid vacation	Male	50.3	49.6	49.3	54.6
	Female	42.9	41.8	41.8	50.2
	Difference	7.4	7.8	7.5	4.4

Source: Jiang, 2003.

The minimum living standard scheme for urban residents

Before 1999, China's urban social assistance mainly covered only those who were not employed and was only a supplement to social insurance. Besides offering support to orphans and the elderly, or community-based support combined with preferential policies in employment for the disabled, the main form of social assistance was providing regular or temporary relief to unemployed and marginalized urban residents.

After the State Council issued "Rules on the Scheme of Minimum Living Standards for Urban Residents" in 1999, the scope of urban minimum-income protection expanded rapidly. According to these rules, all urban residents have the right to apply for protection. The only restriction has been the place of Hukou. Yet compared with previous arrangements, this reform brought a great change. It removed limitations on social protection benefits based on public ownership of employees' work units, kinship, and employment. In 2002-2003, all urban residents who met the conditions for the scheme were covered. By that

time, the first social security system in China based merely on urban-Hukou residence was established in urban areas. Since then, the population receiving social assistance has expanded dramatically to 22.105 million people, as has the coverage of social assistance items.

This was the first time China abolished limitations linked to identity and ownership of the applicant's employer. It therefore represented a positive step towards promoting universal citizenship and equality of social rights among citizens. In terms of regional equality, central funding support for underdeveloped regions helps reduce the widening income gap between regions. The minimum standard of living scheme for urban residents has to a great extent alleviated urban poverty. [86]

Table 4.6 Proportion of the Population of Assisted Households in the Urban Population			
Year	**Urban population (1,000)**	**Population in assisted households (1,000)**	**Percentage of assisted population in the urban population (percent)**
1993	333510	2508	0.77
1996	359500	4196	1.17
1997	369890	4234	1.14
1998	379420	5375	1.42
1999	388920	4977	1.28
2000	458440	6302	1.37
2001	480640	11320	2.36
2002	502120	22105	4.40

Source: Planning and Finance Division of the Ministry of Civil Affairs, 1994; National Bureau of Statistics, 2000; 2003.

Gender and regional differences in rural social assistance

The Ministry of Civil Affairs began piloting a rural social security system in some areas in 1994, including a minimum living standard scheme. In 1996, the ministry formally set goals for the regular rural assistance system, and decided to gradually expand the scope of the trial.[87]China's rural social assistance system is thus transforming from collective to state assistance.

So unlike the urban scheme, the system is still collective. Since the coverage rate is limited by economic development and fiscal capacity of local governments, there are great differences among regions. Only a few developed regions have implemented the universal minimum standard for both rural and urban areas. However, in the poor regions with a large rural population needing assistance, this scheme has not been set up due to funding problems.

A survey of the elderly population by the China Research Center on Aging in 2000 indicated that in developed eastern areas, local governments and rural collectives offered much more assistance to the poor elderly population than those in central and western regions. Table 4.7 shows that in the east, 11 percent of the aged population received assistance, while in the west, only 5.9 percent did. In addition to government aid, some poor elderly could get assistance from collectives. As seen in Table 4.8, regional differences were even greater in collective assistance to the rural elderly poor: The proportion was 8.5 percent in the east and 1.1 percent in the west. China's rural social assistance system is determined by the fiscal capacity of local government and communities, with developed regions providing the poor population with more assistance.[88]The survey also indicated that more males (9.2 percent) received government aid than females (6.6 percent) (Table 4.7). The gender difference exists not only in coverage, but also in average amount of aid delivered, with elderly men receiving almost twice as much per month as women.

Table 4.7 Rural Elderly Receiving Government Assistance by Gender and Region (2000)						
	All		Male		Female	
	Number	Percentage	Number	Percentage	Number	Percentage
Total	10084	100.00	4891	100.00	5193	100.00
Total number of people who enjoy government assistance	779	7.87	442	9.22	337	6.61
Hukou	9897	100.00	4794	100.00	5102	100.00
Non-farming	25	5.31	12	3.8	13	8.15
Farming	754	8.00	430	9.59	324	6.56
Region						
Eastern Region	411	10.99	208	11.79	204	10.28
Central Region	236	6.03	153	7.98	83	4.15
Western Region	132	5.89	81	7.28	51	4.51

Source: China Research Center on Aging, 2000.

Table 4.8 The Differences in Collective Aid Received by the Rural Aged Population by Gender, Household and Region (2000)

	All		Male		Female	
	Number of people	Percentage	Number of people	Percentage	Number of people	Percentage
Total	10084	100.00	4891	100.00	5193	100.00
Total number of people receivedcollective aid	427	4.31	210	4.37	217	4.25
Hukou	9904	100.00	4801	100.00	5103	100.00
Non-farming	13	2.63	9	2.77	4	2.37
Farming	414	4.39	201	4.48	213	4.31
Region						
Eastern Region	316	8.45	158	8.98	158	7.98
Central Region	86	2.17	39	2.01	47	2.33
Western Region	25	1.11	13	1.14	12	1.08

Source: China Research Center on Aging, 2000.

Taxation system and fiscal revenue and expenditure

There is great difference in public services between the rural and urban areas. This discrepancy can be mainly explained by the difference in public fiscal expenditure by local governments. As the expenditure of a local government depends mainly on its revenue, differences in economic development will result in differences in government expenditure, and in the amount and quality of public services, between urban and rural areas and across regions.

Inequitable tax burden and fiscal expenditure

The various disparities between urban and rural areas are more or less related to fiscal expenditure. Since the fiscal budget is allocated to central and local governments, only data pertaining to fiscal revenues and expenditures by governments at several levels are known. Lack of data on revenues and expenditures of local governments makes it difficult to ascertain the fiscal gap between rural and urban areas. Yet, preliminary data point to some persuasive evidence.

First, although their income and average living standards are much lower, rural residents bear greater tax burdens than city dwellers. Before rural tax reforms were initiated in 2000, farmers bore much greater tax burdens than urban residents. Taxes imposed on them were called "the four agricultural taxes," and included agricultural tax, agricultural specialty duty, animal slaughter tax, and deed tax.[89] Rural residents also had to contribute to five types of township pooling funds and pay three types of village levies, as well as paying many unofficial fees and assessments. As stipulated by the central government, the contribution to township pooling funds and village levies should not exceed 5 percent of local farmers' net income in the previous year. However, quite a few surveys reveal

the farmers made far larger payments. A survey conducted by the Project Team of "County and Village Finance and Farmers Income Growth" of the State Council's Development Research Center conducted in three agrarian counties found that the per-capita fee and tax burden was 12 percent, with one county suffering from a tax burden of 28 percent in 1997.[90]

The Chinese government has tried to reform the rural taxation scheme since 2000, and plans to abolish agricultural taxes nationwide in 2006. (Box 4.2)

Second, the inequality in allocation of state funds between rural and urban areas is obvious when comparing fiscal expenditures of the urban government with those of the county government. The "tax sharing system" reform begun in the mid-1990s resulted in further re-centralization of national fiscal revenues and expenditures. But the division of responsibilities among governments at different levels was not adjusted correspondingly, and governments at the county and township levels still bore the main responsibility for pro-

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Box 4.2 China's Agricultural Taxes

Agricultural tax has long been an important issue in the politics and economy of China.

The earliest written record of agricultural tax was the "chushuimu", namely, taxation on the basis of one mu of land, in the 15th year of the reign of Emperor Lu Xuangong (594 B.C.E.) as recorded in The Spring and Autumn Annals.

After the founding of the People's Republic, China developed a strategy of investing in heavy industry first while reducing subsidies to agriculture and monopolizing the purchase and sale of agricultural products. An agricultural tax was levied to accumulate capital for the development of industry. First, a "hidden tax" was introduced through the practice of price scissors between industrial and agricultural products. The state set low prices for agricultural products, while selling industrial products to farmers at high prices. Second, the state levied taxes, which included the four agricultural taxes (agricultural tax, agricultural specialty duty, animal slaughter tax and deed tax), the regular "five types of township fees, the three types of village levies," and some erratic charges.

In 1985, the Chinese government reformed the grain purchase and distribution system by introducing a contract system. While the state set prices for major agricultural products including grain, cotton, and edible oil sold through contracts, the prices of most other agricultural products were left to the market. This led to the "dual-track system" of prices for agricultural products. But because the market prices were higher than the prices for contracted purchase and negotiated prices for most years, the "dual-track system" exacerbated the "hidden tax." For example, in 1995, the government purchased 46.20 million tons of grains under contract and purchased 46.30 million tons of grains at negotiated prices. The average contracted price for purchased grains was 60 percent and the average negotiated price was 90 percent of the market price. The difference meant that the State levied 40.7 billion yuan of hidden taxes on grain farmers.

In 1994 and 1996, the Chinese government increased the grain purchase price by a big margin. In 1998 it introduced a new round of reforms, which meant purchasing the farmers' surplus grains at a protected, above-market price without any limitation. Since then, "hidden taxes" were curbed and grain could be freely traded on the market. At the same time, however, taxes and various charges have continuously increased. Governments at the county and township levels also began levying more-and more random-taxes on farmers.

To alleviate this increasing tax burden, in 1996 the government piloted a rural tax-for-fee reform in the large agrarian provinces of Anhui, Hebei, Henan, Hubei, Hunan, Hubei, Hunan, Guizhou, and Shaanxi. The experiment was then expanded to other rural areas in 2000 and throughout the country in 2002. The rural tax-for-fee reform aims at "three cancellations, two adjustments and one reform." First, canceling township charges, the animal-slaughtering tax and two sorts of voluntary labor (accumulative labor and voluntary work). Second, adjusting agricultural tax and taxes on special agricultural products. Third, reforming the current method of collection and use by villages. The reform has been successful in relieving farmers'burdens from random taxes, but the rural tax burden continues to be concentrated on grain-growing farmers, and township and village financial capacity is weakened.

In March 2004, Premier Wen Jiabao proposed to continue promoting the tax-for-fee reform in rural areas and cancel taxes on special agricultural products except for tobacco leaf. He also proposed gradually reducing agricultural taxes and canceling them completely in five years. In order to support the rural tax-for-fee reform, the central government spent 39.6 billion yuan for payment transfer, provided public service in rural areas, and accelerated related reforms of county and township organizations in 2004. By February 2005, 26 Chinese provinces (autonomous regions, municipalities) had eradicated agricultural taxes.

Source: Collected and edited by Zhang Changdong and Wang Chunhua.

viding public services in rural areas.[91] The re-centralization aggravated the fiscal difficulties of governments at the county and township levels.

As shown in Table 4.9, the fiscal expenditure of such governments as a percentage of the total expenditure of local governments was reduced to 40 percent in 2000, while the remaining 60 percent was controlled by provincial, prefecture, and city governments.

Third, the proportion of fiscal expenditure on agriculture by governments in national fiscal expenditure and GDP is falling continuously. The government's agricultural expenditure has increased in absolute terms from 15.36 billion yuan in 1985 to 175.48 billion yuan in 2002. However, agricultural expenditure as a proportion of total fiscal expenditure dropped from 10.9 percent in 1990 to 8.8 percent in 2003. The proportion of agricultural expenditure in GDP decreased from 1.7 percent in 1990 to a record low of 1.0 percent in 1995, and recovered to 1.5 percent in 2003. Agricultural taxes levied by the country accounted for 0.45 percent to 0.75 percent of GDP.

From 1995, net fiscal transfer to agriculture accounted for less than 1 percent of GDP: only 0.52 percent in 1995 and 0.75 percent in 2003 (Table 4.10).

The distribution of health care expenses provides a good example of the gap in expenditures between rural and urban areas. Expenses per capita in urban areas were RMB 933 in 2002, 3.3 times that of rural areas (RMB 269). The gap between the inputs to rural and urban areas is great both in absolute and per capita terms (Table 4.11).

Table 4.9 Fiscal Expenditure of Local Governments as a Percentage of Local Fiscal Expenditure, and Its Changes in 2000

	Whole country	Hebei	Gansu	Hunan	Jiangsu
Percentage of expenditure:					
Province	29.3	29.0	39.5	32.8	46.3
Prefecture and city	30.6	22.4	17.3	22.3	49.5
County*	29.0	28.0	30.9	36.1	2.7
Town	11.2	11.4	11.2	8.8	1.4
Changes since 1994/95(percent):					
Province	2.9	5.7	7.2	6.9	26.3
Prefecture and city	−0.7	−1.7	−4.8	1.1	14.9
County*	−1.9	−3.6	−3.2	−4.1	−42.7
Town		0.4	−12.6	−3.9	1.4

Note: The fiscal expenditures of county governments include part of the expenditures of township governments.
Source: Wong and Deepak, 2003: 54.

Table 4.10 The Proportions of Agricultural Taxes and the Governments' Agriculture-supporting Expenditures in the Total Fiscal Expenditure and GDP during 1985-2003

	1985	1990	1995	2000	2003
Agricultural taxes (RMB0.1 billion)	42.1	87.9	278	465	875
Proportion in fiscal revenue (percent)	2.1	3.0	4.6	3.5	4.0
Proportion in GDP (percent)	0.47	0.47	0.48	0.52	0.75
Agriculture-supporting fiscal expenditure (RMB0.1 billion)	153.6	304.8	574.9	1231.5	1650[a]
Proportion in fiscal expenditure (percent)	7.66	9.98	8.43	7.75	9.58
Proportion in GDP (percent)	1.71	1.64	0.98	1.38	1.41
Proportion of net fiscal transfer in fiscal expenditure (percent)	5.56	6.98	3.83	4.25	5.58
Proportion of net fiscal transfer in GDP (percent)	1.24	1.17	0.50	0.86	0.66

Note: Agricultural taxes consist of agricultural tax, agricultural specialty duty, animal slaughter tax and deed tax; agriculture-supporting expenditure consists of expenditure on agricultural production, agricultural projects, agricultural infrastructure, expenses on agricultural technology, relief for rural areas; net fiscal transfer is the agriculture-supporting expenditure minus agricultural taxes.
Source: National Bureau of Statistics, 2004.

Table 4.11 Gap between the Health Care Operation Expenses per Capita in Rural and Urban Areas during 1998-2002						
		1998	1999	2000	2001	2002
Urban area	RMB	52.71	57.25	61.75	69.30	73.71
Rural area	RMB	9.07	9.94	10.60	12.19	13.75
National	RMB	20.01	22.00	23.94	27.43	30.48
Rural/urban areas		5.81	5.76	5.83	5.68	5.36

Note: Appropriation of rural health care operation expenses consists of operational expenses in traditional Chinese medicine, basic subsidies, and project-specific subsidies.
Source: Institution of Health Care Economy, Ministry of Public Health, 2003.

Unequal fiscal expenditures

In 26 years of reform and opening, China has witnessed a great increase in fiscal expenditure for both developed and undeveloped regions. Unequal development of Chinese regions has resulted in unequal fiscal revenues among local governments, a phenomenon both well known and extensively investigated.[92] In the past 10 years, the gap in fiscal expenditures has widened further. The coefficient of variation of per capita fiscal revenue among provinces increased continuously from 0.92 in 1994 to 1.17 in 2003, which was higher than the coefficient of variation of per capita GDP.[93]In addition, the ratio between the provinces with the highest and lowest revenues has remained around 20:1. According to provincial statistical data, provinces' per capita fiscal revenue is closely related to their per capita GDP.

The distinct difference in fiscal expenditure among regions indicates that China lacks a powerful inter-regional transfer payment system. In the past 10 years, the difference among provinces in fiscal expenditure did not decrease substantially, even though the central government reinforced its fiscal support to provinces in the western region. The coefficient of variation of per capita fiscal revenue across provinces fluctuated between 0.7 to 0.8, reaching a peak of 0.77 in 1997 and 2002. Similarly, the ratio of per capita fis-

cal revenue between the provinces with highest and lowest revenue fluctuated between 8- or 9-to-1.[94]

The inequality of fiscal expenditure among regions is reflected not only in different provinces, but also in different counties within a province. Owing to great disparity within provinces, differences in fiscal revenue inevitably arise between cities, counties, towns, and villages in natural conditions, development levels. As with fiscal redistribution between the central and local governments, redistribution between provincial governments and lower level governments is weak. A government's fiscal expenditure depends to a large extent on its fiscal revenue. In the late 1990s there were wide gaps of varying degrees in government fiscal expenditures within provinces, both in relatively developed provinces such as Jiangsu, and in underdeveloped provinces such as Gansu (Table 4.12).

Weak fiscal revenues of governments at the county and lower levels result in a lack of financial capacity to provide public goods and services. This increases gaps not only between rural and urban areas but also within rural areas. County or township fiscal revenues as a percentage of national revenue decreased continuously from 31.6 percent in 1993 to 19.7 percent in 2000, while their share of expenditure decreased from 31.4 percent in 1993 to 26.4 percent in

Table 4.12 Per Capita Fiscal Revenue and Expenditure of Various Provinces (Yuan) and their inequality during 1994-2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Per capita fiscal revenue										
Provincial average	242	305	379	421	491	548	609	734	805	921
Highest	1256	1552	1977	2282	2607	2859	3084	3776	4363	5179
Lowest	90	90	100	121	146	180	208	232	274	300
Ratio of the highest to the lowest	14	17	20	19	18	16	15	16	16	17
Coefficient of variation	0.92	0.97	1.00	1.04	1.04	1.07	1.07	1.12	1.17	1.17
Per capita fiscal expenditure										
Provincial average	445	538	632	698	814	947	1080	1383	1620	1792
Highest	1414	1837	2348	2806	3218	3632	3866	4387	5307	6361
Lowest	157	226	278	308	349	411	478	532	655	741
Ratio of the highest to the lowest	9	8	8	9	9	9	8	8	8	9
Coefficient of variation	0.68	0.71	0.72	0.77	0.76	0.76	0.73	0.73	0.75	0.77

Source: Wang S, 2003; National Bureau of Statistics, 2002; 2003; 2004b.

Table 4.13 Inequity in per Capita Fiscal Expenditure of County-level Governments within Some Provinces 1994-2003

	Gansu (76 counties)			Hunan (88 counties)			Jiangsu (64 counties)		
	Average Lowest	Highest/ of variation	Coefficient	Average Lowest	Highest/ of variation	Coefficient	Average Lowest	Highest/ of variation	Coefficient
1995	229.6	18.7	1.12	169.5	5.1	0.46	219.6	9.9	0.61
1996				198.8	4.9	0.43			
1997	328.5	30.8	1.49	210.7	4.2	0.39	291.8	4.9	0.43
1998	366.9	28.8	1.34				333.3	4.7	0.44
1999	449.4	36.8	1.50	248.9	4.5	0.37	385.7	5.5	0.50

Source: Wong and Deepak, 2003.

Table 4.14 Proportion of Fiscal Revenue and Expenditure of Governments at the County and Village Levels in National Fiscal Revenue and Expenditure

	Share of fiscal revenue of county/ township governments in national fiscal revenue (percent)	Share of fiscal expenditure of county/township governments in national fiscal expenditure (percent)	Share of fiscal revenue of county/ township governments in national GDP (percent)	Share of fiscal expenditure of county/township governments in national GDP (percent)	Share of fiscal deficit of county/ township governments in their fiscal expenditure (percent)
1993	31.55	31.42	3.96	4.21	6.0
1996	21.31	30.88	2.32	3.61	35.6
2000	19.68	26.43	2.95	4.69	37.2

Source: Ministry of finance, 1994; 1997; 2001.

2000. In addition, the share of fiscal deficits in fiscal expenditure of county and village governments increased from 6.0 percent in 1993 to 37.2 percent in 2000 (Table 4.14).

The difference in fiscal expenditures among different provinces inevitably results in varying scale and quality of public services. Wealthier provinces have higher per capita fiscal revenues, per capita fiscal expenditures, and per capita education and health care expenditures than do poor provinces. [95]

In 2001, the largest disparity in per capita education expenses across provinces existed in primary schools, with a coefficient of variation of 0.71. This was followed by middle schools, high schools, and universities with respective coefficients of variation of 0.65, 0.54 and 0.36 (Table 4.15). When comparing provinces with highest education expense per capita (such as Beijing or Shanghai) to the ones with the

Table 4.15 Provincial Gaps in per Capita Education Operation Expenses of Education at Each Level in 2001

School	National average (RMB)	Coefficient of variation(percent)	Highest (RMB)	Lowest (RMB)	Ratio of the highest to the lowest
Primary school	972	71.3	4876	537	9.1
Urban	1484	64.2	5886	797	7.4
Rural	798	61.2	3605	472	7.6
Junior middle school	1372	65.1	5183	808	6.4
Urban	1955	53.7	5695	1079	5.3
Rural	1014	59.0	4047	604	6.7
Senior middle school	3503	54.3	10169	1884	5.4
University	15445	36.2	33568	4582	7.3

Note: Calculated according to data from the Research Team for Report on Education and Human Resources, 2003.

lowest education expenses per capita (Guizhou), the ratio for primary schools is highest at 9.1:1, followed by 7.3:1 for universities, 6.4:1 for junior middle schools, and 5.4 for senior middle schools. These figures point to a serious inequity in regional education funding.

Regional disparity in terms of health care is also reflected in the allocation of health care funding. According to estimates for eastern, central, and western regions of China listed in Table 4.16, total health care funding of developed eastern provinces was larger than that of central and western regions, both in terms of total volume and of per capita funding. Individuals pay for 50-60 percent of their health care in most provinces, a heavy burden for residents of relatively poorer central and western areas.

Inadequate fiscal transfer system

One aim of the reform of the tax system was to allocate regional fiscal resources rationally and gradually reduce regional gaps. Since 1994, the central Government has increased fiscal transfer payments to the central and western areas and implemented transitional measures for fiscal transfer payment. But country has not reached the basic goal of the tax-sharing system, i.e., increasing fiscal transfers to balance public finance among regions. An important reason for the failure is that refunds of locally collected taxes from the central government are linked to the growth rate of local value-added taxes and consumption taxes. [96] As a result, the richer the area, the higher the taxa-

Figure 4.2 Scale and Structure of Central-Local Fiscal Transfer Payments from 1994-2002
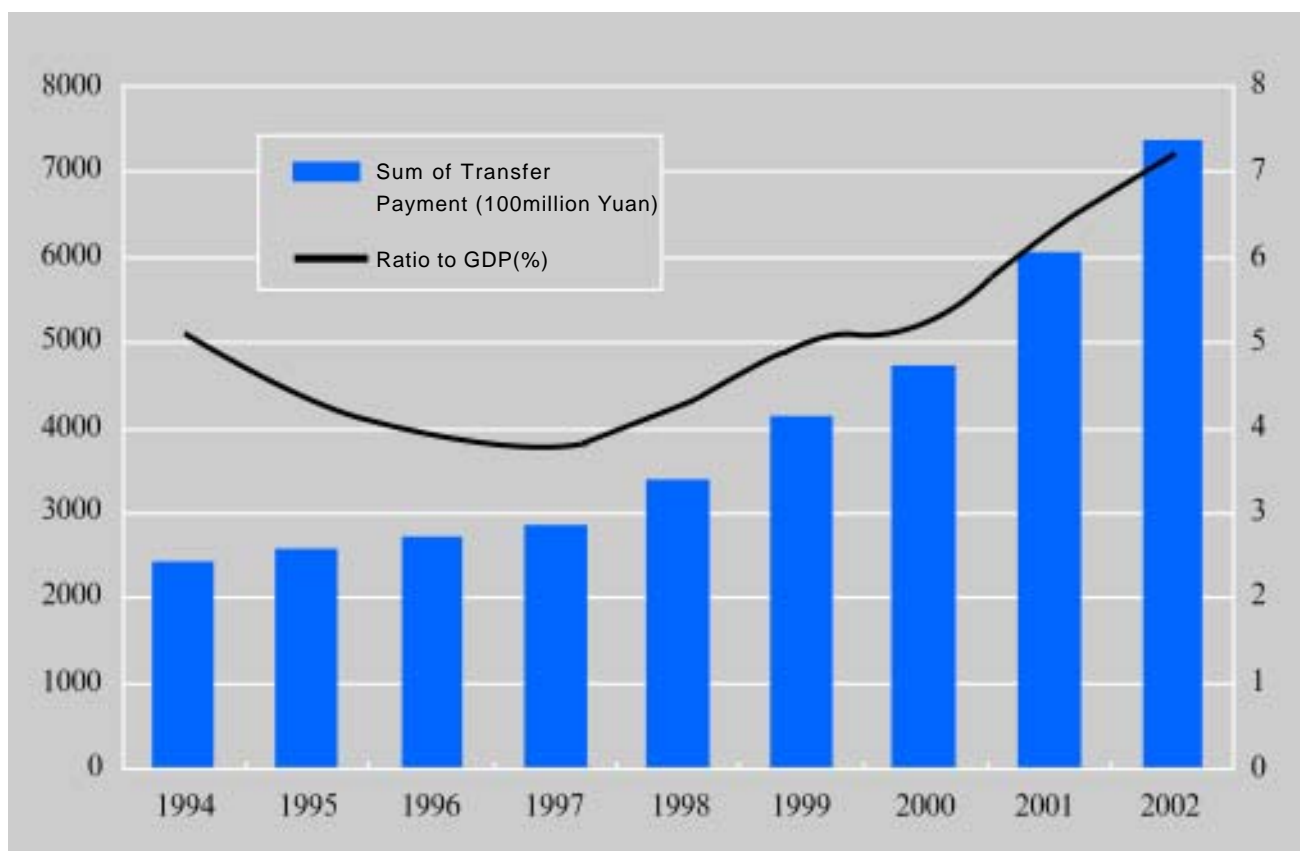
Note: The transfer payment includes transfer subsidies in the transition period, transfer subsidies under the policy of adjusting income distribution, special transfer payments for nationalities, transfer payments in the Natural Forest Preservation Campaign and the conversion of farmland back to forest and pasture.
Source: National Bureau of Statistics, 1995-2001; Xiang, 2003.

tion growth rate and the more tax rebated.[97] To some degree, this has widened the gap between developed and less developed areas.

Since the implementation of the tax sharing system in 1994, the percentage of the central government's fiscal revenue has been increasing. In the past years, the central government has increased fiscal transfer payments to western provinces, and transfer payments as a percentage of GDP rose from 3.8 percent in 1997 to 7.2 percent in 2002. The percentage of after-tax transfer payments as a percentage of GDP, meanwhile, rose from 1.1 percent to 4.3 percent.[98]Compared with other countries, however, China still has a weak redistribution policy.

In the existing fiscal system, transfer payment items from the central government to local governments include tax refunds, fixed subsidies of the original system, transfer payments, and funds raised by government bonds. Why does the central government's transfer payment fail to balance finances among different areas? First, coordination between fiscal resources and administrative responsibility for local government is not well designed. Upper-level governments continuously assign new tasks to lower-level governments without allocating new funds. This makes it hard for the public to monitor the government and for upper-level governments to conduct effective supervision. Owing to a lack of information, funds for public services are always misappropriated and diverted. This further intensifies the deficiency of public service supply in underdeveloped areas. Second, the tax refund system aggravates fiscal differences among provinces. Because tax refunds are calculated on the basis of the value-added tax and consumption tax provided in 1994, rich provinces have higher benchmarks and can therefore get higher refunds now; the opposite is true in underdeveloped provinces.[99] The transfer payment system applied in governments at levels below province is varied and irregular.[100] In some underdeveloped areas, governments at all levels face fiscal pressure and difficulty

to differing degrees. At the same time, upper-level governments transfer fiscal pressure to lower-level governments through decisions on fund distribution, causing more financial difficulties at the lower levels.[101] The preemptive use of transfer payment funds allocated to lower-level governments has become common.[102] This helps explain the poverty of rural grass-root governments. Finally, the total amount of central-local transfer payment is limited, and is insufficient to narrow the gap in fiscal revenue and expenditure among different areas.[103]

Relevant research shows that governments at the county and township levels bear too much of the burden for compulsory education funding while transfer payments from the central and provincial governments are too small.[104] For example in 1997, special transfer subsidies for education from the central government to local authorities was RMB 1.113 billion, about 1.5 percent of the national funding for compulsory education. Moreover, the majority of provincial educational funds were used for colleges and universities while only a small percentage were used for compulsory education. In 1998, transfer payments for compulsory education from Jiangsu's provincial government to lower levels was RMB 61.5 million, about 5.6 percent of the provincial government's education budget and 0.61 percent of the provincial budgetary expenditure on compulsory education.

This discussion focuses on fiscal budgetary funds and disregards extra-budgetary funds and their distribution. After extra-budgetary funds were recently brought under supervision, they, along with budgetary funds, were called publicly managed funds. This implies that there are some funds outside of public management in the hands of local governments, and that the utilization and distribution of these funds will affect the provision of public services between regions. In short, because most extra-budgetary revenues are from municipal authorities and are used for local purposes such as infrastructure projects, these funds bring more public services for urban residents.

Based on the foregoing discussion, concentration of extra-budgetary funds in urban areas will widen the development gap between urban and rural areas.

The poor population and vulnerable groups

China has made remarkable progress carrying out anti-poverty policies since the late 1970s. Both in terms of the relatively low official poverty line or the international standard poverty line, China's rural poor population has fallen at an unprecedented rate. [105] This improvement is clearly attributable to the persistent efforts of the Chinese government. Based on the scale of China's population, however, the absolute number of the poor population should not be ignored. According to official statistics and an official definition of a relatively low poverty line, the rural poor population consisted of 26.10 million at the end of 2004. According to the "one-dollar-per-day" poverty line, however, the country's rural poor population has reached 85 million. [106]

To address social injustice and inequity, it is important to give particular attention to the most disadvantaged people. Who are the vulnerable groups in China today?

- The rural poor: Both in terms of income or the risk prevention capability, the rural impoverished population is no doubt a disadvantaged group.
- The urban poor: Starting from the latter half of 1990, the urban poverty problem has become more and more serious. The restructuring of state-owned and collective enterprises has led to an increase in the urban impoverished population. [107]
- Rural migrant populations in cities: Whether employed or not, migrants cannot receive social security benefits as a result of differential treatment. Moreover, they do not have stable incomes and live in impoverished conditions.
- Land-expropriated farmers: With the acceleration of urbanization and industrialization, many farmers have lost their land. Some have not received due compensation for various reasons, remain jobless, and live in harsh conditions.

The rural poor

Table 4.16 The Situation of Poverty among Rural Residents							
Year	Poverty line (Yuan/person)	Poor population (10,000 person)	Incidence of poverty (percent)	Year	Poverty line (Yuan/person)	Poor population (10,000 person)	Incidence of poverty (percent)
1978	100	25000	30.7	1995	530	6540	7.1
1984	200	12800	15.1	1997	640	4962	5.4
1985	206	12500	14.8	1998	635	4210	4.6
1986	213	13100	15.5	1999	625	3412	3.7
1987	227	12200	14.3	2000	625	3209	3.4
1988	236	9600	11.1	2001	630	2927	3.2
1989	259	10200	11.6	2002	627	2820	3
1990	300	8500	9.4	2003	637	2900	3.1
1992	317	8000	8.8	2004	668	2610	2.8
1994	440	7000	7.7				

Source: National Bureau of Statistics, 2005.

Most of the rural poor population lives in the central and western areas, mountainous and minority-inhabited regions where farmland is infertile, transportation is poor, and information technology has not been developed. Inhabitants of these regions cannot take part in the market, nor can they benefit from market expansion to improve their production capacity and living standards. There are also pockets of poverty in developed rural areas plagued by natural disasters if not by unemployment. Due to a lack of insurance and social security, natural disasters and diseases have become important causes of poverty in these areas.

As Figure 4.3 indicates, since the mid-1990s the reduction of poverty has slowed despite government efforts and increasing anti-poverty funds. Poverty incidence has lingered around 3-4 percent. Yet, while the rural population has increased, the number of poor has increased in some years; and their average income has decreased, despite overall economic growth. According to the National Bureau of Statistics, about 30 percent of the low-income population in rural poor areas fall back into absolute poverty each year.[108]

At present, the poor population is composed mainly of elderly, weak, sick, and disabled people. According to the third national public health service survey in 2003, among poor households in the 11 western provinces, 22 percent were impoverished due to lack of manpower; 30.4 percent because of poor natural conditions or natural disasters; and 27.3 percent due to illness or injuries.[109]In the officially designated poor counties, the sample household survey in 2002 indicated that the disabled accounted for 1.4 percent of the population and patients suffering from serious

Figure 4.3 Changes in China's Rural Poverty Incidence from 1990 to 2000
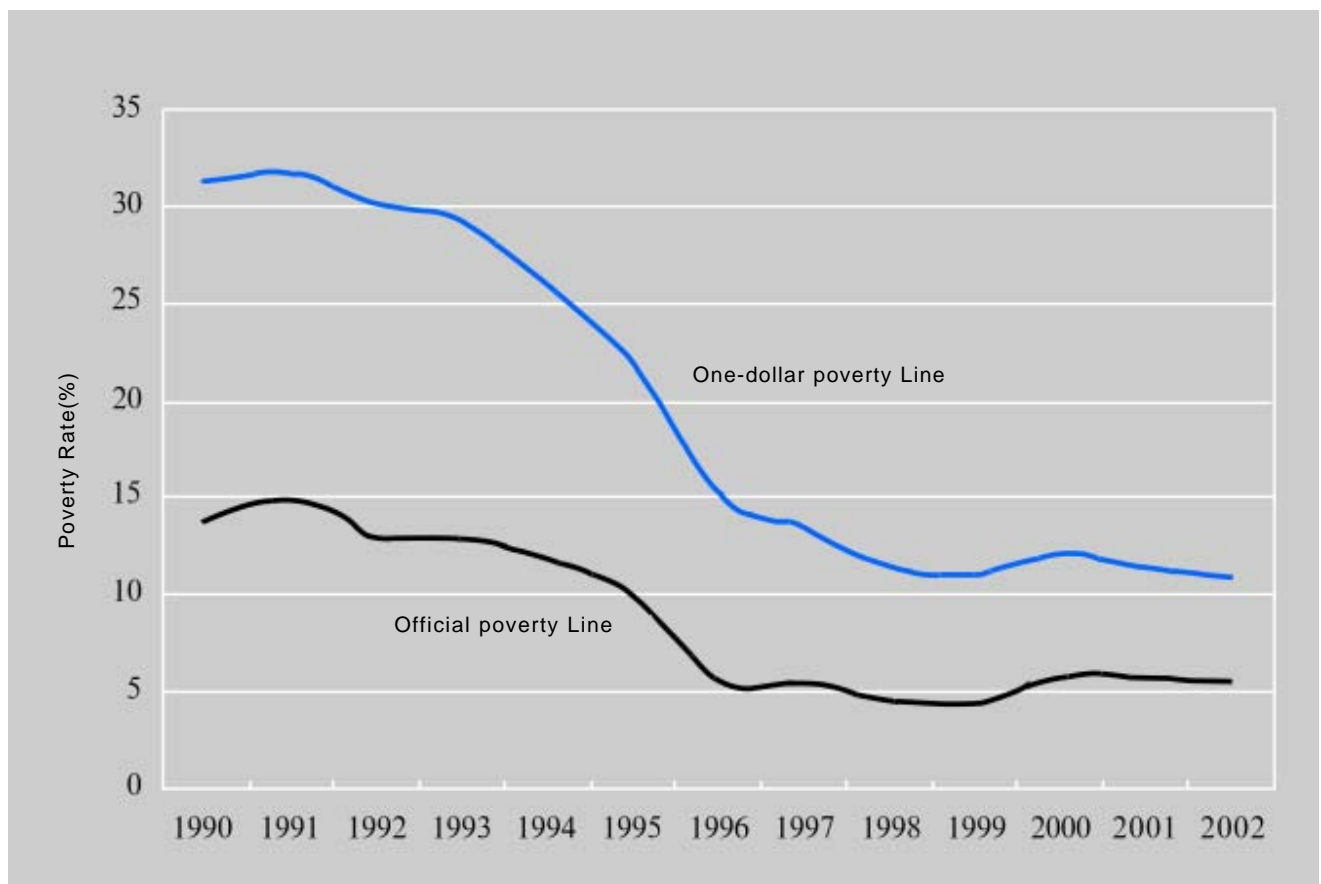
Source: Woo et al, 2004.

diseases made up 0.6 percent, while those suffering from chronic disease accounted for 2.0 percent of the population. Therefore, the number of weak and sick people made up 4.3 percent.[110] In these areas, about 16 percent of the rural households do not receive timely medical care, and in some villages this rate is as high as 20 percent. Asked why, nearly two-thirds of the households in the impoverished villages or counties mentioned financial hardship.[111] Diseases and poverty constitute a vicious circle.

Figure 4.4 Changes in China's Rural Poverty Gap from 1990 to 2002
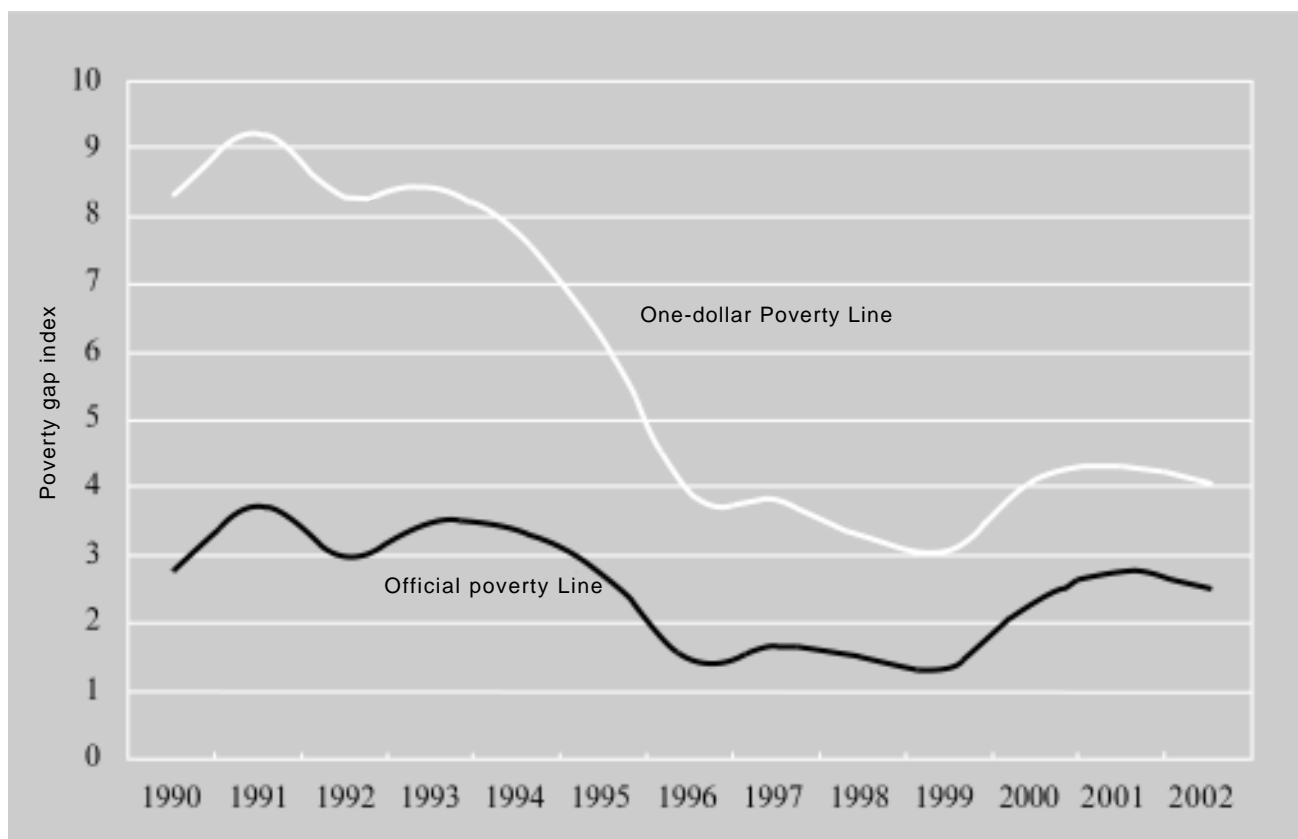
Many poor households cannot pay for their children's school fees due to financial hardship. The dropout rate among children in poor households is higher than that of other households.[112] According to the latest statistics, the enrolment rate for children aged 7-12 in officially designated poor counties was 95 percent at the end of 2002, while the rate for children aged 13-15 was 85.4 percent. But in poor western counties, the enrolment rate for children aged 7-12 was 93 percent, for children aged 13-15 it was 84 percent. In a few provinces, enrolment rates were 66 percent and 62 percent. In an analysis of the causes of dropping out, more than half of dropouts (52 percent) left school because of poverty or a shortage of manpower at home. As a result of gender discrimination, the dropout rate for girls is higher in poor regions and among poor families. For instance, the dropout rate for girls aged 7-12 in the poor counties was two percentage points higher than for boys of the same age group, and the rate for girls aged 13-15 was five percentage points higher than for boys of the same age group. Difficulties in getting schooling and low edu-

cational levels among children of poor households keep them from enhancing their capabilities and improving their situations.

The urban poor

Before the 1990s, the full employment policy and "iron rice bowl" employment system helped keep urban poverty at a low level, but things gradually changed. First, as the state gradually deregulated the prices of food and grain in the early 1990s, food prices rose sharply. So did the proportion of urban residents' spending on food, especially among low-income households.[113] This increase in basic living expenses led some low-income households into poverty. Second, the policy of laying off workers has caused a rapid increase in urban unemployment. By the end of the 1990s and the early 21st century, the actual urban unemployment rate (according to international standards) was higher than the official rate. [114] Although the number of laid-off and unemployed workers increased, the social security system was not yet in place, leading to a yearly rise in urban poverty. That trend continued until 2002, when the government adopted a broad policy of minimum living standards.

According to a 2003 sample survey of urban households by the National Bureau of Statistics, per capita spending on food among poorer families was about 45 percent of the average urban level. Per capita spending on clothing was 22 percent; on medical services, 30 percent.[115] Spending on education by the urban poor was only 31 percent of the urban average level.

In 2003, the urban minimum living standard scheme covered 22 million urban people. Governments spent 15 billion yuan, dispensing a per capita allowance of more than 700 yuan. This has to a great extent alleviated the poverty in urban areas. Yet some surveys show households covered by the minimum living standard scheme are not worried primarily about

food, but about illness and heavy medical costs.[116] Most urban poor households do not have medical security.

According to a survey of low-income households covered by the minimum living standard scheme in a relatively rich district of Fuzhou, only 2 percent had medical insurance. Less than 3 percent could have their medical expenses reimbursed from employers or civil affairs bureaus. That means 95 percent of these households received no medical assistance, relying completely on themselves. However, 19 percent of these residents did not go to hospital when they were sick. About 23 percent had chronic or genetic disease, but 42 percent took no measures to treat it.[117] The survey also noted that school charges have grown rapidly in recent years, imposing great pressure on impoverished urban households. Eighty-six percent of families eligible for support under the minimum living standard scheme did not receive any subsidies from government or schools to cover tuition fees. More than half said they could not afford their children's school fees, 5 percent considered taking their children out of school because they could not afford school fees, and 19 percent said they could only afford to let their children finish senior high or vocational schools. [118]

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Box 4.3 The Composition of Poverty-Stricken Households in Urban Areas (Case Study)

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A survey was carried out among poor residents in the Siming district of Xiamen in 2000, covering 476 households (997 persons). The results showed the following:

There were 139 households with no income. Some residents worked in community factories but had no retirement pension; some did part-time jobs as porters but were unable to save for their old age and their children could not support them.

113 households had family members suffering from chronic diseases;

111 households had disabled family members;

85 households had laid-off or unemployed members;

35 households were impoverished because of broken marriages;

25 households had their income reduced after one family member retired or quit his/her job;

8 households included a member who was addicted to drugs or had committed crimes.

In general, the main causes of poverty were (1) Family members were disabled or had chronic diseases, 44 percent; (2) Family members were laid-off, unemployed or retired; 23 percent; (3) Marriages were broken, 7‰.

Source: Wu B, 2004.

The land-expropriated farmers

Recent studies show industrialization and urbanization have led to expropriation of large areas of farmland, increasing unemployment and exacerbating social problems among farmers.[119] It is estimated that 40-50 million farmers have completely or partially lost their land.[120] Land-expropriated farmers live mainly in suburbs and developed regions where arable land per capita is quite limited. The National Bureau of Statistics conducted a survey of the land-expropriated farmers in 2003. Of the 2,942 households surveyed, a total 9,400 mu had been expropriated since 2000, with each household losing 3.2 mu on average. Only 4,340 mu of farmland remain. On average, each household has 1.48 mu, and each resident has 0.36 mu. Of these, 442 households have per capita farmland greater than 0.3 mu, accounting for nearly 15 percent of all the households surveyed; 1,237 households have per capita farmland of less than 0.3 mu, accounting for approximately 42 percent of all the households surveyed; and 1,263 households have completely lost their farmland, making up

about 43 percent all the households surveyed.

For land-expropriated farmers, the biggest problem is unemployment. During the planned economy, enterprises that acquired farmland were responsible for arranging jobs for farmers whose land they expropriated. But the Land Administration Law of the People's Republic of China, promulgated in 1998, fails to specify who is responsible for relocating these farmers, and how to reconcile relocation disputes. Re-employment of land-expropriated farmers was proven difficult since they are not well educated and lack other skills.

For instance, by the end of 2001, a total of 205,000 farmers in the suburbs of Beijing lost their land. Of the 114,000 people of working age, 46.5 percent had been employed previously. Since the mid-1990s, however, enterprises laid off workers to cut redundant staff. Those farmers-to-workers were usually first to be laid off because of their lower education levels and lack of technical skills. At present, nearly 30 percent of such workers in Shanghai are now unemployed.

In the Lugouqiao Township of Fengtai District in Beijing, more than 1,100 people from three production teams were employed at the time their farmland was expropriated in 1993. But except for those working in sanitation, public transport, and housing management, more than 90 percent are now laid off or unemployed.[121]In Wuxi, of the 210,700 rural laborers among land-expropriated farmers, 59.7 percent had regular jobs, 25.3 percent had part-time jobs, and 15

percent had no jobs. A National Bureau of Statistics survey shows that of 2,942 farm households that lost farmland, 7,187 had laborers, including 197 who were employed at the time the land was expropriated. Some 24.8 percent were working in cities, 27.3 percent were engaged in the second and tertiary industries, 25.2 percent were doing farm work, and 20 percent were staying at home.

Table 4.17 Greatest Changes to the Farmers who Have Lost Farmland (Attitudinal Questions)		
Serial number	Item	Percentage
1	Improving living standard	35.3 percent
2	Become urban residents	15.3 percent
3	Having pension, medical insurance and basic living security	10.7 percent
4	Higher income	3.5 percent
5	Having funds for a new venture	0.6 percent
6	Living standard declines	13.2 percent
7	Losing farmland	8.4 percent
8	Difficult to find jobs	4.4 percent
9	Being thrown into market competition	0.5 percent
10	No changes	1.7 percent
11	Others	6.5 percent
	Total	100 percent

Source: Lou, 2004.

Land expropriation has led to the decline of farmers' living standards as farmers have lost all or part of their farmland. For instance, according to a National Bureau of Statistics survey of 2,942 farm households which lost farmland, farmers' per capita net incomes did not change greatly after land expropriation, but net incomes decreased in 46 percent of households. These consisted mostly of farming households that lacked the skills to engage in other economic activities. Some 56 percent of the surveyed households in Hubei reported declines in income. In Kaifeng County, Henan Province, 83 percent

of surveyed households saw their incomes decline. The average spending on basic consumption in Fujian was 2,711 yuan before the land expropriation; it dropped to 2,232 yuan afterwards, a 17 percent decline. In Shaanxi, spending dropped by about 16 percent; in Guangxi, by 5 percent. Of the 320 households in Jiangsu, incomes decreased in 33 percent. In a survey of 2,200 farmers who lost farmland in Pudong, Shanghai, Wenzhou, Zhejiang Province, and Guangyuan in Sichuan Province, more than 20 percent believed that their living standard had somewhat dropped or significantly declined (Figure 4.5).

Figure 4.5 Land-expropriated Farmers' Assessment of Changes in Their Living Standards
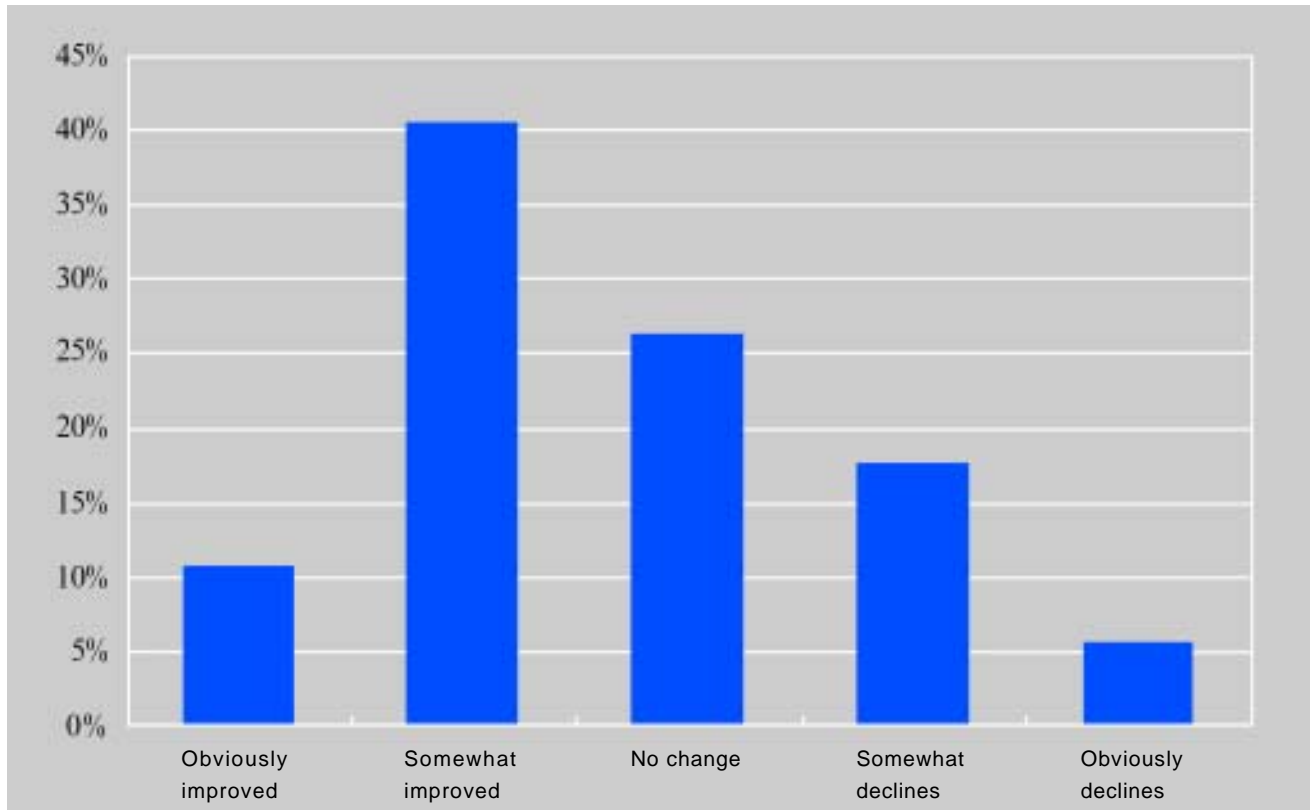
Source: Lou, 2004.

In the meantime, the current method of compensation for land expropriation is not entirely reasonable. As stipulated in the provisions on compensation in the Land Administration Law of the People's Republic of China, compensation should be provided according to the original use of land. The compensation for land expropriation includes land compensation, reallocation compensation, land appendage and compensation for young crops. For some key infrastructure projects, land expropriation costs represent a tiny percentage of the total construction costs. Generally, the percentage is just 3-5 percent.

Although land-expropriated farmers can receive some compensation, they must handle social security matters by themselves. Of the land-expropriated farmers in Beijing who sought jobs by themselves, less than one-third paid for pension insurance on their own. Even fewer farmers took part in medical and unemployment insurance. In Wuxi, only 15 percent of land-expropriated farmers bought various forms of pension insurance, while only 47 percent received pensions. These farmers cannot enjoy the same social security benefits as urban residents and become a marginalized group.

Rural migrant workers and the migrant population

Another fast-growing vulnerable group, so-called "second class citizens", are rural migrants in urban areas. Their living standards cannot compare with those of local urban residents. The income distribution research team of the Chinese Academy of Social Sciences conducted a sample survey of 2,000 rural migrant households in 2002. The survey data indicated per capita income was only 65 percent of

local urban households. The income inequality among rural migrants was large, with a Gini coefficient of 0.38, clearly higher than that of urban residents.[122] Low average income and higher income inequality mean the poverty incidence was much higher for urban residents. Figures from the same survey indicated that the poverty incidence among the rural migrant population in cities was 14 percent in 2002.[123] Then, out of 150 million rural migrant population, there should be more than 20 million poor population.[124]

About one-third of rural migrant workers have average monthly earnings below 500 yuan. Less than 5 percent get full or partial pension insurance, and less than 3 percent have full or partial unemployment insurance. Their wages are often paid late. According to a survey of rural migrant workers in Beijing, about 24 percent had their pay delayed or deducted, and the average delayed wage was 3,500 yuan. About 20 percent had more than 5,000 yuan deducted from their pay.[125]

They work long hours under harsh conditions. A survey of rural migrant workers in the early 1990s found 70 percent worked more than 11 hours per day, 31 percent more than 12 hours, and 16 percent more than 13 hours.[126] That situation has not changed. A 2002 survey shows that about one-third of rural migrant workers in Beijing work more than 12 hours, 60 percent more than 10 hours, and 16 percent 14 hours or more per day.[127] Working conditions are even more worrisome. As many surveys indicate, rural migrant workers do the dirty, hazardous and heavy work that urban residents do not want, and they are not covered by a labor protection system. They endure extreme temperatures, dust, noise, exposure to poisonous materials, and poor ventilation. As a result, many are afflicted with occupational diseases. A circular of the Ministry of Health in 2004 indicated that China is now among the countries with the most serious cases of occupational diseases. There are more than 16 million enterprises involved in poisonous and harmful substances today, and more than 200 million people are exposed to the danger of occupational diseases.

Two population groups in particular have a high incidence of occupational diseases: rural migrant workers seeking employment in small and medium-sized urban enterprises in the cities; and rural laborers engaged in industrial production in township and village enterprises.[128]

The Code of Occupational Disease Prevention of the PRC, adopted in 2002, requires medical examinations for all workers engaged in businesses with a high risk of occupational diseases and stipulates that a health record must be kept before employees start work, during their employment, and when they leave their jobs. But the law has not been fully implemented. The coal mining industry is a good example. The Chinese Foundation of Coal Mine Pneumoconiosis Treatment reveals that tens of thousands of pneumoconiosis victims urgently need treatment, most of them rural laborers. Most large state-owned mines and many local and village-and-town mines failed to put the law into practice.

Diseases are not the only threat to the life and health of miners. Every year, between 6,000 and 7,000 miners die in accidents.[129] Statistics show that in 2003, China produced 35 percent of the world's coal but accounted for 80 percent of the world's coal mining related deaths.[130]

Rural migrants also live in poor housing conditions and harsh environments.[131] Most live in suburbs where rent is cheaper. The 2002 survey of migrant households indicated 22 percent had per capita living space under five square meters; 45 percent had no sanitation facilities; and 17 percent needed to use public sanitation facilities. Fewer than 17 percent had bathroom and sanitation facilities. Sixty percent of these households lived in housing without a kitchen or shared one with neighbors.

Rural migrants in cities also tend to have lower consumption levels because their families and relatives expect them to send their earnings home. In 2002, urban residents spent an average of 190 yuan on food each month, rural migrants less than 120 yuan. Urban

residents spent 591 yuan per capita on clothing each year, rural migrants only 243 yuan.

Schooling is another major problem for rural migrants. Because the compulsory education and public schools in cities basically serve residents with local Hukou, migrants' children have been excluded from the education system unless they can afford to pay additional fees. Children of rural migrants face three choices: Pay high school fees to enter regular schools; pay low school fees to enter schools with low teaching quality not recognized by governments; or discontinue their studies and stay home. Local governments historically have ignored this problem, believing it was not within their remit, which was to serve urban residents. This situation has slowly improved in recent years.

Chapter V

Goals & Policy Recommendations

"The people indeed are heavily burdened, but perhaps a little ease may be got for them."
——quoted from *Shijing (Book of Poetry)* (11th to 6th century B.C.)

"Overly rich makes one arrogant, overly poor makes one anxious... Thus the sage devised regulations of differentiation such that the rich are good enough to show their honor but not arrogance and the poor have means to sustain life but free from anxiety. Taking this as the measure to harmonize the people and bring them equity, the result is constant circulation of wealth and peace between the high and the low classes."
——quoted from *Chunqiu Fanlu (Rich Dew of Spring and Autumn)*, by Dong Zhongshu (179-104 B.C.)

China's economic transition and development have brought unprecedented sustained growth, but not without social inequities attending the process. The Chinese government appreciates the seriousness of problems arising from conflicts within society and places great emphasis on social equity. It has thus seized the moment to set as the goal of social and economic development the all-round building of a Xiaokang—or moderately well-off—society. In the service of this goal, the Chinese leadership has crafted the notions of "a scientific view of development" and "creating a harmonious society." The new development goal and these supporting concepts have been the guiding principles for the execution of China's 10th Five-Year Plan (2001-2005) and the formulation of its 11th Five-Year Plan (2006-2010).

The Chinese government has persevered in the effort to overcome inequities and has sustained notable achievements. First, with regard to eliminating poverty, in the past quarter century China's poor population in rural areas has declined on a scale recognized and praised by the international community. In urban areas, the Chinese government has applied full effort to solving the problem of poverty and mitigating the suffering that arises from it by providing subsistence allowances for families in difficulty. In the

last two years, the government's anti-poverty efforts have intensified, with the central budget allocating 12.2 billion yuan for poverty alleviation in 2004. As a result, the poor population in rural areas was reduced by 2.9 million year on year. Government expenditures for the urban subsistence allowance reached 17.3 billion yuan, an increase of 59 percent over 2002 with 9.56 million households receiving assistance.[132]

Second, the Chinese government has recently begun to focus on the imbalance in social and economic development between urban and rural areas. Stressing the "three rural issues"—agriculture, village, and farmer—the government has sought to comprehensively narrow the development gap between urban and rural areas. Beginning in early 2004, the agriculture tax was reduced or eliminated in selected areas on a trial basis. By February 2005, the tax had been abolished in 26 of 31 provinces, and will be ended nationwide by 2006. In addition, the government has extended direct subsidies to grain farmers, set price supports for major grain crops, and in some areas subsidized the purchase of improved seed varieties and machinery. In 2005, the central government budget allocated 15 billion yuan for transfer payments to major grain-producing counties and counties in financial difficulty. A further step taken to raise rural living standards has been the launching of a pilot project to provide subsistence allowances to poor households; broad application of the program is planned in the coming years. Medical aid programs are also being selectively implemented on a trial basis. Finally, changes have been made in the family planning program to shift from penalties to financial rewards. These changes constitute a broad package of measures to improve the quality of life of the Chinese peasantry.

Third, the government has increased support for education and the development of human resources. Stepped-up efforts in 2004 included implementation of an education plan for the western region, promotion of the compulsory education program in poor rural areas, continued renovation of primary and middle school facilities in poor areas, and provision of free textbooks to 24 million poor students. As of 2005, the state has provided free textbooks and abolished miscellaneous fees for poor students through nine years of compulsory education and has subsidized boarding expenses in counties targeted for poverty relief. By 2007, these policies will be fully implemented in rural areas across the country[133]

Fourth, the government has funded the development of health care delivery systems in both urban and rural areas. Since 2003, experiments have been undertaken in counties across all 31 of China's provinces to structure cooperative medical systems for underwriting treatment of serious illness. This is done through financing from central and local governments and from funds contributed by farmers themselves. By 2005, these efforts involved 156 million farmers, or 17 percent of the rural population. Monies pooled reached 3.284 billion yuan in 2004, supporting reimbursement of medical fees for 76.01 million individuals and health check-ups for 8.10 million.[134]

Fifth, the Chinese government is taking action to alter uneven development across regions. In the late 1990s, the policy to "develop the west" was adopted. This policy involved funding new infrastructure projects and increasing fiscal transfers to western provinces, which has to some extent improved the stature of this lagging region. That was followed with a policy to "revitalize the northeast." The focus of this policy is on stimulating industrial development through tax breaks, technology upgrades, and a trial reform of the social security system. These preferential policies have played a role in promoting development and easing the difficult economic situation in the northeast part of the country.

Finally, in recent years the central government has modified its policy toward the rural floating population and migrant labor. The historical legacy of unequal treatment is gradually being lifted to grant more equal rights and opportunities to those born in rural

areas. For example, in some regions the Hukou system is being reformed to integrate rural and urban components; the problem of wage arrears for migrant workers is being resolved through a combination of administrative measures and legal means; and under central government directive, local authorities in urban areas are taking steps to ensure that children of migrant workers are enrolled in school.

Though the policies outlined above are just a beginning, results have already begun to take shape. In response to a range of policies to address the "agriculture, rural areas and farmers" trends toward increasing rural disparity and a widening rural-urban gap have abated. In 2004, the rate of growth in farmers' income approached that of city dwellers, moderating the tendency of the urban-rural income ratio to rise. Expanding work opportunities for migrants in cities and towns and rising wage rates for this segment of the labor force will further ease the income gap. At some point it seems likely that with all levels of government paying more attention to the poor and disadvantaged, the well-being of society's least well-off will improve and inequality will lessen. In addition, with more resources devoted to education and health care in underdeveloped rural areas under the support of the central government, the rural population will more fully reach its productive potential, and this too will help narrow the income gap.

At this stage in China's economic development and social transformation, inequality and inequity derive from deeply rooted causes and exist within a complex web of social problems. For this reason, no single policy can be effective in addressing these concerns; rather, it is necessary to take a comprehensive approach to policy formulation, and to develop a policy framework equal to the task of forming a harmonious society. This report offers a starting point in presenting policy proposals.

The goal of building a Xiaokang society in an all-round way

The Xiaokang society and social equity

Consistent with its national circumstances, China has set for itself the pragmatic goals of building a Xiaokang society in an all-round way and creating a harmonious society. The term Xiaokang takes its origin from the Book of Songs (Shijing). The passage reads: "People work then rest, in this way to be well-off."The Book of Rites (Liji) fleshes out the description of a Xiaokang society.

In 1979, Deng Xiaoping invoked the notion of Xiaokang in the context of describing China's modernization as a passage through a series of stages from poverty, to basic needs satisfaction, to Xiaokang, and finally to prosperity. Xiaokang can thus be understood as a level of development between meeting basic needs and achieving genuine prosperity. Deng Xiaoping believed that once per capita income reached a certain level, society could meet the six objectives of solving the food and clothing problem, solving the housing problem, solving the employment problem in both urban and rural areas, providing universal primary and secondary education and basic social welfare guarantees, and altering people's mental outlook to sharply reduce crime. In the 1980s, China formulated the "three-step" strategy of modernization. Step one was to double 1980 GDP and solve the basic food and clothing problem; step two was to double GDP again by the end of the 20th century and achieve a Xiaokang standard of living; step three was to proceed in realizing modernization by the middle of the 21st century.

In 2002, the Chinese government proclaimed that "victory has been achieved in reaching the second step in the three-step modernization strategy," and added the following:

China is in the primary stage of socialism and

will remain so for a long time to come. The Xiaokang level that has been reached is a very elementary, incomplete, and unevenly realized Xiaokang. The principal contradiction in our society is still the one between the ever-growing material and cultural needs of the people and the backwardness of social production. In the first two decades of the 21st century, we must concentrate on fully extending to over one billion people a higher level of Xiaokang society. We must further develop the economy, strengthen democracy, advance science and education, enrich culture, foster social harmony, and bring a thriving life to the people.[135]

In 2004, the Chinese government explicitly committed to building a socialist harmonious society.

Box 5.1 The Objectives of Building a Xiaokang Society in an All-Round Way

The objectives of building a Xiaokang society in an all-round way have been laid out as follows:

一 by improving resource allocation and raising productivity, endeavor to quadruple GDP between 2000 and 2020 and to strengthen China's national power and international competitiveness; basically achieve industrialization and establish a full-fledged socialist market economy and a more vigorous and open economic system; raise the urban share of the population and gradually reverse the trends of rising inequality between industry and agriculture, between urban and rural areas, and across regions; strengthen the social security system, achieve fuller employment, lift household wealth, and generally provide a more affluent life to the people.

一 improve socialist democracy and the legal system; fully implement the plan to rule the country by law; genuinely respect and guarantee the political, economic, and cultural rights and interests of the people; strengthen grassroots democracy so that people may enjoy a sound public order and live and work in peace and contentment.

一 raise ideological and ethical standards, scientific and cultural achievement, and physical health and well-being of the whole people; mold a modern national education system, an innovative climate for science and technology, and a broad fitness and healthcare program; improve access to quality education, achieve universal secondary schooling, and wipe out illiteracy; create a society in which all engage in life-long learning and pursue rounded personal development.

一 steadily build the capacity for sustainable development, protect the environment, raise the efficiency of resource utilization, and promote harmony between man and nature to move society onto a path of civilized development characterized by growth in production, affluent living, and a healthy ecosystem.

Source: Jiang, 2002.

At the core of "building a Xiaokang society in an all-round way" is building a Xiaokang society that reaches a population of more than 1 billion people, not just a small portion of that population. "All-round" further pertains to the scope of development, implying not just a higher standard of material life, but an overall progress of society.[136] An important feature of a Xiaokang society is social harmony. A harmonious society is a society in which all people do their best, all have roles to play, and all get along with one another. A harmonious society is an equitable society and a just society. A Xiaokang society and a har-

monious society both rest on the mutual progress of all members of society and the well-rounded development of each individual. This is what human development is ultimately about.

The new "people-oriented" view of development and building up a harmonious society

In 2003, in the face of rising economic, social and environmental contradictions and problems, the Chinese government put forward a new view of development that comprised "putting people first, taking an approach that is comprehensive, coordinated, and sustainable, and promoting broad development of the economy, society, and the individual." In 2004, the Chinese government set the development target of "building a socialist harmonious society" that is "democratic and law-based, fair and just, honest and fraternal, full of vigor and vitality, secure and orderly, and in which man and nature co-exist in harmony."[137]

This new view of development has been put forward by the Chinese government in counterpoint to the social costs, contradictions, and conflicts that have arisen in connection with the rapid economic growth of the last two decades and more. The new view is being taken mindful that China has entered a period fraught with social contradictions and with the intent of avoiding a plunge into unhealthy development; and to strive instead for sustained and healthy development.[138] The "people first" view of development accords well with the international community's emphasis on pursuing equitable human development and with the Millennium Development goals of the United Nations. It is aimed at ensuring sustainable and equitable growth, reduction of poverty, promotion of human and social development, and satisfaction of the growing material and cultural needs of more than a billion people. This includes first and foremost, for all people and particularly for those still in poverty, meeting basic needs for food and clothing, employment,

education, and health care, so that society as a whole can achieve ever higher levels of human development and all people can enjoy a better quality of life.

The new social ideal of building a harmonious society has been put forward by the Chinese government in the face of disharmonies that have emerged in the process of China's reform and development. The greatest challenge to the Chinese government is how to achieve social coordination, build a harmonious society, and realize common prosperity at a time when the country is undergoing tremendous change and interests within society are diverging. The objective of reform is not only to build a more efficient economy but to build a more equitable social and economic order. Over the last two and a half decades China has undergone a gradual transition from a planned economy to a market economy, putting in place a more vibrant and internationally competitive economic system. The task now is to build a society of humanism, caring, equality, accommodation, warmth, and justice, and to strike a balance between competition and empathy, risk and safeguards, efficiency and equity, and dynamism and stability. Building a harmonious society must become China's goal for the years to come. This goal is consistent with and mutually supportive of building a Xiaokang society and achieving modernization. In the face of continuing rapid social and economic change, seizing the current opportunity to ease conflict and avert negative repercussions can assure continued progress toward social harmony.

China's progress in meeting development goals

This section presents an outline of China's development goals and an evaluation of its progress toward meeting those goals. Goals set by the Chinese government are considered first, followed by the Millennium Development Goals of the United Nations.

Goals of the Chinese government

In the early 1980s, the Chinese government set the goal of quadrupling GDP and achieving a Xiaokang standard of living. For the most part, the goals for economic growth have been achieved ahead of schedule, but the goals for social development have not been so well realized in such timely fashion.

Over the past 26 years, China's sustained rapid economic growth has caught the attention of the world. GDP growth has averaged 9.4 percent a year and per capita GDP growth 8.1 percent a year,[139] which far exceeded targets. However, the Xiaokang goals and realization of common prosperity have proven more elusive. In fact, income inequality during the period has widened between urban and rural areas, across geographic regions, and among different population groups.

By 2004, 18 years after the Law on Compulsory Education was passed in 1986, nine-year compulsory education had been instituted in areas covering 93.6 percent of the population. Though this represented major progress, the goal of achieving universal nine-year compulsory education nationwide by 2000 was not realized. By 2003, China still had 381 counties that had not succeeded in making nine-year compulsory education universally available. Nationally, the completion rate for nine years of education was only about 75 percent in 2001. That means about 5 million young people were failing to graduate from middle school on schedule each year.[140] Nor did China meet the fiscal target set in 1985 for expenditures on education to reach 4 percent of GDP, this indicator instead holding at just 3.4 percent of GDP.

Targets set for children's health in 1991[141] and for women's health in 1995[142] have now largely been met. However, broader targets related to sanitation and disease prevention have not been met. Goals to improve rural water supplies set forth in 1996 aimed to benefit 90 percent of the rural population, with 80 percent of rural households slated to gain access to running water. Yet Ministry of Health data for 2000 indicate that although 93 percent of the nation's rural population did benefit from water improvement projects, only 50 percent of rural households actually had running water. In addition, sanitary toilets were supposed to be put in place for 40 percent of the rural population by 2001, whereas in fact by 2003 only 21 percent had gained access to such facilities.

Millennium development goals of the United Nations

At the United Nations summit held in September 2000, 49 heads of state and government chiefs from 189 member countries adopted the Millennium Declaration mandating that all countries, whether rich or poor, should spare no effort to eradicate poverty, promote the dignity and equality of all human beings, and realize peace, democracy, and sustainable development. The Declaration put forth a set of universal development goals along with specific quantitative targets. China has been moving ahead of the Millennium Declaration in establishing its own goals and targets in connection with the requirements of building a Xiaokang society.[143] Thus by 2000, China was already close to achieving many of the targets set for 2015 under its Millennium Development Goals (see Table 5.1).

In March 2004, a "High-Level International Conference on the Millennium Development Goals" was convened in Beijing by the Chinese government and the UN System in China. The conference released a report titled "Millennium Development Goals (MDGs): China's Progress." This report held that in general, China's prospects for meeting its MDGs were very promising (see Box 5.2). This meant that China would probably achieve most of its goals. China has already demonstrated tangible progress under its commitments. Notably with regard to eradicating poverty, specifically the goals of halving by 2015 both the share of the population in extreme poverty and the share of underweight children under age five, China has shown strong results already and success is

Table 5.1 China's Millennium Development Goals

Indicators & Goals	1990 status	2000 status	Goal	Goal year
Indicator: Share of population with income below US$1/day (%) [a]	32.9	17.8	16.4	2015
Indicator: Share of population with income below the official Chinese poverty line (%) [b]	9.4	3.2	4.7	2015
Goal: Cut by1/2				
Indicator:Share of population with inadequate caloric intake (%) [c]	17	11	8.5	2015
Indicator:Share of children under five who are underweight (%) [c]	21	10	10.5	2015
Goal: Cut by1/2				
Indicator:Elementary school enrollment rate of school-age children (%) [d]	97.8	99.1	100	2015
Indicator:Middle school gross enrollment rate (%) [c]	67.7	90.0	100	2015
Indicator:Average years schooling of population ages 15 and over [e]	6.43	7.85		
Goal: Universal education through middle school (9 yrs)				
Indicator:Female/male ratio in elementary school (%) [c]	86	90	100	2005
Indicator:Female/male ratio in high school (%)			100	2005
Goal: Gender equality				
Indicator:Infant mortality rate (‰) [c]	50	30	17	2015
Indicator:Under age 5 mortality rate (‰) [c]	61	36	20	2015
Goal: Cut by 2/3				
Indicator:Mortality rate of women in childbirth (per 100,000 live births) [c]	89	50	22	2015
Indicator:Hospitalized child delivery rate (%) [f]	39	68		
Goal:Cut mortality rate by 3/4				
Indicator:Number positive for HIV/AIDS (1000 persons) [g]		840		
Goal:Check and reverse spread				
Indicator:Positive rate for TB smear test (per 100,000) [h]	134	110	67	2015
Goal:Cut infection rates of TB and malaria by 1/2				
Indicator:Share of population lacking safe drinking water (%) [c]	29	25	14	2015
Goal:Cut by1/2				
Indicator:Share of rural population with sanitary toilets (%) [c]	8	21		
Goal:Increase access				

a. Derived from figures on population living under the international poverty line: 375 million in 1990, 224 million in 2000, 74 million in 2015. Source:World Bank, 2003: Table 1.9. b. Derived from figures on population living under the Chinese official poverty line: 85 million in 1990, 30 million in 2000. Source: National Bureau of Statistics, 2003: 101. c. Source: UNDP, 2004. d. Source: National Bureau of Statistics, 2004b. e. Based on the National Population Censuses of 1990 and 2000. Source: Education Research Group 2003. f. Figures are for 1993 and 2003. Source: Rao, undated; Statistical Information Center of the Ministry of Health, 2004. g. Source: State Council AIDS Working Committee Council and the UN Theme Group on HIV/AIDS in China, 2004. h. Source: 2000 National Report on the Epidemiology of Tuberculosis.

entirely possible. As for achieving universal primary education by 2015, progress thus far suggests that this too is feasible. Similarly, the UN report indicated that the goals of reducing by two-thirds the mortality rate for children under five and by three-fourths the mortality rate for women in childbirth were fully achievable.

The report further noted, however, that the Chinese government needed to pay more attention to the following goals: achieving gender equality in high school enrollment; checking and reversing the spread of AIDS; reducing the incidence of tuberculosis; and implementing a national sustainable development strategy so as to reverse the trend in environmental resource loss by 2015. Broadly speaking, improvement in those areas where progress is not on track could be facilitated by taking a more balanced approach to development.

Box 5.2 China's Progress in Meeting Millennium Development Goals

UN agencies conducted a preliminary assessment of China's progress in meeting its Millennium Development Goals, results of which are presented below. This assessment represents a starting point for discussion with the Chinese side rather than a verdict on China's performance.

Generally, the situation is positive and the prospects are good for China to meet most of its Millennium Development Goals on schedule. Efforts in the following areas should, however, be intensified:

● Achieving gender equality in high school enrollment;
● Checking and reversing the spread of HIV/AIDS;
● Halving the incidence of phthisis;
● Implementing a national sustainable development strategy to reverse the trend in environmental resource loss.

The commitment that China is devoted to realizing the Millennium Development Goals has basically been fulfilled. As to the Millennium Goals whose realization is not smooth, their realization may be made smooth through enhancing the attention to balanced development

Goals*	Condition of Progress	Favorability of Environment
Goal 1: Eradicate extreme poverty & hunger		
Halve the proportion of people living in extreme poverty	On track	Well developed
Halve the proportion of population below minimum level of dietary energy consumption	On track	In place
Halve the proportion of underweight children under 5 by 2015	On track	In place
Goal 2: Universal primary education by 2015		
Achieve universal primary education by 2015	On track	In place
Goal 3: Promote gender equality & empower women		
Achieve equal access for boys and girls to primary and lower secondary schooling by 2005	Maybe not on track	In place
Achieve equal access for boys and girls to upper secondary education by 2005	Maybe not on track	In place
Goal 4: Reduce child mortality		
Reduce under-five mortality by two-thirds by 2015	On track	In place

Goal 5: Improve maternal health		
Reduce maternal mortality ratio by three-quarters by 2015	On track	In place
Universal access to safe/reliable reproductive health services (contraceptive methods) by 2015	On track	Well developed
Goal 6: Combat HIV/AIDS, malaria, and other diseases		
Halt and reverse the spread of HIV/AIDS by 2015	Maybe not on track	Maybe not on track
Halve the prevalence of TB by 2015	Maybe not on track	In place
Reduce the incidence of malaria	On track	In place
Goal 7: Ensure environmental sustainability		
Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015	Maybe not on track	Well developed
Halve the proportion of people unable to reach or afford safe drinking water by 2015	On track	Well developed
Improve the proportion of rural people with access to improved sanitation	On track	In place

* For the year 2015 unless otherwise noted.Source: UN, 2004.

Narrowing urban-rural and inter-regional disparities

Nationwide statistics mask substantial and growing differences between urban and rural areas and between the coastal region and the central and western regions. Using national data to assess progress toward development goals can therefore yield misleading conclusions.

The incidence of low body weight for rural children under five dropped from 19.4 percent in 1992 to 13.8 percent in 2000, but this rate remained well above the 3.0 percent rate achieved in urban areas by 2000. The incidence of growth retardation for rural children under five similarly declined significantly from 39.7 percent in 1992 to 20.3 percent in 2000 to meet the target set in the "China Child Development Program for the 1990s." However, this still left a huge gap relative to the 2.9 percent rate for urban children. Variation across regions is also substantial particularly when the comparison is focused on rural areas in different regions. The health status of rural children in the western region is much lower than that in the eastern region.[144]

The rate of mortality for rural women in childbirth was a high 98 per 100,000 in 1992, and fell to 58 per 100,000 in 2000 but nevertheless remained well above the national average. Thus for the goal of reducing the national mortality rate in childbirth by three-quarters to be achieved by 2015, the key lies in bringing down the rural rate.

Disparity in access to environmental resources also needs to be bridged. The share of the rural population lacking safe drinking water declined noticeably from 48 percent in 1993 to 20 percent in 2003. This nevertheless fell short of the goal to bring safe drinking water to 95 percent of the rural population by 2000. In absolute terms, the number of people drinking unsafe water is still a disturbing 180 million. Provision of sanitary toilets has also fallen short of the target.

The share of the rural population with access to such facilities rose from five percent in 1993 to 21 percent in 2003, but the target was 40 percent for 2001.

It is apparent then that although the situation in Chinese cities is relatively good, with some development indicators approaching or even matching those of developed countries, the rural areas lag behind. This is a problem that must be given priority attention and solved over the next decade. Moreover, while China's fulfillment of Millennium Development Goals with respect to hard indicators such as poverty and malnutrition is going smoothly, on soft indicators such as gender equality in education and reversing the spread of AIDS progress has not been so smooth.

Inter-regional inequality also remains palpable. Per capita GDP is as high as US $4,522 a year in developed provinces and as low as US $350 a year in underdeveloped ones; the population growth rate by province is as low as -0.095 percent a year and as high as 1.26 percent; life expectancy is as high as 78.9 years and as low as 65.7 years; mortality of women in childbirth is as low as 10 per 100,000 live births and as high as 466.[145]

This unevenness between urban and rural areas and across regions in realizing development goals is closely related to unevenness in socio-economic development. The challenge in meeting the goals turns on success in the rural areas, especially the poor rural areas in the central and western regions. This then is where the focus must be.

Policy recommendations

Prevailing in the cause of social equity will require efforts on many fronts. Inequity manifests itself in a great variety of forms in today's China. The reasons for it are complex, having to do with history and nature, social system and public policy, the formative state of markets, and the negative repercussions of economic transition and development. Because the various aspects of the problem are all interrelated, it must be approached from many angles at once.

As a foundation, though, there must be macroeconomic stability and continued reform progress. Macroeconomic stability is a necessary condition for steady growth, and steady growth in turn generates the economic wherewithal to support efforts to improve social equity. Moreover the brunt of instability is inevitably borne by the poor, whether the instability is inflationary or deflationary in nature. Sustaining growth at a high level depends further on continued reform of the economic system. At the same time, reform is itself favorable for creating opportunities for the poor and thus helping narrow the gap between rich and poor. Longer term, reform must be pushed forward in a comprehensive fashion that encompasses the political system so as to broadly promote China's economic, social, and human development.

Thorough-going treatment of the subject of economic and political reform is beyond the scope of this report. Here we merely focus on policy recommendations that bear most directly on China's overall development and social equity. Ten broad policy areas define the scope of our proposed program, as set forth in Table 5.2. These ten policy areas pertain to six major facets of social inequity and six corresponding goals. Details of the policy recommendations within each of the areas are laid out in the ten sections that make up the remainder of this chapter.

Table 5.2 Policy Framework

Demand			Supply
Issues	**Goals**	**Policy approaches and institutional arrangements**	**In-depth reform and institutional design**
Lacking opportunities Weak human capital	Creating opportunities Raising abilities	Promoting employment: providing more job opportunities Eliminating employment discrimination Developing informal employment	Choosing an economic growth pattern which may promote employment and contribute to equity Unified labor market Improving market system
Weak human capital	Raising abilities	Compulsory education, education for the children of migrant workers, education contents reform, lifetime education Strengthening public health and basic medical treatment Improving rural infrastructure and living environment	and encourage entrepreneurship Equal social services Implementing free compulsory education Reforming the medical service system Unified fiscal transfer payment system
Vulnerability No ability to assume risks	Reducing vulnerability	Social relief Social pension insurance Medical insurance system and medical aid system	Adjustment of social security system Establishing a wide-covering, low standard, compulsory and unified social insurance system
Passive acceptance	Encouraging participation	Ensuring rights and participation of vulnerable groups Helping vulnerable groups accumulate social capital	Eliminating discriminative citizen treatment Promoting public participation
Lack of timely public services	Improving the government's ability of administration	Eliminating social barriers Promoting social harmony and mutual help Improving legal environment Improving public fiscal system Improving governance and the government's ability of administration Increase transparency and e-administration	Improving legal and political environment Eliminating non-institutional social barriers: social powers/media/rule of law and administrative support Reforming the government Reforming the financial system

(1) Allocating public resources to promote human development

Over the past 26 years China's economy has experienced sustained rapid growth that has yielded broad-based improvement in living standards. At the same time, income disparity has widened and social inequity has become even more apparent. If the trend toward widening disparity is not reversed and feelings of social inequity are not relieved, social stability and economic growth may suffer. The gap in incomes has opened up within the space of one generation, but if resolute measures are not taken now and the chance to manage the problem is lost, poverty will be passed down from generation to generation, creating a social schism that will be hard to eliminate. Later on, the problem will become more difficult and costly to resolve. Thus it is appropriate and timely that the Chinese government has now set the goal of building a Xiaokang society in an all-round way and is adopting supportive policy measures. The realization of social equity will require increased mobilization of resources in the public sphere and a shift in current patterns of public resource allocation. In light of China's level of economic development and limited fiscal capacity, the design of public programs should be guided by certain principles, as outlined below.

First, promoting social equity requires that the adverse effects of the market system be curbed while at the same time the system's fundamental workings not be obstructed. China's reform and development experience has demonstrated that only with the protection of property rights and the fostering of a competitive market environment can sustained rapid growth be assured, income disparity narrowed, and common prosperity realized.

Second, promoting social equity requires that public expenditures be increased substantially from their current levels. Increases in government spending on education, public health, social security, and poverty alleviation are essential. Yet the standard of social welfare cannot be set unrealistically high. In formulating a social welfare plan, the experiences of other countries should be consulted, but China's own circumstances must be faced squarely, notably: the level of development is low; the population is large; and although in the aggregate the economy is quite big, per capita output remains meager. Even a slight increase in the per capita standard of social welfare will amount to a major increase in aggregate spending. Also, welfare spending tends to ratchet upward irreversibly as prospective beneficiaries support new initiatives while incumbents staunchly resist cutbacks. Therefore, programs must be evaluated carefully and chosen judiciously, moving ahead step by step for best effect.

Third, promoting social equity should start with human development. As documented in the foregoing chapters, levels of human development in China vary greatly across regions and between rural and urban areas. Of note, however, is that even as gaps in economic development and per capita income have widened over the last 20 years, in terms of human development the inland areas have actually been gaining on the coast and the countryside has more or less held its own relative to the cities. In inland areas, strides in life expectancy, literacy, and school enrollment have been spurred by the campaign to develop the west and other regional initiatives along with the nationwide effort to institute nine-year compulsory education. Taking the extremes among provinces, Tibet had a human development index only 57 percent that of Shanghai in 1990, but by 2003 the relative value had risen to 70 percent. With respect more narrowly to the education component of the human development index, Tibet's value was 69 percent that of Shanghai in 1990 and rose to 76 percent as of 2003.[146]

Between rural and urban areas, the gap in human development indexes has increased, but only marginally as a narrowing between education indicators has

mostly offset a widening between life expectancies. In 1990, the rural human development index, at 0.578, was 83.3 percent that of the urban index. By 2002, the rural index had risen to 0.673 in absolute terms yet slipped to 82.7 percent of the urban index. Human development in rural areas has been boosted by rising rates of literacy and school enrollment. The difference between rural and urban areas for middle school enrollment rates narrowed from 35.6 percentage points in 1990 to 18.1 percentage points in 2002, contributing substantially to convergence in human development indexes. On the other hand, due to the weakness of medical services in rural areas, the increase in rural life expectancy lags that in cities. The absolute difference in life expectancies thus rose from 3.5 years in 1990 to 5.7 years in 2000.

Human development can lead economic development. Over the years, China's human development ranking among countries has generally exceeded its GDP per capita ranking. In the 1980s, its human development ranking was several tens of places above its GDP per capita ranking,[147] but the difference slid to less than 10 places in the 1990s. Promotion of social equity rests fundamentally on human development and more specifically, on the pace of human development in underdeveloped areas, which must exceed that in more developed areas. Despite the concerted efforts of the government, widening per capita income gaps regionally and between countryside and city will not be turned around quickly. Nevertheless, convergence in human development is possible to achieve given the deficiencies in health and education that plague China's inland provinces and especially its inland rural areas. Success requires only that public services be improved, inputs to basic education and public health be increased, and measures aimed at improving the basic rights, capabilities, and security of people in backward areas be implemented.

(2) Unifying labor market and promoting informal sector development

The principle of employment first

Poverty and income stagnation are rooted in lack of good employment opportunities. Expanding employment opportunities for the poor is thus the most effective way to reduce poverty. To achieve this to full advantage, changes in institutions and policies are necessary.[148] The principle of "employment first" should guide industrial policy, macroeconomic policy, and regulatory policy. With respect to industrial policy, this means properly managing the balance between labor-intensive industry and capital and technology-intensive industry and fully considering the employment consequences of decisions related to technology policy and public investment. With respect to macroeconomic policy, "employment first" means taking employment as the key target in conducting counter-cyclical monetary and fiscal policy and making low unemployment the main objective. Finally, with respect to regulatory policy, it means keeping down the costs of doing business to establish a low natural rate of unemployment. In managing macroeconomic policy to balance inflation and unemployment, the lower the regulatory costs of doing business, the easier it is to achieve stable prices with low unemployment.[149]

Unifying the labor market

The labor market should function as an integrated whole between urban and rural areas. Artificial barriers may protect the interests of city dwellers in the short run, but in the long run the economic and social costs are huge. The segmentation of the Chinese labor market affects not only job creation but enterprise competitiveness and the process of urbanization as well.

Achieving the goals of expanding employment and ensuring fair employment opportunity depends on eliminating a number of institutional impediments to labor market functioning. The most obvious of these

is the Hukou system. Integrally related to the Hukou system, however, is the preferential system of urban entitlements. Hence in order to establish a unified labor market, a set of reforms is required related to the Hukou system, the social welfare system, and government employment policies.

Localized urban welfare benefits and fiscal practices determine the "gold content" of a particular urban Hukou. The gold content of the Hukou in turn influences the capacity of a city to absorb migrants and shapes local government motives and maneuverability in reforming the system. High levels of welfare benefits in cities are costly to sustain. Limited fiscal resources prevent extending premium benefits to the entire national citizenry or even to all those who live in cities. The reasonable and practical goal then is to establish a unified social welfare system characterized by a very low level of benefits but very broad coverage which would narrow rural-urban differences (see discussion of policy areas 3, 4, and 5 for details).

Though restrained by the Hukou system, rural-urban migration has accelerated over the course of the reform era. From just 17.9 percent in 1978, the urban share of the population rose to 41.8 percent as of 2004[150] and is continuing to increase at a rate of more than one percentage point a year. Of the current urban population of 540 million, 160 million do not hold an urban Hukou. Most of these belong to the so-called "floating population," people who maintain a home in the countryside and a claim to agricultural land that provides their basic social security. Over the next 15 years or so, the cumulative number of rural migrants to cities will reach well over 200 million. To immediately confer on this influx full entitlement to the housing, pensions, and medical care enjoyed by urban Hukou holders would not only be infeasible, but would seriously undermine momentum in job creation.

Reform of the Hukou system faces many obstacles, and there is no unified approach to overcoming these. Indeed, every locality has its own way of going about it (see Box 5.3). In general though,

four elements of a reform agenda are worth considering. First, the human capital of rural workers should be increased through both formal schooling and on-the-job training to help improve their viability in the labor market. The 2000 population census revealed that persons of working age (15-64) had on average 7.3 years of schooling in the countryside for 2.9 years less than in cities. Persons of rural origin tend naturally then to end up in menial jobs at low wages. They can make enough in the cities to contribute to improving the lot of their families back home but not enough to bring those families to live with them. Ultimately, the wages of migrants will only rise when the excess supply of low-skilled workers inundating the labor market shrivels away. Second, reform of the urban social security system should be pushed forward. A new system has been instituted for endowment and medical insurance that combines social pooling with individual accounts and can accommodate participation of migrant workers. Third, the law should be brought to bear to enforce the rights of migrant workers. In particular, all urban employment policies should incorporate fairness and openness and the principle of non-discrimination on the basis of Hukou or place of origin. Further, oversight of enterprise adherence to the labor law should be strengthened to ensure that national policies are consistently carried out. Fourth, government should provide migrant workers and their children with elementary education, basic health care, and the public services to which all citizens are entitled. In addition, an effort should be made to improve the living conditions of migrants.[151] All of this functions critically as input to the formation and maintenance of human capital.

Ultimately, as the tangible difference between rural and urban Hukous diminishes, abolishing the Hukou system will contribute to building a harmonious society. Already as of 2004, Hunan and Hubei provinces have eliminated the distinction between rural and non-rural Hukous and established a unified rural-urban Hukou system.

Box 5.3 Dismantling the Hukou System

The main reasons for establishing the Hukou system in 1958 were: i) the need to coordinate Hukou with unified state purchase and sale of commodities under conditions of severe shortage; ii) the need to strengthen social control and consolidate state power under acute threat of force, both internal and external; and iii) the need to extract resources from the rural areas and centralize resource allocation in support of the strategy to prioritize heavy industry and surpass Britain and the US economically. In general then, the aim was to strengthen social organization and government capacity to mobilize resources.

Once established, the Hukou system gradually drove a wedge between urban and rural areas with respect to employment, social security, and public services, creating a dualistic society and exerting a heavy influence on distributive outcomes.

In 1978, China began its reform and opening and a market economy began to take shape. The Hukou system impeded the mobility of labor and came under pressure to loosen. Localities of their own accord began implementing reforms. Judging by announced policy measures as well as actual outcomes, both the nature and pace of change vary tremendously by region. Indeed, every province and even every city is doing something different, some adopting radical measures even as others struggle to arrive at a clear sense of intentions. From this range of activity, however, a general pattern is discernible by city size.

In small cities, the approach is typically characterized by "minimum conditions and full opening." Liberalization in small cities was officially endorsed in 2001 by the State Council with input from the Ministry of Public Security. Trials began in October and nationwide implementation followed. In China's more than 20 thousand small cities, the basic requirement for obtaining a Hukou has generally been reduced to "having a stable livelihood and legal residence." All individuals or families from outside who meet these criteria may apply for an urban Hukou. This is the biggest change to the Hukou system since its implementation in 1958 and constitutes a radical step.

In medium-sized cities and some larger cities, the approach generally takes the form of "quota elimination and conditional entry." The practice is to relax application requirements and greatly lower the barriers to settling in the cities. For example, in the city of Shijiazhuang an easily met requirement is "having an employment contract of at least two years." This approach is being adopted by medium-sized cities in the coastal regions with dynamic economies as well as large and medium-sized cities in central and western regions eager to accelerate the pace of development. Reform of this sort serves the needs of labor market development and is in keeping with China's step-by-step model of reform.

Finally, in the biggest cities, including Beijing and Shanghai, the approach is one of "setting the threshold high and opening the city gate." Though many small and medium-sized cities are loosening Hukou restrictions broadly, the largest cities give the green light only to those with special qualifications while raising the bar against common laborers. Relatively speaking then, Hukou reform in the largest cities has not seen much progress. Indeed, Shanghai has ceased implementing its already formidable Hukou requirements so that raising the threshold is moot as the gates are effectively closed.

Source: China Economic Times, Cai, Du, Wang, Background Report.

Unifying the labor market depends fundamentally on dismantling the Hukou system. Essential to this endeavor is divorcing the social welfare function from enterprises and absorbing it into the public sphere. Freed of the burden to safeguard employment and disburse welfare benefits to workers and retirees, enterprises can focus on market forces in making their employment decisions. The restructuring of state-owned enterprises that began in earnest in 1998 has been a painful process involving massive worker lay-offs that are still underway. Whether state enterprises perform the social function of supporting surplus labor or laid-off workers are subsidized through re-employment centers, the policy burden is still heavy. But development of the labor market depends on carrying out this transition.

The task of making labor supply and demand more responsive to market forces remains formidable. Many industries remain highly concentrated and dominated by state-owned enterprises. These include oil and gas extraction, finance and insurance, post and telecommunications, and railway transport. Market power in these industries is preserved through preferential treatment and institutional barriers to entry. As a result, jobs are protected and wages are inflated. To eliminate the wage gaps created by market power in product markets, policies must be adopted to encourage all forms of business ownership, remove the institutional basis for monopoly, and encourage mobility of labor.

Encouraging small business and informal employment

Chinese statistics show a continuous decline over the last six years in employment by state and collective units. Most job creation over the last decade has come from the non-state sector, especially small business, self-employment, and the informal sector. To encourage this trend, in 2005 the Chinese government issued "Views on Encouraging, Supporting, and Guiding Development of Small Busi-

ness and the Non-State Economy." Expeditious implementation of the guidelines contained in this document by all regions and government departments will promote private and self-employment and development of the non-state economy, stimulating job creation to the fullest and in particular generating opportunities for low-income groups.

One of the biggest obstacles to doing business faced by small and medium-sized enterprises is difficulty obtaining credit. Small financial institutions likewise have an advantage in serving the credit needs of this sector in terms of cost and information. Therefore, measures should be considered to relax barriers to entry in the banking industry and actively guide development of small local banks.[152] In the near term, reform and improvement of urban and rural credit cooperatives should continue to bring their advantages into full play in financing small business. In addition, the government can set up guaranteed low-interest loans to encourage start-up businesses. Globally, experience in poverty alleviation has demonstrated that international organizations and charitable foundations can play an important role in nurturing small-scale lending. Government can provide the legal framework and oversight to enable such entities to directly serve the financing needs of potential entrepreneurs.

Besides financial services, small business also requires support in the way of information, technology, and marketing services. Many countries have set up quasi-governmental service providers to perform these functions. Experiences from elsewhere may provide valuable reference for China.

Beyond the formal small business sector, the informal sector can provide a basic livelihood to those most vulnerable to poverty. Informal employment exists all over the world. In the industrialized countries of the Organization for Economic Cooperation and Development, 17 percent of the labor force is engaged in informal work; in developing countries the average is 60 percent. At a certain stage of development, the informal sector can mobilize labor resources where an immature formal labor mar-

ket does not and in the process can help spur development of the formal labor market. As opposed to formal employment, informal employment is less regimented in work hours, compensation, and work location. Sectors particularly disposed to informal employment include catering, cleaning, childcare, and elder care. These sectors are growing rapidly in China in connection with rising affluence and an intensifying pace of life. Population aging also contributes to demand for services to aid the elderly.

There are a number of measures the government can consider taking to foster expansion of informal employment. Working with industry associations, government can set standards for informal employment and for organizing enterprises that engage informal workers. Government could also offer tax breaks or subsidies to encourage establishment of enterprises that employ the indigent in informal work. Finally, government could organize clearinghouses to collect and freely disseminate information on work opportunities in the informal sector.

In many localities in China, the informal sector has been very effective in generating employment. As early as 1996, Shanghai endorsed informal employment and encouraged social forces giving rise to the organized mobilization of informal labor. Organizations that engage informal workers provide a variety of services including domestic services for local households, temporary or periodic labor services for enterprises, public services in maintaining the community environment, and handicraft production in homes or workshops. By the end of 2003, 22,000 organizations for informal labor in Shanghai absorbed 229,000 workers at an average wage of 700 yuan a month. More than 1,000 such organizations had developed into small enterprises. These successful examples indicate the great potential that exists for expanding informal sector employment.

Development of the informal sector has fundamentally altered the employment landscape of urban China. Entering the 1990s, China was still trying to ease employment pressure by expanding jobs in state-owned enterprises. Ninety percent of urban workers then had a work unit responsible for taking care of them and managing their social security packages. In the late 1990s, state-owned enterprises were pushed to reform, and this meant laying off workers in massive numbers at the same time that migration from the rural areas was putting pressure on urban labor markets. The informal sector became the outlet for these workers. Currently, among 260 million workers in urban areas, only 110 million, or 40 percent, are connected to traditional work units. About 120 million are covered by endowment insurance. With so many rural migrants and laid-off state workers entering the informal sector, it is a great challenge to ensure they receive proper access to public services and social security coverage.

(3) Improving rural infrastructure and living environments

Improving infrastructure and living environment in rural areas can not only boost farmers' purchase of durable consumption goods (helping domestic demand expansion),[153] but can play an important role in reducing social inequity. Such improvement also helps to promote rural modernization, bridge the gaps between the standard of living in the city and the countryside, and create necessary conditions for rural residents to participate in and share the fruits of economic development. To develop the rural regions, it is necessary to consider the following:

Reducing inequalities among different regions with rural areas by concentrating on regions that have difficulties in transportation, drinking water supply, schooling and medical care. Improving infrastructure and living environment in rural areas helps better farmers' life, facilitate their access to market information, promote their interaction with the market and directly increase their income.

Reinforcing the construction of rural infrastruc-

ture with concentration on road building, power grid, drinking water, telecommunication, broadcasting, TV as well as agricultural product storage, fresh-keeping, and market facilities. These projects also create demand for cheap rural labor and local materials, bringing about many job opportunities in rural areas.

Increasing investments in village-level poverty alleviation plans. So far these have proven effective for 146,000 villages covering 76 percent of the poor population. These plans should be multiplied widely to cover low-income villages, which account for one-third of the 700,000 administrative villages all over the country. By the year 2004, this plan had been launched in 54,333 villages, helping improve basic production and living conditions in these economically distressed areas, increase the public and individual assets of the poor population, and strengthen the ability of the poor to acquire income and build a better life. These plans should be widely implemented.

More attention needs to be given to management of village-level poverty alleviation plans. Projects conducive to the improvement of basic production and living conditions such as road building, drinking water supply, and sanitary facilities should be given top priority. The government should also encourage the active participation of villagers, listen to their opinions, and delegate decision-making to the villagers themselves. This not only helps save money and optimize the use of funds, but also provides incentives to decision makers in village administration.

Pollution control and environmental management should be strengthened. Economic development has caused serious environmental problems in many areas, usually stemming from enterprises. It is necessary to set up evaluation standards that focus on social and environmental costs rather than economic growth indicators. "Grain for Green" projects[154] should be further carried out with strengthened policy enforcement, properly balancing the benefits of peasants, collectives, and the government.

(4) Investing in public education and promoting people's capabilities for development

From the perspective of equity and human development, education would improve the capability of people and upgrade their human capital, thus facilitating their employment and raising their capabilities and choices. To promote equity and adjust education policy, the CHDR proposes recommendations in three areas: decreasing inequality in opportunities, focusing on primary education and migrant children, and reforming the educational content.

Reducing the inequality in education opportunities

The primary task in promoting equality in education is to increase the educational investment in the public fiscal system and to increase funds devoted to basic education. Public education resources are currently allocated improperly among all levels of education.

The country should speed up the establishment of a standardized public education fiscal system to ensure adequate funding for basic education. In particular, it should take tough measures, including legislation, to ensure adequate funds for compulsory education. Fiscal expenditure in basic education should account for at least 4% of GNP.

The Chinese government should set up targets for compulsory education, at least for rural areas. In recent years, compulsory education has been implemented in the poverty-stricken rural areas of central and western China. If conditions permit, the scope of coverage should be expanded.

Local management and fund-raising systems should be reviewed and the sharing of responsibility for educational funds reconsidered by all levels of government. Local governments' responsibility for

managing compulsory education should be given due financial support. The CHDR proposes a number of measures for a standardized and orderly transfer payment plan for funding basic education. The basic principles include: (1) If China's existing fiscal transfer system remains the same, then the education-specific transfer payment should be increased. (2) Education-specific funds should become a standardized component in funding local schools, and their allocation should comply with the principles of transparency and equity. (3) Education-specific transfer payments should cover more than teacher wage payments and school construction fees. (4) The central government and governments at the province and county levels should jointly share the costs of basic education. The central government should help the provinces with fiscal difficulties. (5) An award mechanism could be established to recognize provinces that are actually implementing the equalization plan, thus encouraging all provinces to address poverty in regions within their own jurisdictions.

The role of the Central Government should be to pay more attention to vulnerable groups and provide equal educational opportunities for them.

Public education resources are allocated improperly among all levels of education. The percentage of government investment in China's primary and middle school education is lower than in the United States, Japan, and Korea (With respect to funds for higher education, however, the Chinese government clearly invests proportionately more than those three countries). To change China's comparatively low investment in basic education, the country must make basic education a priority, devoting the bulk of any new funding to it.

Measures should be taken to carry out reforms in the development of institutions of higher education, including reducing expenditure on administrative staff, increasing the number of the teaching faculty, appropriately adjusting tuition, and increasing the number of scholarships granted to poor students. It

is also necessary to support strongly the development of private schools from which students could be drawn to higher education.

Special focus on migrant children

The schooling of rural migrant workers' children should be considered from the viewpoint of policy. Discrimination faced by these children should be eliminated to help them integrate into society. Reforms should be introduced to improve public education financing and grant compulsory education funds sufficient to ensure compulsory education for rural migrant children in cities. As a temporary measure, the proper functioning of special schools for rural workers' children should be ensured while integrating compulsory education for migrant children into the reforms of the fiscal system. In the meantime, special schools should be allowed to run on the outskirts of cities so pupils do not stay out of school.

Targeting human capital development

Education should improve the capabilities of people and upgrade human capital, thus facilitating people's employment and future development.

Generally speaking, the knowledge-imparting pattern still dominates in China's schools. Progress towards establishing "an education system stressing content creativity, ability and comprehensive quality, adapted to individual development and meeting various needs" is still at the preliminary stage of exploration.[155] To make this transformation, various teaching methods such as digital television should be considered to develop long-distance education.

The government should also financially support or otherwise encourage higher education institutes, employment training centers, technical schools, and non-public schools to organize pre-employment or on-the-job training.

The difficulties confronted by new labor forces in obtaining employment pose a challenge to the current education system. Graduates from high schools, colleges

and universities have difficulty in finding jobs, showing that the current education system is disconnected from the labor market. The corresponding policy should be targeted at reforming the education system, reallocating education resources, and adjusting educational content according to market demand.

In the areas of vocational education, technology education and adult education, the reform of teaching content should be accelerated. Measures could include a) encouraging the establishment of community universities by transforming all types of training centers sponsored by the government; b) involving communities to target the vocational education of various social groups; c) regularly providing information on professional skills requirements to provide orientation for training and studies; and d) encouraging on-the-job training.

(5) Strengthening public health and improving basic medicare

The 26 years after the reform and opening of China witnessed the most rapid development of the healthcare sector since the founding of the republic. With this rapid change, however, came new challenges: defects in the public healthcare system, disparities in health levels between different population groups, and inequality in the allocation and utilization of healthcare resources between rural and urban areas and among different regions. The challenge for China now is determining how limited medical resources can be equitably distributed among members of society.

The first goal of medical services should be to meet the basic medical demands of all people. For this, the CHDR makes recommendations in terms of a) priorities, b) increasing inputs, c) medical insurance and assistance systems, especially for rural areas and the poor, and d) establishing fair competition.

Setting up priorities: the basic goal of the medical services

All citizens should enjoy equal rights in basic medical treatment and healthcare services no matter where they live. This would mean shifting the allocation of healthcare resources from urban areas to rural areas and from large medical institutions to grassroots healthcare organizations.

To reduce the inequity in healthcare services, it is necessary to give priority to the development of public healthcare services in rural areas and less-developed regions, and for disadvantaged groups. To rationally allocate medical resources, it is necessary to divide medical and health services into three levels: public health, basic medical services, and non-basic medical services.

Public health services, composed of planned immunization, infectious disease control, mother and child health care, occupational health, environmental sanitation, and health education, should be provided free of charge to all members of society by the government.

Basic medical services mainly funded by the government and targeting most common diseases, should provide the necessary medicines, diagnosis and treatment to all people so as to meet universal basic health demands. Although the government bears most of these expenses, individuals may be asked to pay a small fee. Vulnerable population groups may be exempted from such payment.

Expenses for non-basic medical and health demands should be borne by citizens themselves. Commercial medical insurance should be encouraged on a voluntary basis to promote "mutual insurance." The government can provide tax concessions and other preferential policies to encourage enterprises to purchase additional commercial medical insurance on a voluntary and independent basis.

The different levels of medical services and in particular the scope of the basic medical service pad

(including medicines, diagnosis and treatment) may be defined in accordance with the experience of the medical service sector in diagnosing and treating various common and frequently occurring diseases as well as on the capacities of the government and society. The basic service package can be small initially and expand gradually with economic growth and the increase of government investment capacity. At the same time, it is necessary to build a medical and health service system that conforms to the recognized system. [156]

Increasing input in public health and basic medical treatment

The central and local governments should substantially increase input in the health care sector and actively improve rural and urban social medical insurance and assistance systems. Government's health care input should be supplemented with health care fund raising systems. Objectives should be as follows: Build and improve the health-care financing market; establish multiple channels of raising capital for medical treatment and health care; appropriately open the medical insurance market and the market of property rights transactions for medical institutions; and encourage and introduce private capital into the health care sector.

Priority should be given to improving the use of public health care resources. Currently, there is a preference for city over countryside and cure over prevention. There is also a preference for skill-intensive and capital-intensive construction in urban medical institutions when using limited public health care resources.

The government should provide sufficient preventive health care, health education, planned immunization, control of serious infectious and endemic diseases, water supply and toilet improvement, and other public health products. It should also take active measures to prevent and cure serious infectious diseases such as AIDS, SARS tuberculosis, and schistosomiasis.

The government should reinforce the construction of rural medical treatment and health care infrastructure and strengthen rural health team building. The quality of human resources in the rural health care sector can be improved through training of staff for rural areas, offering assistance and mobile medical treatment services, assistance from urban doctors and students, and imposing requirements for urban-rural exchanges and institutional capacity building.

Establishing a comprehensive medical insurance and a medical assistance system

More than half of China's urban residents and more than 85 percent of its rural residents still have not bought any medical insurance.[157] It is therefore necessary to establish a sound medical security system and medical assistance system. This can be done by enlarging coverage of basic medical insurance for urban employees while gradually establishing a rural medical insurance system to cover all rural residents and guaranteeing that all rural and urban residents have access to equal basic medical services. Urban medical assistance system aimed at the disabled, victims of natural disasters, outcasts and beggars in cities, and the unemployed must be steadily developed. In addition to the medical aid provided by the government, some volunteer medical assistance could be conducted, including assistance to the poor by doctors and hospitals, reducing diagnosis and treatment fees, prescribing cheap and effective medicines, and other measures.

Promoting complete and fair competition

The Chinese government must carry out significant reforms in the current health service system to improve efficiency. Only through reducing arbitrary medical service expenses can the government focus on providing capital input in public health and basic medical services and medical assistance to poor and vulnerable groups. The government needs to change its function, encourage private capital input in medi-

cal services, and promote fair and complete competition. In the current medical system, diagnosis and treatment fees are quite low, and most of hospital income comes from drug sales and charges for using apparatus and equipment. The retail prices of drugs sold by hospitals are in some cases more than a dozen times higher than the factory prices. Hence, it is necessary to establish and maintain medical regulations that manage medical treatments, service quality, and prices, as well as reinforce safety.

The government should reinforce measures towards addressing the unreasonably high price of medicine and drugs. These include reform schemes of "separation of prescribing and drug-selling." In addition, it could consider the model adopted currently by the Canadian government to subsidize hospitals and reinforce the supervision of drug prices, thereby lowering their price. For this, it may be necessary first to find a way to grant differentiated treatments to hospitals by distinguishing public-welfare hospitals from profit-making hospitals.

It is also necessary to develop community health services, promote cooperation between large hospitals and community health service institutions, and encourage large hospitals to provide appropriate technology and personnel support to transfer to communities the treatment of common, frequently occurring, and chronic diseases.

(6) Improving the social security system

The target for establishing a new social insurance system is to create a unified compulsory social insurance system characterized by wide coverage and low standards. "Unified" means that there should not be any discrimination based on social status. The insurance system should cover all citizens, regardless of regions and industries. Wide coverage and low standards mean enlarging security coverage on the basis of low social security standards. Take retirement pension as an example. Retirement pensions provided by

social insurance will guarantee the basic living standard of the retired, while group and commercial pension insurances will satisfy their higher living demands as supplementary income.

The social security system should cover all citizens, regardless of where they live and whether they are employed. This report proposes recommendations for a) improving social insurance, and b) establishing a social security system for the vulnerable groups.

Improving pension schemes

Pension schemes are the most important part of social security The Chinese government began to experiment with reforming the basic endowment insurance system in 2001. Measures included gradually building up individual accounts to achieve a partially funded system; searching for ways to maintain and increase the value of the funds; reforming the calculation and distribution measures of basic retirement pensions; closely connecting basic retirement pension levels with the premium payment period of the insured (a proportion of the basic pension will be added to individual accounts if employees participate in the scheme for more than 15 years); and unifying the premium payment method of the insured who have no constant employment by taking the average wage of local employees as the payment base and setting the fee rate at 20 percent. In 2004, the experiment was extended to Jilin and Heilongjiang on the basis of experience in Liaoning.

A common finding from relevant research into high-premium, low-collection coverage is that extremely high premiums directly contribute to low collection. Low collection may in fact lead to problems such as insufficiency in paying current retirement pensions, leading to a new round of proposals to enlarge coverage or increase premiums, which experts deem inappropriate.[158] The increase in premiums may cause some enterprises to quit the insurance system because they cannot bear the financial burden.

In the field of social insurance, items included in overall government planning should be combined and reduced. Governments should gradually reduce subsidies to social insurance by adjusting and gradually lowering benefit levels. The pension insurance system should be the most important part of the social network as China grapples with the problem of an aging population projected to peak at 1.6 billion in 2030. The following measures should be taken into account.

First, the government should transfer part of the state-owned assets to enrich pension accounts. Second, social pooling and personal account funds should be managed separately, ownership and the right to funds in personal accounts clarified, and market operations introduced. To lower premium rates, it is necessary to better manage the collection of pension premiums or to adopt a market mechanism for individual accounts to raise their rates of return. Third, the administrative management and legal supervision over the operation of pension insurance funds should be strengthened. To face the challenge of the aging population, postponing the retirement age, prolonging premium-paying periods, and delaying retirement pensions are all encouraged.

In recent years, experiments have been conducted with pension insurance for rural workers in Shanghai and Guangdong-without much success. To join the scheme, enterprises needed to pay extra money, raising their cost of hiring rural workers. Those pensions could not be transferred across regions also made rural workers less enthusiastic about the insurance. To solve these problems the government first should pay part of the premiums to reduce enterprises'and individuals' burden. Second, the government should improve technical conditions and set up a nationwide network while giving farmers a clear pledge that their money will be used to their benefit and that by retirement age, they can get monthly pensions.[159]

Building a social security system for vulnerable social groups

Migrant workers and land-expropriated farmers constitute a population of 200 million. To protect this group, China should improve its system of social assistance, establish a poverty monitoring system, and share fund-raising responsibilities between governments, individuals, and villages. Measures could include the following:

Government should raise the current minimum living standard scheme for urban residents and the relief system for rural residents. To ease the shortage of funds for the minimum living standard scheme, food coupons can be issued to the population covered by the scheme.[160] At present, there are no adequate social security systems for rural workers in cities. They must be gradually included in the urban social security system, which should cover the following in phases: injury insurance; medical insurance; pension and unemployment insurance; and maternity insurance.

The social security problem of land-expropriated farmers urgently requires a solution. The government should make solving the pension problem a prerequisite for land expropriation, for example by withdrawing a proportion of money from land expropriation income to set up a special social security fund. Authorities can also consider lowering insurance levels in the short run and eventually linking pensions for land-lost farmers to urban pensions. Farmers can also be encouraged to buy commercial insurance.[161]

(7) Eliminating social discriminative barriers and promoting social harmony and mutual assistance

Social barriers and exclusion may be either institutional or non-institutional (such as social values, norms, custom, etc.). For instance, rural workers in cities are excluded from mainstream urban society. To

eliminate discrimination and promote harmony, this report recommends measures to a) eliminate discriminative barriers, b) encourage mutual aid, and c) promote participation in public affairs.

Eliminating socially discriminative barriers

To overcome institutional social barriers, it is necessary to eliminate administrative systems that prompt rural-urban segregation, and to allow free movement of the population to ensure that citizens enjoy equitable rights to employment, education, healthcare, and social security under the law.

In terms of non-institutional social barriers and marginalization, the mass media should promote communication and understanding among different groups; non-government groups and volunteer groups should encourage social interactions; and urban governments should enact positive measures to help groups facing discrimination.

Encouraging mutual social aid

Individuals and enterprises should be encouraged to participate in charitable activities and to take on more social responsibility. The state can encourage such behavior through laws and policies, including exempting or reducing income tax on enterprises' donations to public welfare undertakings; publicizing such donations through the media and other channels; and facilitating the development of non-government charity organizations. For example, the China Charity Federation, China Youth Development Foundation, and China Foundation for Poverty Alleviation all have played an active role in aiding disadvantaged groups. In the city of Wenzhou in Zhejiang Province, a federation of private enterprises for poverty alleviation was established-China's first charity federation set up by private firms. The federation is mobilizing Xiao Kang enterprises and individuals to help impoverished people through donations. In some developed areas, charity organizations have more poverty alleviation funds than the government. De-

spite a comparative lack of funds, many local governments are launched poverty alleviation programs. In Longhua District of Haikou, for example, the government set up a home for rural workers to provide housing, employment aid, and legal protection. The program has played a helpful role in linking the urban community with migrant workers.

Institutions and organizations should be encouraged to protect the rights of rural migrant workers and help them solve problems in employment, housing, and training. There are a number of good examples among non-government organizations, private firms, and local governments to link urban communities with migrant workers and provide assistance. Such programs deserve further publicity and recognition.

Promoting participation in public affairs

Participation in public affairs helps the poor improve their situation. Employment and income assistance must be combined with access to proper channels through which they can express their opinions.

Local governments should encourage the effective implementation of the Electoral Law of Village Committees, enforced nationwide in 1988; and the Organic Law of Village Committees introduced in 1998. These measures provide a channel for villagers to take part in public affairs, enabling them to make decisions on issues of interest to them, and facilitating the supply of public facilities for villages (including redistribution). The government should also protect villagers' right to participate, enhance the transparency of village affairs, and promote democratic elections, decision-making, management, and supervision.

In cities, community committees provide citizens with an important channel for participating in the management of their own affairs. The community's autonomy can also improve community service and the supply of public facilities. Two basic organizational forms have emerged which need further encouragement.

First are the autonomous activities of residents' committees and residents' autonomy within committees. Second is the development of owners' committees, mainly formed by home owners. Such organizations should be encouraged to allow residents to evaluate the government's performance. Community residents can elect representatives to participate in the local People's Congress, to broaden the channels for residents to take part in politics and supervise the government. Hanjiang District of Wuhan and Shenyang City have made very positive attempts in this area. Greater community autonomy can also improve service delivery and the supply of public facilities.

Other channels of public participation include the "participatory budgeting" of countries such as Brazil. This approach could favor municipal projects in poor areas and begin public participation towards budget reforms in China.

Public participation may also increase the efficiency of poverty alleviation programs. China's pro-poor achievements in the rural areas are significant, but efficiency may not be sustainable. A major problem is that the arrangement of pro-poor programs and the use and distribution of pro-poor funds are conducted on the basis of decisions and opinions by local government departments and officials who do not consult the poor groups themselves. As a result, some regions experience problems such as misuse, appropriation, ineffective use, and unequal distribution of funds.[162] In contrast, urban low-income security programs pay more attention to the opinions of their target groups, and use open and transparent means to identify them. Community residents have the right and opportunity to express their opinions on the threshold for the target group and the amount of benefits. This is a kind of supervision of the government as well as a means by which people participate in social assistance activities, thus ensuring efficiency and equality.

(8) Improving the rule of law and transparency

A harmonious society needs to be built on the rule of law. Rule of law means official regulations are known by the public and can be carried out through a transparent mechanism according to foreseeable procedures. It requires explicit rules and procedures for protecting personal rights. Poor people often cannot adequately protect their rights, so in this sense, improving rule of law helps alleviate poverty and reduce inequity. The CHDR proposes measures for a) creating a favorable legal environment, b) enhancing transparency, and c) curbing corruption.

Creating a favorable legal environment

The laws to ensure the rights of the poor and disadvantaged groups should be made and enforced to better protect those rights. The operation of the juridical system and legal services should be improved to expand the scope within which poor and vulnerable groups may receive juridical service and enjoy juridical equity. Measures could include reducing cost, respecting simplified rules based on juridical procedures, establishing small courts and floating courts, and appropriately using informal procedures for mediation. To solve the particular problem of land-expropriated farmers, it is necessary to amend the Law of Land Administration and related laws and regulations. First, it is necessary to terminate the system of state expropriation of land, and to develop a market for lands of specific purposes. Second, the government should adhere to the rule of compensating peasants based on market price, and ensure their rights to know and to participate in the process of land expropriation. Third, the farmers' ultimate right of transferring contracted land, including rights to transfer lands for agricultural or non-agricultural purposes, should be enforced. Fourth, the collectives in rural areas should be prevented from withholding compen-

sation for acquired lands. The collectives in rural areas, as employers who contract out work on the land, can be entrusted by the government to process land expropriation and compensation work. They can also be entrusted by the farmers to develop non-agricultural construction land and facilities, but cannot violate the principle of free will and infringe the peasants' rights of land transfer.[163]

The government should strengthen and speed up the processing of various case backlogs. The case of delays in rural wages, for example, was an effective way for the government to make quick decisions. The government can consider categorizing these issues and solving them collectively. But in the long run, it may be necessary to deal with issues as they appear to improve and protect weak groups' interests through an efficient and sustainable system.

A rights culture should be encouraged overall to encourage citizens to exercise their own rights and oppose unequal laws. The government should make great efforts to strengthen law enforcement, including increasing their numbers and supporting their independence. Meanwhile, the government should strengthen the system of punishments as a preventive measure. Poor people have less ability to defend themselves against crimes such as theft and extortion aimed at rural workers in cities, which sometimes threaten their lives. It is therefore necessary to increase investments in basic public security units.

Enhancing transparency and curtailing corruption

A society ruled by law also requires transparency of government and punitive measures against corruption. Corruption has negative influences on the enforcement of laws, fairness, and justice, and can lead to gaps between people's incomes. International experience shows corruption not only harms a country's economic growth, but can also distort costs to the detriment of investments in education and public health.

Reports from auditing departments in recent years suggested loopholes exist in financial management of government organs and government-sponsored institutions. Some of these issues are directly related to the effectiveness of social policies and the realization of social equity. In 2003, the National Audit Office of the People's Republic of China audited the administration and use of special funds directly related to public welfare and of great public concern such as basic education expenditures, poverty reduction funds, social security funds, and disaster relief funds. The auditors found serious problems.[164] Thus, making great efforts in auditing and enhancing its authority is an important measure to fight corruption.

The salary of civil servants should be made transparent. Large salary gaps between Party and government organizations and between organizations funded by private and public institutions should be removed. The government should implement a transparent salary system subject to supervision and adjust salary levels in different regions according to prices and consumption.

The existence of large sums of extra-budgetary funds has been an important source of corruption. Further budget reforms, unified revenue and expenditure by the state treasury, improved government procurement system, and enhanced supervision by the People's Congress and the public over the formulation and execution of the budget should curb such mishandlings. It is also necessary to promote openness in government work and protect citizens' right to know about and participate in this work.

(9) Reforming the taxation and fiscal systems for equitable distribution

The design of a more effective taxation and transfer payment system is necessary to guarantee redistribution system improves public service provision in rural areas and underdeveloped regions and equalizes opportunities. The CHDR recommends two reforms: one for the tax system and another for the

public finance system.

Reforming the taxation system

In order to eliminate the negative effects on equity and equality of the existing tax system, it is necessary to establish a nationally unified taxation system. It should be coordinated between rural and urban areas and among regions. It should also be equal so that different taxpayers are not required to assume different tax burdens based on types of ownership of their units, different Hukou standings, or employment in domestic and foreign-funded enterprises.

The equity of tax burdens should also be embodied in the progressive taxes: High-income groups should pay taxes at high rates and low-income groups at low rates. Poor groups should not only be exempt from taxes, but should also receive transfer payments.

Efforts should be made to improve the personal income tax system by setting up a universal system for personal income tax.[165]

With accelerated accumulation of individual wealth, the Chinese Government may consider imposing a property tax such as a housing tax to narrow the large gap between the poor and the rich.

Reforming public finance system

The system of public finance should focus increasingly on public security, public health, public education, vocational training, public relief systems and infrastructure, etc. The goal of a public fiscal transfer system should be for the government to invest in rural social infrastructure. This will lessen social conflict, maintain stability, and guarantee equity in provision of basic public services nationwide. A precondition for realizing public service-based finance is to define responsibilities related to fiscal revenue and expenditure of the central and local governments; and to adopt the mixed mode of "centralization of fiscal revenue and decentralization of fiscal expenditure"and "centralization of decision-making rights and decentralization of responsibility".[166]

Such public service-based finance can be outlined as follows. First, the responsibility to provide public products and services lies with local governments to the greatest extent possible; the central government is only in charge of national public products and services. Provincial governments are responsible for providing provincial and regional public products and services, and the provision of the remaining public products and services lies with grass-root governments. These remaining products and services include primary education, public security, public transportation, fire-fighting, and environmental protection.

Second, the central Government takes the responsibility for redistributing the income and wealth of the entire society, and encouraging each region to undertake income and wealth distribution within their areas. Improving the transfer payment system among governments and equity in local government expenditure (including taking into consideration the price levels of various regions) should become a centerpiece of China's fiscal reform. The transfer payment system based on tax reimbursement should be reformed. China should set reasonable and simple rules and standards concerning transfer payments and establish compulsory rules and implementing measures within local governments to ensure the equity and accessibility of provincial governments and governments at lower levels with respect to the central government's fiscal transfer payments. China should further increase transfer payments to central and western provinces and reinforce support to agriculture, rural areas and farmers.

The design of a more effective transfer payment system to guarantee fiscal transfer payments from the central government could be employed to improve public service in rural areas and underdeveloped regions. This requires the following three steps: First, specify the use of fiscal transfer payments. The central government should employ project-specific transfer more frequently, and shift from unconditional

transfer payments to conditional transfer payments, so as to direct payments as much as possible to basic education, health care, medical treatment, and social relief. Second, centralization of responsibility in providing certain public services and raising funds is essential. For instance, transferring responsibility of governments at the village, township, and county levels in rural basic education to upper level governments could improve efficiency as well as equity. Finally, the highlight of a public fiscal transfer system is to provide basic public services for the rural population, such as basic education, public healthcare, basic medical services, cure of epidemics and endemic diseases, supply of clean water, provision of birth control services, supply of agricultural scientific knowledge, and skill training. The government should invest in rural infrastructure and in rural production and living, thereby creating more employment opportunities in rural areas.

One important component of reforming the public fiscal system is enhancing the budget system. It is necessary to promote a uniform receipt and reimbursement method for the treasury, as well as departmental budget and governmental procurement systems that unify budgetary funds, extra-budgetary funds, and off-budgetary funds into a single budget. Meanwhile, expenditure items should be detailed in a manner that allows them to be more easily supervised by the public. It is also helpful to enhance budget management. To further promote budget reforms, it is necessary to strengthen the NPC's supervising function over budget preparation and implementation procedures. Finally, it is also important to stimulate participation by the media and the public to promote reforms of the budget system.

(10) Promoting government reform and improving governing capacity

The improvement of government administrative abilities cannot be separated from the reform of gov-

ernment itself. The government is required to protect society's interests and provide it with basic public products and services. Government should also correct any negative effects engendered by the market economy and solve inequity problems with long-term consequences. The key point of reform should be making the transition from economic management to management based on public service. Not only should the government provide a good market environment for economic development, but also, and more importantly, should guarantee effective and equitable basic public products and services for the harmonious development of the economy and society. To build a service-based government, it is necessary to make innovations in the management style of the government, thereby providing better services for the enterprises and people. Moreover, the government must integrate administration resources, cut administrative costs, and improve administrative efficiency.

The government must fulfill its administrative duties according to the law. All public powers must comply with the constitution and other laws, which should be exercised under supervision. The power of the government is finite. Its public power is instituted by the people and must be strictly limited within the scope of serving the people. The government should be transparent. Government affairs should be disclosed to the public, so as to avoid black case work. Government should also actively accept supervision by the people, and should pay close attention to reducing governance costs and improving service quality, so as to avoid expansion of employees in its organs.[167]

Government reforms should entail the transfer of some of the government's responsibilities to enterprises, markets, and social organizations. Government should downsize units and responsibilities in direct allocation of resources to increase responsibilities for social and public services.

As a public opinion poll conducted in 2003 showed, satisfaction with upper-level governments is

always higher than with lower-level governments. Satisfaction with the central government was 27 percent higher than that with township governments.[168] Local governments, especially those at grass-roots levels, do not always satisfy people's expectations in providing public services. This may be because they carry too many administrative tasks with very limited human and finance resources. It is therefore necessary to balance responsibilities with financial resources between the central government and local governments.

To protect society's interests, the government should maintain independence to some degree. It should strengthen internal management and supervision to avoid the possibility that some departments may be "captured" by social groups with strong influence, thereby becoming the spokesman for these interests. The government should take into account social equity, the long-term development of society, and the interest of vulnerable groups in designing, implementing, and monitoring social and economic policies.

In providing public services, government should not discriminate against vulnerable groups but should instead favor public services toward these groups. Preferential treatment for vulnerable groups should contain guaranteeing basic human rights for migrant workers, intensifying employment services, establishing a basic relief system for the laid-off and unemployed, and protecting the property rights of residents.

The central government should establish a social crisis monitoring system and a responsibility mechanism for preventing and resolving crises.

The other issue to which the government must pay attention is protecting the environment. With the economic development, serious environmental problems have occurred in many areas. Many local governments, motivated by regional protectionism, are reluctant to punish enterprises that emit pollution if those enterprises are major taxpayers. From the governance's perspective, this phenomenon is related to the evaluation system for the performance of government officials. Current evaluation focuses mainly on economic growth targets rather than environmental cost. This makes it necessary to reform the current evaluation system.

Human development with equity has become an issue of common concern in the international community, and many countries have successfully explored this subject, giving China valuable experience upon which to draw. In the future, China will make progress in building a Xiaokang society in an all-round way and realizing social harmony, which will become the common wealth of the entire human society.

Notes

1   See UNDP (1998) for a complete discussion of the relations between social and human development.

2   Sen, 2002.

3   Pasha and Palanivel, 2004.

4   Eastwood and Lipton, 2001.

5   It should be noted that in the latter half of the 1970s, some of China's indicators of human development began to exceed the average level of those of low-income countries. For example, in 1979, the average life expectancy in China was 64 years, well above the average level of low-income countries, which was 50 years. In 1977, the adult literacy rate in China was 66 percent, ranking high above the average level of low-income countries, which stood at 43 percent. (See World Bank, 1981).

6   Compared with the 1960s, China's progress in human development is even more remarkable. China's HDI was estimated at 0.248 in 1960 (Saich, 2004a).

7   UNDP, 2005: 220.

8   UNDP, 2003.

9   UNDP, 2003.

10 National Bureau of Statistics of China, 2004a.

11 Data released by the Ministry of Civil Affairs in July 2005.[http://news.xinhuanet.com/mrdx/2005-07/06/content_3181002.htm].

12 Data released by the Ministry of Civil Affairs in July 2005. [http://news.xinhuanet.com/mrdx/2005-07/06/content_3181002.htm].

13 While the national income account indicates that the agricultural value added in 2003 accounted for 14.6 percent of the GDP, the household survey shows that net income earned by farmer households from agriculture accounted for 45.6 percent of their total net income. Calculated in this way, the added value created by rural residents in other sectors accounted for roughly 17.4 percent of the GDP and the total added value created by them accounted for only 32 percent of the GDP. If the rural population accounted for 60 percent of the national total, the per capita GDP created by urban residents would be 3.2 times that created by rural residents.

14 Song and Ma, 2004.

15 Yang and Hu, 2005.

16 The rate of private returns to education in China's urban areas in the 1980s was 3 percent,

far below the levels of other countries. By the end of the last century, it rose to about 8 percent, close to the world average. For the estimates on the rate of returns to education in urban China, see Li and Ding (2003); Zhang and Zhao (2002); Lai (1998).

17   See Khan and Riskin (2004); Li and Yue (2004). To some extent, these estimates may be less accurate, because the disparity in living cost between urban and rural areas and between different regions, and the difference between urban residents and the rural population in access to social security and subsidies in kind are not taken into consideration. If the difference in living costs between urban and rural areas and between regions is taken into account, the national Gini coefficient may be lower, because in rural areas living costs are relatively low (Ravallion and Chen, 2004); if the other factors are taken into account, the national Gini coefficient would be higher, because in urban areas the average income level is high, and residents enjoy more social security benefits and subsidies in kind than the rural population (Luo and Li, 2005) .

18   Alesina, Tella and MacCulloch, 2001; Glazer, 2001.

19   Gini coefficient is an indicator commonly used to measure income gaps internationally. It ranges from 0 to 1. The bigger the value, the greater the degree of inequality in income distribution. Zero represents perfect equality where everyone in the society has identical income, while 1 corresponds with total inequality where all the income is in the possession of one person.

20   Coefficient of variation is used to measure the degree of deviation of individual income from the average income. Coefficient of variation= (the square of sample income - the square of average income) / average income.

21   Theil Index is also referred to as Generalized Entropy Family. The formula varies with different parameters. It is extensively applied because it

holds decomposability, which means the overall disparity can be decomposed into disparity within groups and among different groups.

22   Wu J, 2005.

23   The results from this survey are not necessarily nationally representative.

24   Beijing Social Psychological Research Institute, 2002.

25   See Wu J, 2003; Lu, 2003; Yao, 2004; Li P, Li Q and Sun, 2004; Wang S, 2004; Qin, 2000.

26   "Xiao Kang" refers to "a less wealthy but comfortable state."

27   Wang M, 2004.

28   Yao, 2004.

29   Sen, 2002.

30   Ren and Cheng, 1996.

31   Data from a sample survey conducted by the National Bureau of Statistics indicate the rural Gini coefficient for 1978 was estimated at 0.21-0.22 (The Rural Survey Team of the National Bureau of Statistics, 1987; The Rural Survey Team of the National Bureau of Statistics, 2001). Similar to this level was the estimate by Adelman and Sunding in 1987 that the Gini coefficient for rural income inequality for 1978 was about 0.22.

32   National Bureau of Statistics, 2004: 357.

33   Adelman and Sunding (1987) made an analysis in 1987 of China's national income inequality in the early years of reform and opening up. Their estimation put the national Gini coefficient for 1978 at 0.32.

34   Wang S, 2003c.

35   In this chapter and the next, most of the data on China's income and wealth distribution are derived from the results of research conducted by the income distribution research team of the Institute of Economics, the Chinese Academy of Social Sciences. These results are summarized from three sample surveys on nationwide households. For data on surveys of households in 1988 and 1995, please see Griffin and Zhao, 1993; Khan and Riskin, 1998; Riskin et al, 2001.

For data from 2002, refer to Khan and Riskin, 2004a.

36 Zhao and Ding: Background Report.

37 The household survey conducted in 1995 by the income distribution research team of the Institute of Economics, the Chinese Academy of Social Sciences, indicates that urban and rural residents accounted for 76.2 percent and 23.8 percent respectively of the highest decile across the country (Zhao and Li, 1997).

38 During the 1997-2003 period, China's average GDP growth rate was 7.9 percent, the average growth rate of urban per capita disposable personal income was 8.6 percent, and the average growth rate of per capita net rural income was only 3.9 percent.

39 Luo and Li, 2005.

40 There are only very limited data about urban-rural income inequality in various countries in the world. The International Labor Organization only publishes the ratio between per capita income from non-farm occupations and income from farming. Although this ratio is not entirely identical to urban-rural income inequality, it reflects such an inequality to a very large degree. In the 1990s, the countries whose ratio exceeded 2:1 included Singapore (2.1:1, 1990), Botswana (3.02:1, 1995), Paraguay (2.7:1, 1990), Bulgaria (2.01:1, 1995), Kenya (2.86:1, 1990) and Malawi (4.33:1, 1990) (See Yang and Cai, 2000). In addition, some limited data indicate Zimbabwe and South Africa in Africa were the two countries with a conspicuously high urban-rural income gap. In the early 1990s, the ratio was 3.57:1 for the former and 3.14:1 for the latter (See Knight and Song, 1999).

41 Khan and Riskin, 2004a.

42 The estimates of the National Bureau of Statistics indicate that the inequality in urban personal income distribution at the end of the 1980s was far higher than in the first years of the reform, with the Gini coefficient rising by nearly 50 percent (Ren and Cheng, 1996). Even if income in

kind and subsidies in kind are included, the inequality in income distribution did not show visible changes. For example, the Gini coefficient for the monetary income of urban residents in 1988 estimated by the National Bureau of Statistics was 0.23, and the Gini coefficient for disposable personal income (including income in kind) estimated by the income distribution research team of the Institute of Economics, the Chinese Academy of Social Sciences was also 0.23 (Zhao and Griffin, 1994).

43 The bureau estimated that the Gini coefficient for urban personal income inequality was 0.30 in 1994 and rose to 0.33 in 2002.

44 See Zhao and Griffin (1993). The estimate is higher than it would be if those income components were not included. For instance, the Gini coefficient is 0.33 in 1988 (Ravallion and Chen, 2004), when NBS's definition of household income is applied, which excludes the in-kind income and subsidies and the imputed rent of private housing.

45 Khan et al, 1992.

46 The main difference between per capita disposable income and per capita net income was that the former included the imputed rent of private housing. See Khan and Riskin (2004a) for estimates of the rural per capita income in 2002.

47 See Mckinley (1993) on the composition and distribution of rural household wealth in 1988 and Brenner (2001) on the composition and distribution of rural household wealth in 1995.

48 Mckinley, 1993.

49 For example, Khan and Riskin (2001) and Khan (1999) believed that the relatively equal land distribution policy in China had helped narrow income inequality and was an important factor for poverty alleviation.

50 The relationship between the Gini coefficient for the total wealth and the distribution of specific wealth items can be specified in this formula: $G = \Sigma (\mu K / \mu) C K$. $\mu \kappa$ and μ are respec-

tively the average values of wealth item k and total wealth and Ck represents the concentration rate of wealth item k. The value ranges between -1 and 1. If the concentration rate of a specific wealth item is larger than the Gini coefficient of the total wealth, such an item is regarded as having an unequalizing effect, and vice versa.

51 Urban household wealth can also be divided into six items: housing value, financial assets, production assets, value of durable consumer goods, other assets and non-housing debt. Housing value is the total housing value minus the outstanding housing debt. The non-housing debt is the total debt minus the outstanding housing debt. The total wealth (net value) is the total value of all wealth items minus outstanding non-housing debt.

52 The market housing price rose 1.9 percent in 2001, 4 percent in 2002 and 5.7 percent in 2003. (See National Bureau of Statistics, 2004: 346).

53 The low-wealth urban group is mainly made up of young newlyweds and chronic poverty-stricken families.

54 According to the definition of the National Bureau of Statistics, economically active population refers to workers aged above 16, including employed and unemployed people. It is assumed that rural workers are fully employed. Therefore, if rural surplus workers were considered, the actual employment picture would be revealed to be more serious.

55 Cai, Du and Wang, Background Report.

56 The Ministry of Labor and Social Security and National Bureau of Statistics, 2005.

57 See Cai, Du and Wang, Background Report.

58 Bai and Song, 2002.

59 Wang and Zuo, 1999.

60 Knight, Song and Jia, 1999.

61 Meng and Zhang, 2001.

62 Cai, 2004.

63 Yang and Chen, 2000.

64 Solinger, 1999.

65 The income distribution research team of the Institute of Economics, CASS found that about 95 percent of rural migrant workers found jobs through friends or by themselves. Fewer than 1 percent found jobs with government help. Only 2 percent found jobs through employment departments or public recruitment. Another survey among Beijing's rural migrant workers found a similar situation (Li and Tang, 2002).

66 National Bureau of Statistics and the Ministry of Labour and Social Security, 2003.

67 Maurer-Fazio, Rawski and Zhang, 1999.

68 Gustafsson and Li, 2000.

69 Knight and Song, 1999.

70 Maurer-Fazio and Hughes, 1999.

71 Liu, Meng and Zhang, 2000.

72 Knight and Li, 2004.

73 Cai, 2004.

74 Research Team for Report on Education and Human Resources, 2003.

75 Data for 2002 provided by the Basic Education Department of the Ministry of Education.

76 Personnel Department and Education Development Research Center of the Ministry of Education, 2002: 16-7.

77 Cai, 2004.

78 Qu et al, 2001.

79 Research Team for Report on Education and Human Resources, 2003.

80 Information Office of the State Council, 2005.

81 Rao, 2004.

82 Other data shows 80 percent of health funds were allocated to cities, two-thirds to large hospitals in cities. In 2002, per capita rural health expenses were 12 yuan, accounting for just 27.6 percent of the same in urban areas. In China, the rural population represented nearly 70 percent of the total population. But rural health expenses only represented 33 percent of total health expenses. In the past seven years, rural health expenses had average year-on-year decreases of two percent. Between 1991 and 2002, only 14 percent of the

increased health funds were allocated into rural areas. Among these, 89 percent went to salary of medical staff. In fact, the specific fund allocated to rural healthcare and sanitation was only 1.3 percent (Reported by Eastday, July 30, 2004).

83 Research Team of Urban Social and Economic Surveys, 2003.

84 Zhu, 1996.

85 Distinct gender differences exist in almost all other aspects of social insurance. Table 4.5 indicates that, in unemployment insurance, the coverage for men was 6 percentage points higher; in endowment insurance, men's coverage was 5.4 percentage points higher; in work injury insurance, men's coverage was 10.5 percentage points higher; in sick leave treatment, men's coverage was 7 percentage points higher; in paid vacation, men's coverage was 7.4 percentage points higher; etc.

86 According to a survey by the Ministry of Civil Affairs and two universities in October 2002, 90 percent of households enjoying the minimum standard of living assistance in 10 provinces and municipalities can receive full security funds, while 80 percent of such households in other provinces can get the full amount of the aid (Doji Cering, 2002).

87 Ministry of Civil Affairs, 2003a.

88 Survey of aged population by China Research Center on Aging in 2000.

89 Refer to "In-depth Analysis of Arbitrary Exaction of Fees and Its Serious Social Consequence," by Bernstein and Lü, 2003.

90 Chen X. eds., 2003.

91 Wong and Deepak, 2003.

92 Refer to Wong (1997), Wong and Deepak (2003); Knight and Li (1999); Jia (2004); and Roy-Powell (2000), et al. For literature concerning the discussion of inequity in fiscal revenue and expenditure in China.

93 Hu, Background Report.

94 Hu, Background Report.

95 Wang S, 2003.

96 Jiang, 2000.

97 The tax refund is benchmarked on value-added taxes and consumption taxes in different areas in 1993, applied according to the coefficient of 1: 0.3 (See Jiang, 2000). The specific formula of the tax refund is: tax refund amount = benchmark + (benchmark x coefficient x (value-added tax/ consumption tax growth rate)) (See Jia K, 2004)

98 Source: National Bureau of Statistics of China, 1995-2001; Xiang, 2003.

99 Jia, 2004.

100 Jiang, 2000

101 Li S, 2004; Hu Y, 2003.

102 For example, the arrangement and use of 2000 and 2001 central-local transfer payment funds suggests that county-level governments actually get about 50 percent of the total funds and provincial and prefectural governments use 50 percent (Hu Y, 2003).

103 Jia, 2004.

104 Han M, 2001.

105 Changes in the official poverty line can be found in Team of Rural Surveys of the National Bureau of Statistics. Changes in the poverty rates based on the "one-dollar-per-day" line can be seen in Ravallion and Chen, 2004.

106 According to the new definition of poverty of the National Bureau of Statistics, the poor population under the official poverty line is called the "absolute poverty population" and the people living above the official poverty line and below the one-dollar-per-day line are called the "low-income population." In 2003, the combined poor population was 85.17 million (See Team of Rural Surveys of the National Bureau of Statistics, *2004b*: 12.

107 Li S, 2001; Meng, et al, 2004; Tang, et al, 2003; ADB, 2001.

108 .Research Team for Report on Education and Human Resources, 2003.

109 Statistics and Information Center of the Minis-

try of Health, 2004b

110 See Research Team for Report on Education and Human Resources, 2003.

111 The third national public health service survey in 2003 indicated that for rural residents, 62 percent of the two-week patients in the 22 western provinces did not see doctors because of economic hardship. The rate reached 82 percent in Qinghai; 75 percent of sick rural residents asked for earlier discharge because of economic hardships. This rate was 85 percent in Ningxia. Of the rural patients who should have been hospitalized, 71 percent did so because of financial problems, and this rate was as high as 84 percent in Guangxi (Survey and Study on Health Service in China's western region; compiled by the Statistics and Information Center of the Ministry of Health, 2004: 16, 19, 20, 36-7. See Research Team for Report on Education and Human Resources, 2003.

112 Research Team for Report on Education and Human Resources, 2003.

113 Meng et al, 2004.

114 For instance, Li and Deng (2004) used the survey of urban residents in 2002 to estimate the urban unemployment rate, which was 8 percent to 12 percent, depending on whether the rural migrant workers were included or whether those doing informal work were regarded as employed. Another estimate indicated that the urban unemployment rate was 7.3 percent in 2002 (Cai, Du and Wang, Background Report).

115 The aforementioned figures were calculated using data from the National Bureau of Statistics, 2004a.

116 A survey in Fuzhou shows that money from the minimum standard of living scheme is only enough for making ends meet. "Their money is basically used to buy food every month. Nothing will be left after the charges for water, power and coal are paid." "The clothes are mostly gifts from other people." "It is okay without illness.

We fear illness most." (See Wu, 2004)

117 Wu B, 2004.

118 Wu B, 2004.

119 Han, Background Report.

120 The land expropriated for construction is growing at a speed of 2.5-3 million *mu* every year. If one person lost 1 *mu*, 2-3 million rural people would become landless every year. From 1987 to 2001, non-farming construction projects used 33.95 million *mu*. Most researchers estimated at least 34 million farmers have completely or partially lost land. The non-farming construction land does not include illegally occupied land. Many experts believed that if that land were taken into account, the number of complete or partial land-expropriated farmers might be as high as 40-50 million.

121 Han, Background Report.

122 Khan and Riskin, 2004.

123 Khan, 2004.

124 The samples did not include rural migrant workers living on construction sites and in factory dormitories; this exclusion may cause the overestimation of poverty incidence of rural migrants.

125 Li and Tang, 2002.

126 Research Team on Migrant Workers, 1995.

127 Li and Tang, 2002.

128 http://politics.people.com.cn/GB/3333695.html.

129 "Li Yizhong Present at the CCTV program News Saloon'," see webpage of the State Administration of Work Safety: [http://www.chinasafety.gov.cn/zuixinyaowen/2005-06/22/content_108483.htm].

130 Data source: Xinhuanet.

131 Rural migrant workers living in the dormitories of some enterprises usually live in crowded and shabby houses. A 20-square-meter room is usually shared by 10 to 12 people (See Research Team on Migrant Workers, 1995).

132 National Bureau of Statistics, 2005: 192.

133 Report on the Work of the Government, March 5, 2005.

134 Gao Qiang, "Developing Health Undertakings

and Making Contributions to the Building of a Socialist Harmonious Society," July 1, 2005.

135 Jiang, 2002.

136 Wang M, 2003.

137 Hu, 2005.

138 Premier Wen Jiabao offered the following evaluation of China's situation: For years while China achieved rapid economic growth, many contradictions and problems built up. Most critically, urban-rural inequality, inter-regional inequality, and personal income inequality continuously worsened; employment and social security pressures intensified; education, health, culture, and other social programs lagged behind; and the contradiction between population growth and economic development on the one hand and the environment and natural resources on the other sharpened. The mode of economic growth is outdated and the economy is of low caliber and poor competitiveness. Premier Wen recognized two possibilities for China's future development. One is that things will go well, the economy and society will continue to advance, and industrialization and urbanization will be smoothly achieved. The other is that things will go badly, the gap between the rich and the poor will widen, the number of jobless people will increase, urban-rural and inter-regional inequality will worsen, social contradictions will mount, and the environment will deteriorate, all of which will lead to economic and social stagnation or even to social turmoil and regression. Wen Jiabao, "Firmly Foster and Conscientiously Implement the Scientific Concept of Development," *People's Daily,* February 21, 2004.

139 National Bureau of Statistics, 2005: 22-3.

140 Research Team for Report on China's Education and Human Resources, 2003.

141 The "China Child Development Program for the 1990s" formulated in 1991 contained the following targets: 1) reduce the rates of mortality in infants and in children under five by one-third;

2) reduce the mortality rate for women in childbirth by half; 3) reduce the incidence of diseases arising from moderate and serious malnutrition in children under five by half; 4) provide potable water to 95 percent of the rural population in water-short regions; 5) generally increase the treatment rates of sewage and refuse and the availability of sanitary toilets.

142 The "China Women's Development Program, 1995-2000" approved by the State Council in 1995 contained the following targets: 1) raise the rate of health care coverage and health education for women during pregnancy and childbirth to 85 percent; 2) raise the rate of modern child delivery in rural areas to 95 percent; 3) cut the rate of mortality for women in childbirth in half by raising the proportion of deliveries that take place in hospitals; 4) raise the rate of immunization against tetanus for women of childbearing age to 85 percent in regions with a high incidence of the disease and eliminate this disease among newborns.

143 UNDP, 2004.

144 From 1992 to 2000, the incidence in the western region of low body weight for rural children under five edged down only slightly from 21.4 percent to 19.9 percent and that of growth retardation declined from 42.7 percent to 27.6 percent. The 2000 figures for the west, however, remained roughly double those for rural children in the east which stood at 9.15 percent for low body weight and 14.2 percent for growth retardation.

145 UNDP, 2004.

146 Yang and Hu, 2005.

147 UNDP, 1998.

148 Bai, 2003.

149 Ottosen and Thompson, 1996.

150 National Bureau of Statistics, 2005.

151 Lu, Zhao, and Bai, 2002.

152 Lin and Li, 2001.

153 Lin, 1999.

154 The projects encourage farmers to reallocate

sloped grain-land for planting trees.

155 Research Team for Report on China's Education and Human Resources, 2003.

156 DRC project team, 2005.

157 Statistical Information Center of Ministry of Health 2004a

158 DRC project team 2001; Fox 200; and Feldstein 2001

159 He Ping: "How To Make Migrant Workers' Social Security More Secured,", *People's Daily*, May 19, 2004.

160 Chen X, 2004

161 Han J:"Employment and Social Security for Landless Farmers," *China Economic Times,* June 24, 2005

162 An audit report of the National Audit Office points out that between 1997 and mid-1999, the central government and local governments poured a total of 48.8 billion yuan into 592 poor counties. The report found some of these appropriated funds were embezzled or transferred and used for setting up "private coffers"; the sum reached 4.343 billion yuan. (See *4.3* Billion Yuan Of Poverty Alleviation Funds Were Embezzled, *Beijing Daily,* July 16, 2001)

163 Zhou, 2004; Han et al, 2005.

164 Li J, 2004.

165 Li P, 2004.

166 Wang S, 1997.

167 Chi etc. 2004

168 Saich, 2004b.

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Zhao, Renwei, and Ding Sai. *Jumin caichan de fenpei (Distribution of Residents' Wealth).*

Human development indices of different provinces and other relevant indicators

Exhibit

Tables

Methods and Data for Computing China Human Development Index 2003

1.The computation of China's human development index (HDI) in 2003, both for provinces and for urban and rural areas separately, is based on three indictors: longevity, as measured by life expectancy at birth; educational attainment, as measured by a combination of adult literacy (two-thirds weight) and combined primary, secondary, and tertiary enrolment ratios (one-third weight); and standard of living, as measured by real GDP per capita and express in terms of purchasing power parity (US dollars).

2.For the construction of the HDI, fixed minimum and maximum values were established for each of these indicators:

(1)Life expectancy at birth: 25 years and 85 years

(2)Adult literacy: 0 percent and 100 percent

(3)Combined enrolment ratio: 0 percent and 100 percent

(4)Real GDP per capita (PPP $): 0 percent and 100 percent

For any component of the HDI, individual indices can be computed according to the general formula:

$$\text{Index} = \frac{\text{Actual Xi value-Minimum Xi value}}{\text{Maximum Xi value-Minimum Xi value}}$$

3.Computing the income index for 2003 follows a new approach treating income as suggested in the World Human Development Report 1999. Accordingly, to construct the provincial human development index for this year, income is treated using the following formula:

$$W(y) = \frac{\text{Log}(Y)-\text{Log}(Ymin)}{\text{Log}(Ymax)-\text{Log}(Ymin)}$$

where Y is adjusted GDP per capita in PPP US $, and Ymin and Ymax are set as 100 and 40,000.

4.Regarding data sources for China's HDI in 2003: All data come from public sources except for those concerning life expectancy. Because the latest life expectancy data are not available separately for urban and rural residents, data from 2000 were used to calculate the life expectancy index. These data were provided by the Department of Population and Employment, National Bureau of Statistics. Data on literacy rates were obtained from the national sample survey of 0.982 percent population in 2003. Data for provincial enrolment rates for all levels of education and GDP per capita in 2003 can be found in the China Statistical Yearbook 2004. When converting GDP per capita in Chinese yuan into adjusted GDP per capita in PPP US$, the ratio of RMB to PPP US$ used in the Global Human Development Report 2005 (1: 2.11) is also used in our calculation. GDP per capita is calculated for rural and urban residents separately, using the ratio of household income per capita between urban and rural areas.

5. Illustration of the HDI methods

The construction of the provincial HDI is illustrated with two examples, for Guangdong Province and Guizhou Province.

Life expectancy index:

$$\text{Guangdong} = \frac{79.4-25}{85-25} = 0.833$$

$$\text{Guizhou} = \frac{66.6-25}{85-25} = 0.694$$

Adult literacy index:

$$\text{Guangdong} = \frac{95.3-0}{100-0} = 0.953$$

$$\text{Guizhou} = \frac{80.3-0}{100-0} = 0.803$$

Combined gross enrolment index:

$$\text{Guangdong} = \frac{65.9-0}{100-0} = 0.659$$

$$\text{Guizhou} = \frac{58.6-0}{100-0} = 0.586$$

Educational attainment index:

Guangdong = [2 × 0.953 + 0.659]/3 = 0.836

Guizhou = [2 × 0.803 + 0.586]/3 = 0.731

Adjusted real GDP per capita (PPS$) index:

$$\text{Guangdong} = \frac{\text{Log}(8158)-\text{Log}(100)}{\text{Log}(40000)-\text{Log}(100)} = 0.752$$

$$\text{Guizhou} = \frac{\text{Log}(1708)-\text{Log}(100)}{\text{Log}(40000)-\text{Log}(100)} = 0.491$$

Provincial HDI:

The HDI is a simple average of the life expectancy index, educational attainment index, and adjusted real GDP per capita (PPP$) index. It is derived by dividing the sum of these three indices by three.

Guangdong = (0.833+0.836+0.752)/3 = 0.807

Guizhou = (0.694+0.731+0.491)/3 = 0.639

Human Development Indices of Different Provinces and
Other Relevant Indicators
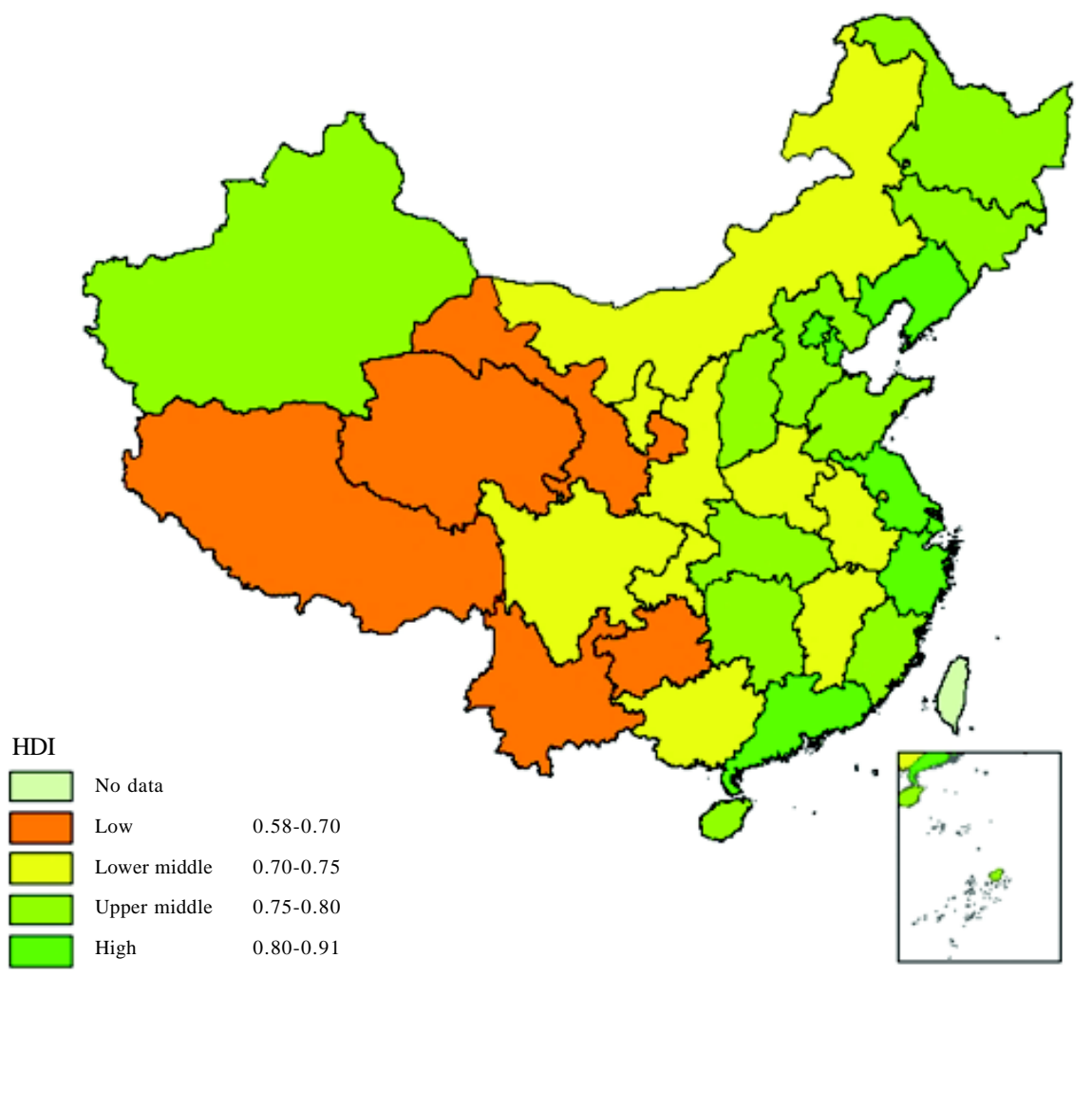
Exhibit 1. Classification of provinces by HDI

HDI

⬜	No data	
🟧	Low	0.58-0.70
🟨	Lower middle	0.70-0.75
🟩	Upper middle	0.75-0.80
🟩	High	0.80-0.91

Exhibit 2. Classification of provinces by the HDI for urban areas

HDI for urban areas

	No data	
	Low	0.71-0.80
	Lower middle	0.80-0.82
	Upper middle	0.82-0.84
	High	0.84-0.93
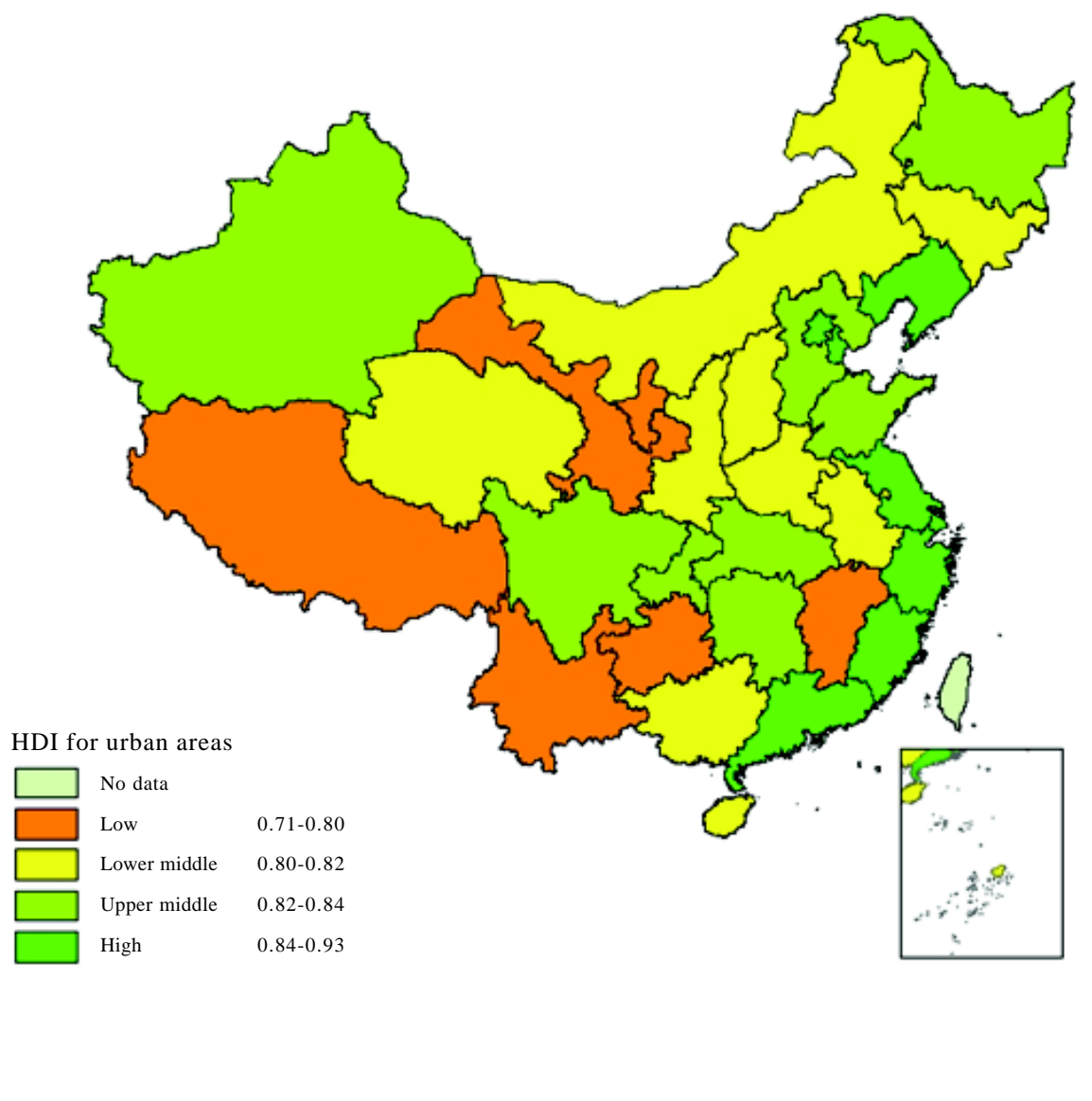
Exhibit 3. Classification of provinces by the HDI for rural areas

HDI for urban areas

	No data	
	Low	0.56-0.65
	Lower middle	0.65-0.70
	Upper middle	0.70-0.75
	High	0.75-0.84
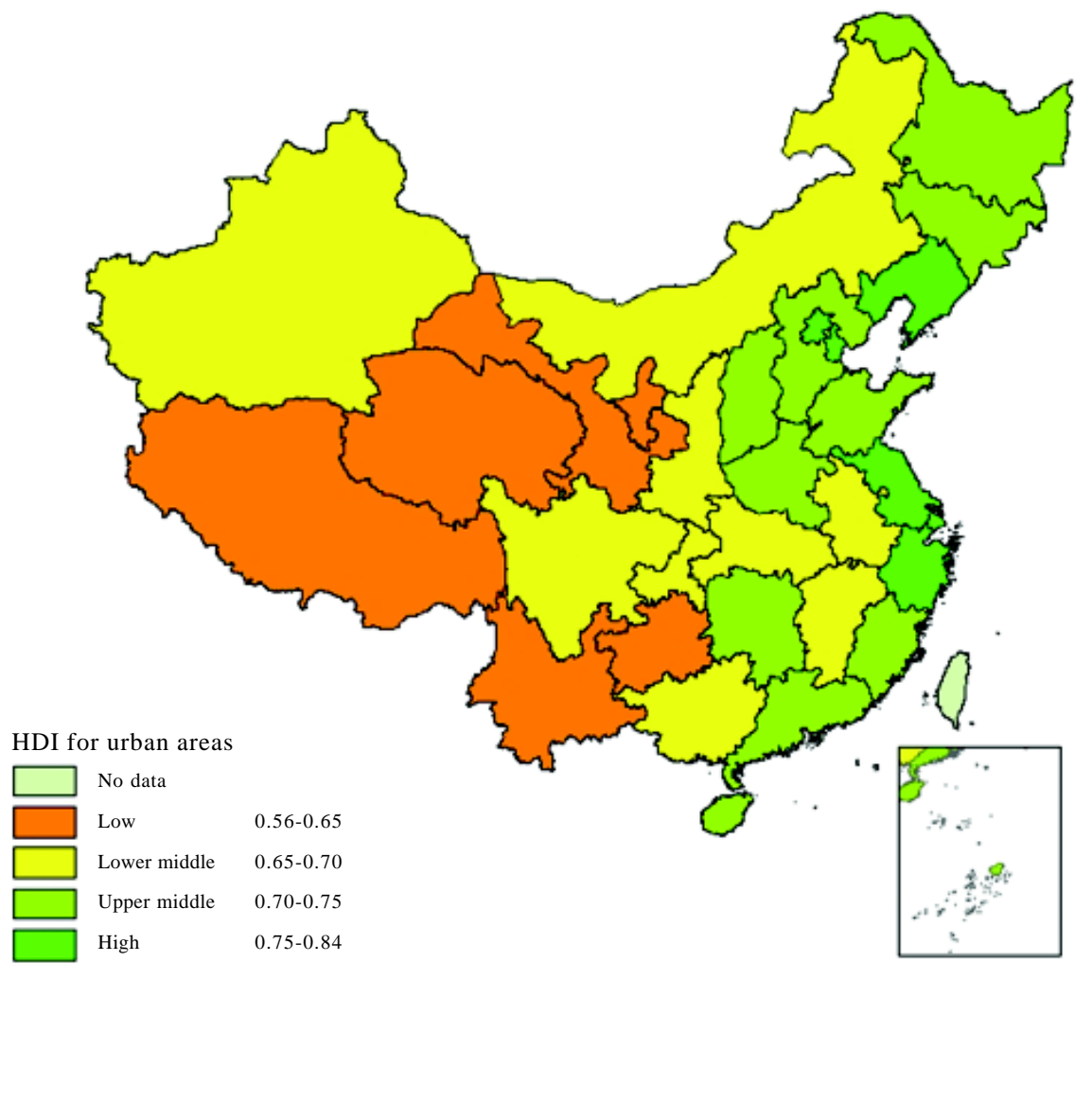
Exhibit 4. Classification of provinces by per-capita GDP

GDP per capita

	No data	
	Low	3,500-7,000
	Lower middle	7,000-9,000
	Upper middle	9,000-14,000
	High	14,000-47,000
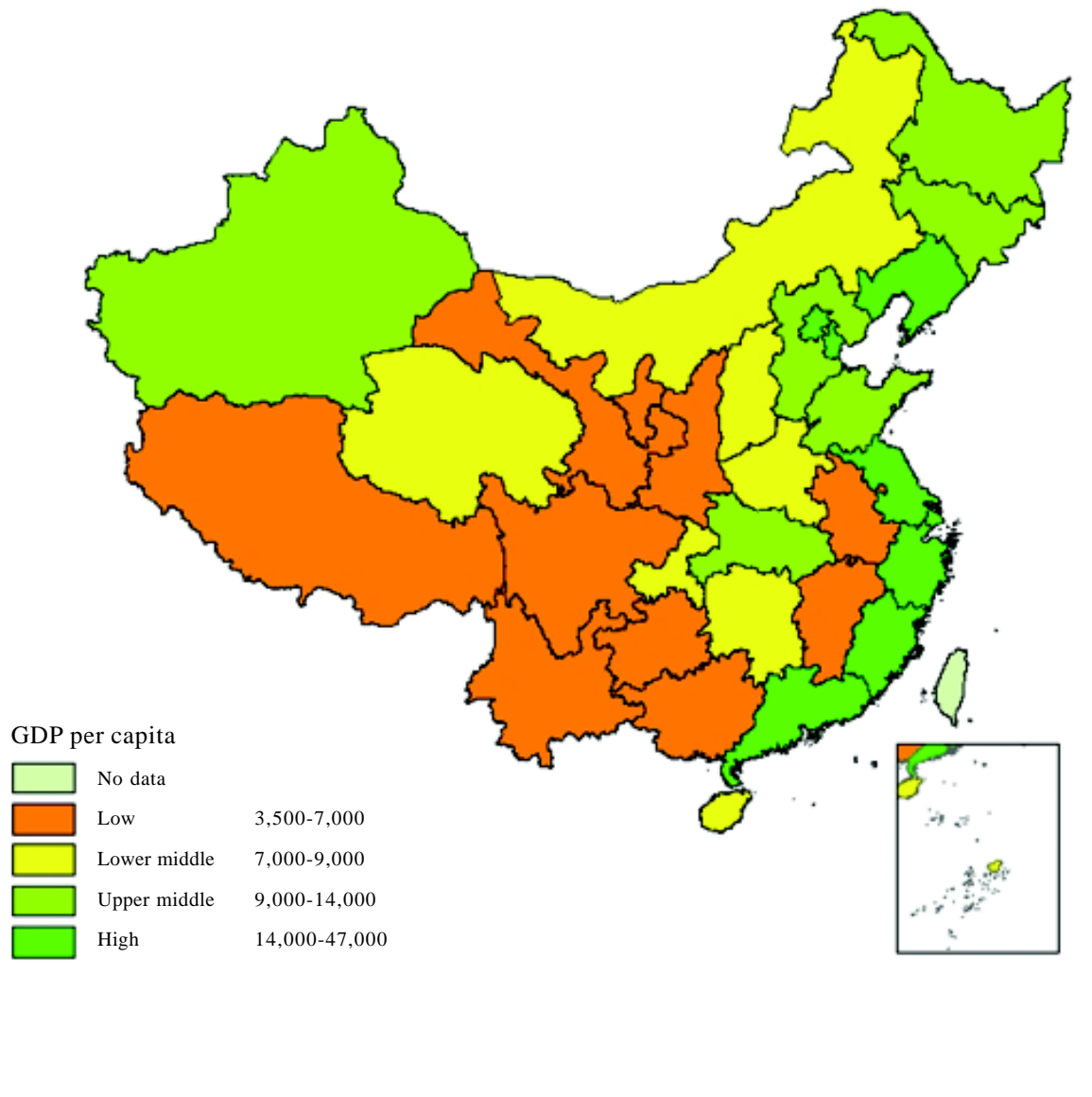
Exhibit 5. Classification of provinces by per-capita GDP in urban areas

GDP per capita in urban areas

	No data	
	Low	8,000-13,000
	Lower middle	13,000-15,000
	Upper middle	15,000-20,000
	High	20,000-50,000
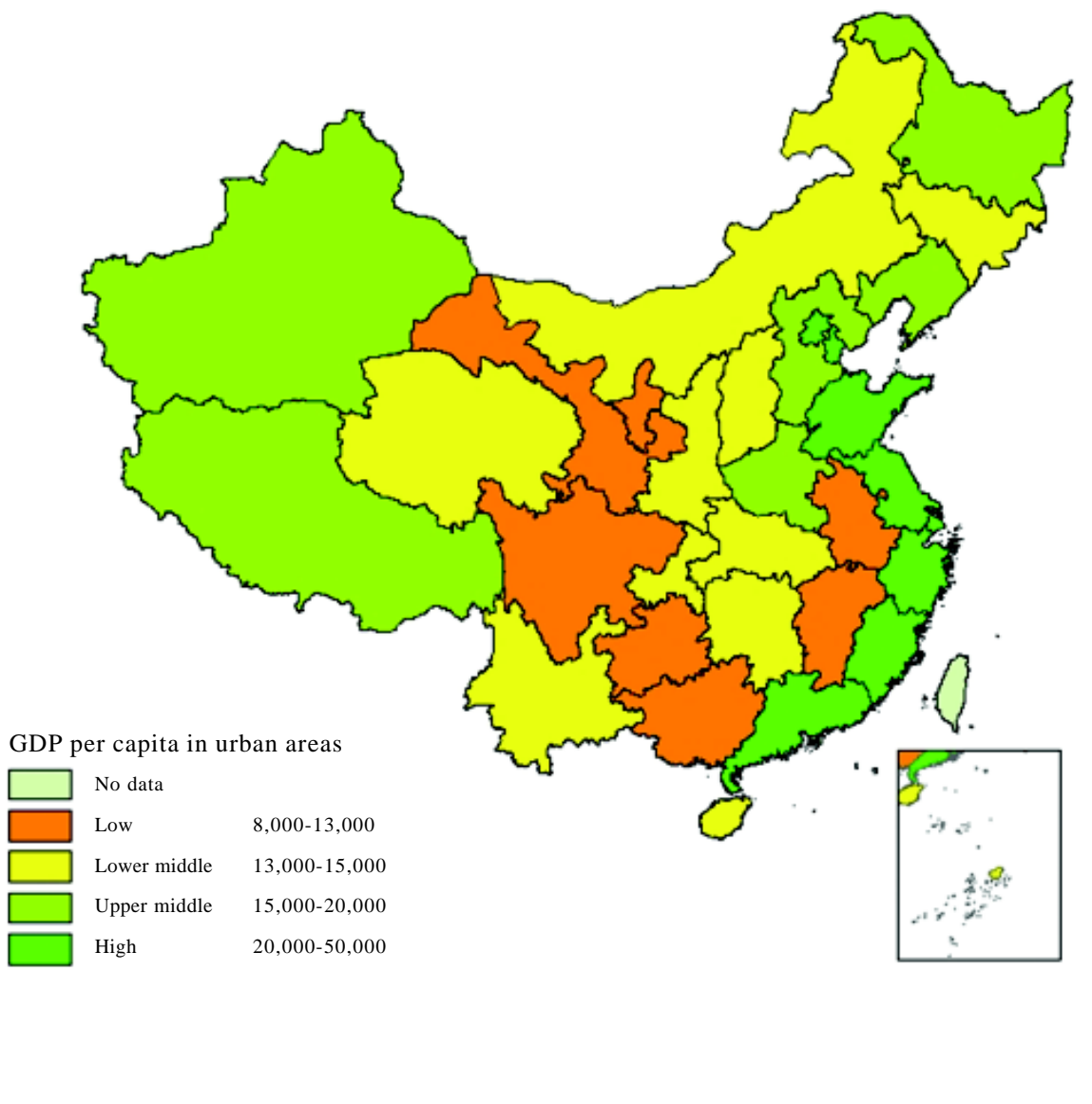
Exhibit 6. Classification of provinces by per-capita GDP in rural areas

GDP per capita in rural areas

	No data	
	Low	2,000-4,000
	Lower middle	4,000-5,000
	Upper middle	5,000-8,000
	High	8,000-23,000

Exhibit 7. Classification of provinces by the average illiteracy ratio

Average illiteracy rate

	No data	
	Low	3-8
	Lower middle	8-10
	Upper middle	10-15
	High	15-55
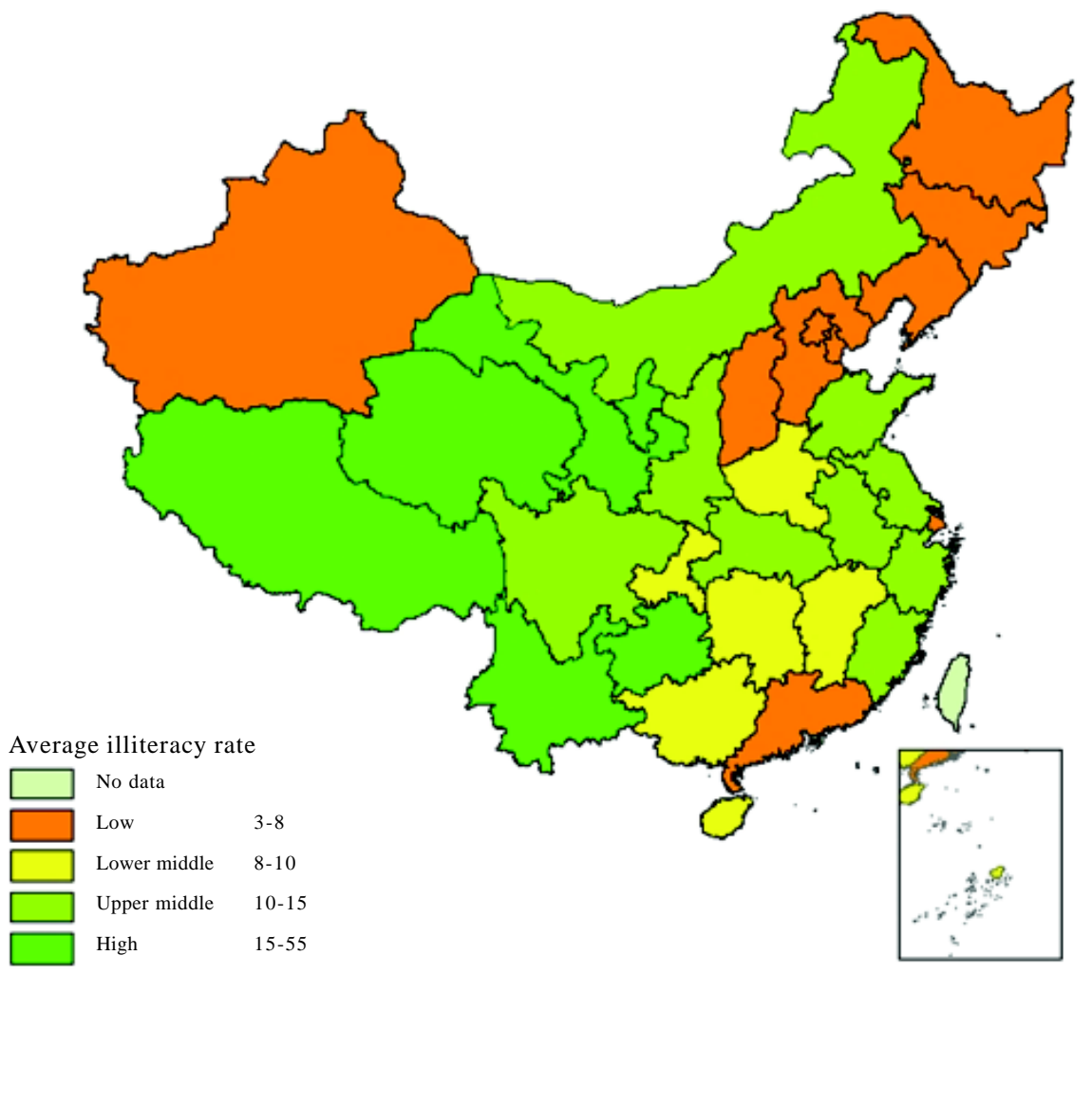
Exhibit 8. Classification of provinces by the average illiteracy ratio among urban citizens

Average illiteracy rate among males

	No data	
	Low	1-4
	Lower middle	4-6
	Upper middle	6-10
	High	10-46
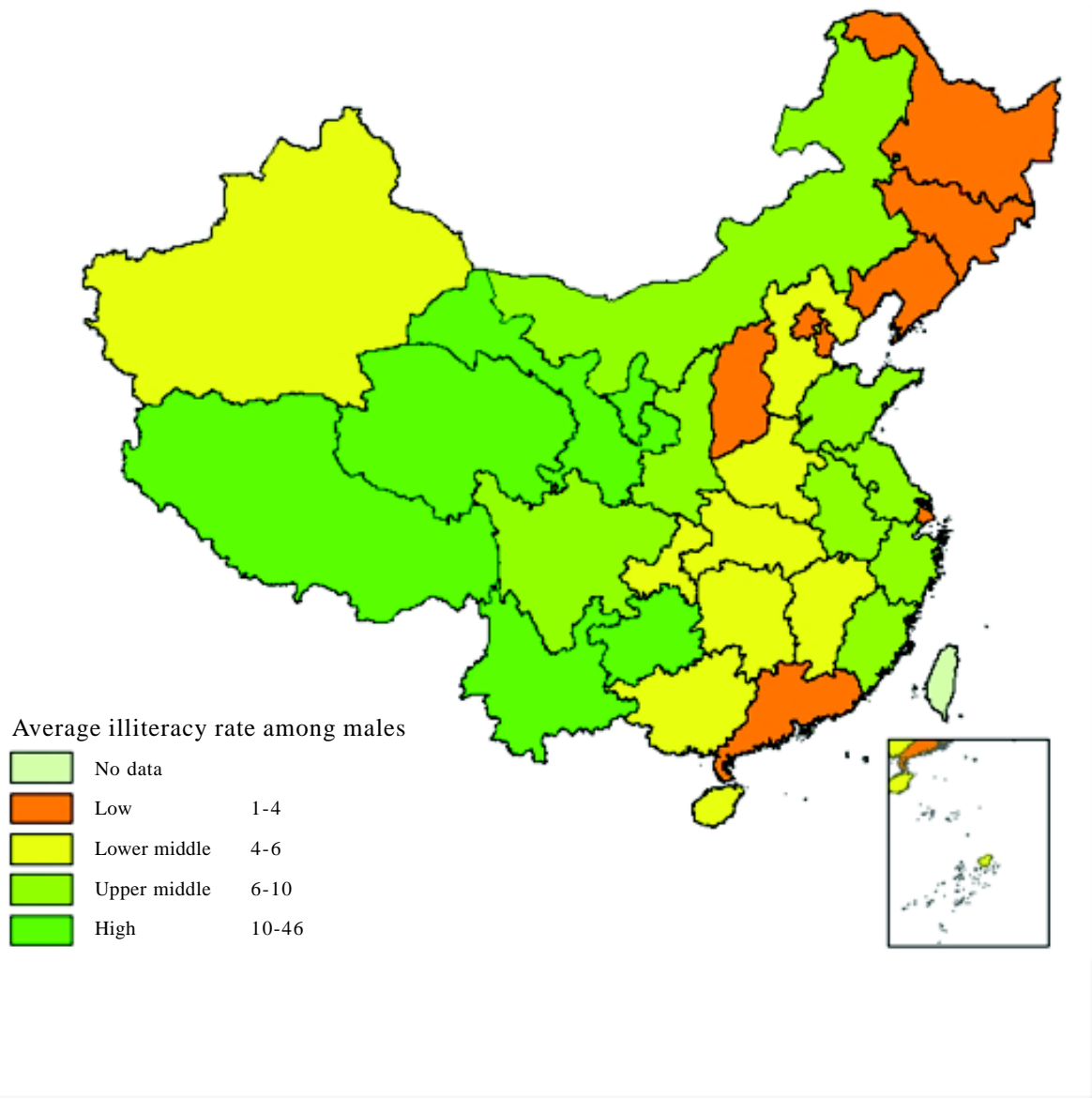
Exhibit 9. Classification of provinces by the average illiteracy ratio among rural citizens

Average illiteracy rate among females

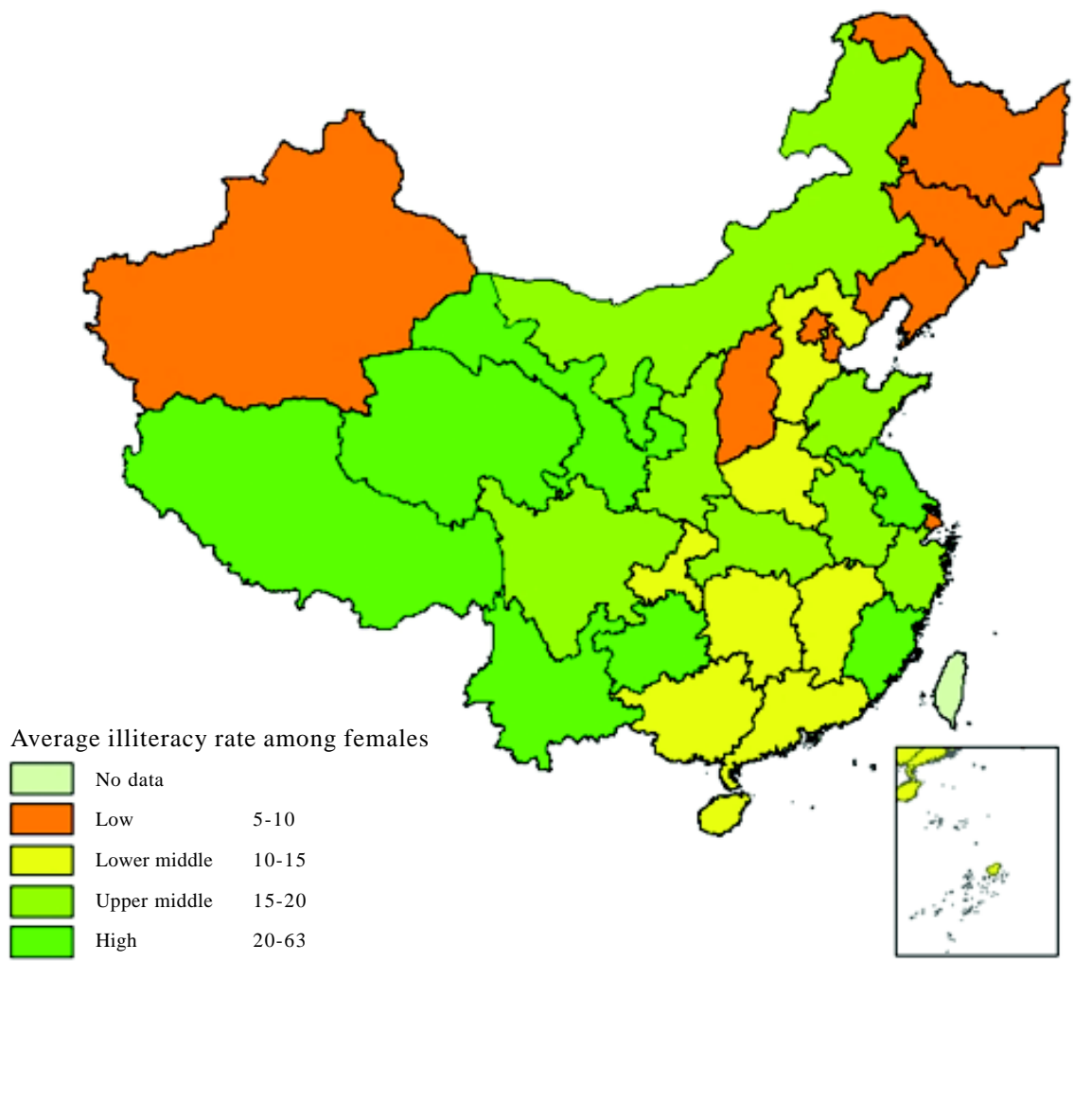|		
	No data	
	Low	5-10
	Lower middle	10-15
	Upper middle	15-20
	High	20-63

Table 1. 2003 Human development index (HDI) of different provinces

	HDI	Life expectancy index	Education index	DGP index	Rank
China	0.746	0.773	0.819	0.646	
Shanghai	0.909	0.901	0.908	0.919	1
Beijing	0.882	0.864	0.926	0.856	2
Tianjin	0.855	0.849	0.890	0.824	3
Zhejiang	0.817	0.835	0.836	0.778	4
Liaoning	0.808	0.823	0.881	0.721	5
Guangdong	0.807	0.833	0.836	0.752	6
Jiangsu	0.805	0.843	0.823	0.748	7
Heilongjiang	0.786	0.821	0.850	0.686	8
Fujian	0.784	0.821	0.801	0.729	9
Jilin	0.776	0.804	0.874	0.650	10
Shandong	0.776	0.817	0.796	0.714	11
Hebei	0.766	0.794	0.834	0.670	12
Hainan	0.761	0.846	0.806	0.631	13
Xinjiang	0.757	0.788	0.827	0.656	14
Hubei	0.755	0.795	0.827	0.644	15
Shanxi	0.753	0.786	0.861	0.612	16
Hunan	0.751	0.794	0.843	0.615	17
Chongqing	0.745	0.783	0.845	0.607	18
Henan	0.741	0.800	0.809	0.615	19
Inner Mongolia	0.738	0.762	0.807	0.643	20
Jiangxi	0.732	0.753	0.847	0.594	21
Guangxi	0.731	0.810	0.808	0.575	22
Shaanxi	0.729	0.769	0.829	0.589	23
Sichuan	0.728	0.782	0.813	0.587	24
Anhui	0.727	0.800	0.793	0.588	25
Ningxia	0.712	0.783	0.759	0.594	26
Qinghai	0.684	0.730	0.713	0.608	27
Gansu	0.675	0.730	0.749	0.547	28
Yunnan	0.657	0.690	0.715	0.567	29
Guizhou	0.639	0.694	0.731	0.491	30
Tibet	0.586	0.680	0.478	0.599	31

Table 2. 2003 Urban human development index of different provinces

	HDI	Life expectancy index	Education index	DGP index
China	0.816	0.837	0.868	0.743
Shanghai	0.922	0.906	0.930	0.930
Beijing	0.907	0.883	0.959	0.880
Tianjin	0.876	0.859	0.917	0.853
Zhejiang	0.869	0.870	0.897	0.839
Jiangsu	0.858	0.885	0.878	0.812
Guangdong	0.845	0.860	0.863	0.812
Liaoning	0.843	0.852	0.904	0.774
Fujian	0.843	0.868	0.855	0.805
Xinjiang	0.837	0.885	0.866	0.762
Shandong	0.830	0.849	0.846	0.795
Hebei	0.828	0.840	0.875	0.769
Heilongjiang	0.826	0.856	0.876	0.747
Chongqing	0.825	0.869	0.888	0.718
Sichuan	0.823	0.887	0.879	0.703
Hubei	0.823	0.858	0.883	0.726
Hunan	0.821	0.850	0.891	0.721
Hainan	0.820	0.893	0.854	0.712
Shaanxi	0.816	0.848	0.893	0.708
Henan	0.816	0.858	0.852	0.738
Jilin	0.816	0.833	0.899	0.715
Shanxi	0.810	0.838	0.885	0.708
Anhui	0.810	0.871	0.856	0.703
Guangxi	0.809	0.879	0.847	0.700
Qinghai	0.807	0.872	0.833	0.717
Inner Mongolia	0.806	0.818	0.874	0.725
Ningxia	0.799	0.855	0.844	0.699
Gansu	0.798	0.841	0.864	0.687
Jiangxi	0.797	0.809	0.883	0.699
Yunnan	0.769	0.791	0.799	0.718
Guizhou	0.763	0.815	0.838	0.636
Tibet	0.713	0.848	0.515	0.776

Table 3. 2003 Rural human development index of different provinces				
	HDI	**Life expectancy index**	**Education index**	**DGP index**
China	0.685	0.743	0.764	0.547
Shanghai	0.835	0.868	0.840	0.796
Beijing	0.800	0.816	0.855	0.729
Tianjin	0.794	0.827	0.839	0.717
Jiangsu	0.756	0.817	0.771	0.681
Zhejiang	0.754	0.808	0.765	0.689
Liaoning	0.752	0.794	0.840	0.623
Guangdong	0.743	0.806	0.797	0.626
Hebei	0.730	0.780	0.798	0.614
Heilongjiang	0.729	0.789	0.815	0.583
Shandong	0.725	0.800	0.745	0.632
Fujian	0.724	0.792	0.739	0.641
Jilin	0.720	0.779	0.837	0.545
Hainan	0.707	0.821	0.760	0.540
Shanxi	0.705	0.764	0.828	0.522
Henan	0.704	0.786	0.778	0.549
Hunan	0.703	0.776	0.798	0.536
Xinjiang	0.698	0.746	0.790	0.557
Hubei	0.693	0.759	0.770	0.551
Jiangxi	0.687	0.735	0.799	0.526
Chongqing	0.683	0.748	0.800	0.502
Guangxi	0.682	0.788	0.778	0.481
Anhuai	0.679	0.778	0.751	0.509
Sichuan	0.676	0.752	0.763	0.512
Inner Mongolia	0.671	0.730	0.745	0.537
Shaanxi	0.660	0.738	0.766	0.474
Ningxia	0.650	0.756	0.691	0.505
Gansu	0.614	0.703	0.682	0.456
Yunnan	0.603	0.665	0.679	0.467
Qinghai	0.599	0.680	0.621	0.496
Guizhou	0.576	0.662	0.669	0.396
Tibet	0.562	0.656	0.530	0.502

Table 4. 2000 Per capita life expectancy of different provinces			
	All	**Male**	**Female**
China	71.4	69.63	73.33
Shanghai	79.05	77.1	80.95
Beijing	76.85	75.08	78.75
Tianjin	75.96	74.36	77.67
Zhejiang	75.1	72.9	77.6
Liaoning	74.35	72.54	76.35
Guangdong	74.96	72.42	77.6
Jiangsu	75.58	73.34	77.86
Heilongjiang	74.28	72.3	76.57
Fujian	74.26	71.95	76.77
Jilin	73.26	71.5	75.27
Shandong	74.02	71.78	76.38
Hebei	72.63	70.75	74.69
Hainan	75.75	73.32	78.17
Xinjiang	72.26	70.82	74.07
Hubei	72.72	70.87	74.71
Shanxi	72.15	70.45	74.1
Hunan	72.63	70.94	74.5
Chongqing	71.96	70.04	74.14
Henan	73	71.07	74.97
Inner Mongolia	70.73	69.13	72.66
Jiangxi	70.19	69.48	70.7
Guangxi	73.59	71.26	76.11
Shaanxi	71.11	69.91	72.39
Sichuan	71.94	69.97	74.15
Anhui	72.97	71.2	74.77
Ningxia	71.96	70.53	73.59
Qinghai	68.78	67.29	70.42
Gansu	68.82	68.05	69.65
Yunnan	66.37	65.08	67.79
Guizhou	66.62	65.15	68.29
Tibet	65.81	64.18	67.35

Table 5. 2000 Urban per capita life expectancy of different provinces			
	All	**Male**	**Female**
China	75.21	73.11	77.51
Shanghai	79.36	77.49	81.19
Beijing	77.96	76.13	79.92
Tianjing	76.55	74.93	78.28
Zhejiang	77.22	75.15	79.51
Jiangsu	78.1	75.89	80.34
Guangdong	76.57	73.91	79.35
Liaoning	76.11	74.04	78.37
Fujian	77.08	74.53	79.8
Xinjiang	78.07	75.83	81.02
Shandong	75.94	73.55	78.44
Hebei	75.4	73.36	77.62
Heilongjiang	76.33	74.05	78.88
Chongqing	77.13	74.75	79.75
Sichuan	78.24	75.79	80.95
Hubei	76.5	74.32	78.76
Hunan	75.97	73.68	78.51
Hainan	78.56	75.53	81.48
Shaanxi	75.88	74.67	77.2
Henan	76.49	74.16	78.86
Jilin	75	72.88	77.36
Shanxi	75.28	73.43	77.44
Anhui	77.23	74.91	79.68
Guangxi	77.73	74.8	80.83
Qinghai	77.31	75.83	79.19
Inner Mongolia	74.05	71.93	76.54
Ningxia	76.3	74.21	78.79
Gansu	75.48	74.03	77.23
Jiangxi	73.53	71.96	75.19
Yunnan	72.44	70.5	74.64
Guizhou	73.9	71.42	76.73
Tibet	75.88	73.05	78.81

Table 6. 2000 Rural per capita life expectancy of different provinces			
	All	**Male**	**Female**
China	69.55	67.94	71.31
Shanghai	77.07	74.53	79.54
Beijing	73.93	72.24	75.78
Tianjin	74.64	73.05	76.36
Jiangsu	74	71.74	76.31
Zhejiang	73.49	71.17	76.16
Liaoning	72.62	71.06	74.37
Guangdong	73.34	70.87	75.91
Hebei	71.78	69.96	73.79
Heilongjiang	72.32	70.68	74.27
Shandong	72.97	70.8	75.27
Fujian	72.53	70.34	74.91
Lilin	71.76	70.32	73.43
Hainan	74.25	72.03	76.5
Shanxi	70.82	69.14	72.73
Henan	72.13	70.29	73.94
Hunan	71.53	70.01	73.2
Xinjiang	69.75	68.61	71.15
Hubei	70.56	68.91	72.34
Jiangxi	69.09	68.64	69.23
Chongqing	69.87	68.14	71.86
Guangxi	72.26	70.08	74.64
Anhui	71.65	70.04	73.25
Sichuan	70.13	68.25	72.23
Inner Mongolia	68.79	67.53	70.38
Shaanxi	69.29	68.06	70.61
Ningxia	70.35	69.12	71.72
Gansu	67.16	66.52	67.8
Yunnan	64.89	63.76	66.11
Qinghai	65.79	64.26	67.43
Guizhou	64.74	63.48	66.16
Tibet	64.34	62.83	65.73

Table 7. 2003 Rural and urban per capita GDP of different provinces (yuan)			
	Total	**Urban**	**Rural**
China	9101	16307	5047
Shanghai	46718	49946	22353
Beijing	32061	37031	14942
Tianjin	26532	31437	13919
Zhejiang	20147	28915	11823
Liaoning	14258	19595	7941
Guangdong	17213	24683	8084
Jiangsu	16809	24620	11268
Heilongjiang	11615	16660	6258
Fujian	14979	23624	8821
Jilin	9338	13759	4970
Shandong	13661	22302	8365
Hebei	10513	19036	7503
Hainan	8316	13532	4824
Xinjiang	9700	18221	5350
Hubei	9011	14732	5164
Shanxi	7435	13214	4337
Hunan	7554	14279	4713
Chongqing	7209	14024	3837
Henan	7570	15774	5092
Inner Mongolia	8975	14658	4740
Jiangxi	6678	12495	4449
Guangxi	5969	12581	3385
Shaanxi	6480	13233	3258
Sichuan	6418	12859	4072
Anhui	6455	12792	4015
Ningxia	6691	12495	3909
Qinghai	7277	13956	3712
Gansu	5022	11651	2928
Yunnan	5662	14012	3111
Guizhou	3603	8573	2042
Tibet	6871	19891	3837

Note: rural and urban per capita GDP is calculated according to the ratio of the urban per capita disposable income to the rural per capita net income.

Table 8. 2003 Sexual illiterate / semi-illiterate percentage in different provinces (%)			
	Total	**sMale**	**Female**
China	10.95	6.12	15.85
Shanghai	5.88	2.14	9.6
Beijing	4.61	1.96	7.41
Tianjin	6.36	2.97	9.62
Zhejiang	13.23	7.56	18.9
Liaoning	4.74	2.38	7.08
Guangdong	7.55	3.06	12
Jiangsu	14.46	7.35	21.19
Heilongjiang	5.79	3.36	8.26
Fujian	13.55	6.11	21.03
Jilin	3.89	2.68	5.09
Shandong	13.67	7.25	19.94
Hebei	7.35	4.23	10.54
Hainan	9.11	4.05	14.56
Xinjiang	6.94	5.32	8.62
Hubei	11.83	5.77	17.99
Shanxi	5.79	3.34	8.32
Hunan	8.47	4.51	12.67
Chongqing	8.4	4.42	12.4
Henan	9.21	5.13	13.37
Inner Mongolia	13.67	8.73	18.82
Jiangxi	8.25	4.11	12.44
Guangxi	8.85	4.28	13.72
Shaanxi	11.91	7.51	16.41
Sichuan	11.73	7.06	16.42
Anhui	13.67	7.76	19.72
Ningxia	17.57	10.52	24.69
Qinghai	23.45	14.15	32.88
Gansu	20.33	14.2	26.71
Yunnan	21.5	13.84	29.81
Guizhou	19.68	11.97	27.72
Tibet	54.86	45.82	62.63

Table 9. 2003 Synthetic school attendance rate of different provinces (%)					
	Primary school attendance rate	**Junior high school attendance rate**	**High school attendance rate**	**University and college attendance rate**	**Synthetic school attendance rate**
China	98.7	95.5	55.4	28.6	67.6
Shanghai	99.6	98.8	91.5	57.4	84.0
Beijing	99.6	99.6	87.6	68.3	87.1
Tianjin	99.6	96.9	79.3	51.9	79.8
Zhejiang	99.5	100.0	82.2	41.4	77.3
Liaoning	99.0	97.7	62.5	41.9	73.6
Guangdong	99.4	97.0	47.8	25.9	65.9
Jiangsu	99.4	98.1	72.3	43.0	75.9
Heilongjiang	98.4	96.9	45.5	29.8	66.5
Fujian	99.4	97.4	58.2	25.3	67.5
Jilin	99.2	93.6	53.6	37.5	70.1
Shandong	99.2	99.9	52.8	23.1	66.2
Hebei	99.4	97.4	48.0	22.4	64.8
Hainan	99.0	89.1	36.9	18.3	60.1
Xinjiang	96.2	92.9	49.8	18.2	61.9
Hubei	99.2	97.3	58.5	37.9	71.7
Shanxi	99.3	97.2	71.4	26.3	70.0
Hunan	98.2	97.9	60.6	32.2	69.9
Chongqing	95.4	93.1	59.3	39.5	70.4
Henan	99.2	96.9	43.2	14.1	61.1
Inner Mongolia	99.0	90.1	77.5	25.6	69.5
Jiangxi	99.2	99.2	59.4	33.7	70.7
Guangxi	98.1	93.1	41.8	14.6	60.1
Shaanxi	98.9	94.2	64.2	39.5	72.5
Sichuan	95.8	93.2	55.0	32.1	67.3
Anhui	99.3	91.4	59.0	21.3	65.3
Ningxia	96.3	90.6	60.2	17.1	62.9
Qinghai	90.1	85.8	55.4	21.3	60.7
Gansu	97.3	91.6	55.1	25.2	65.3
Yunnan	98.0	86.0	35.8	13.3	57.4
Guizhou	97.0	87.8	39.5	15.3	58.6
Tibet	77.9	64.6	48.7	25.1	53.2

| Table 10. 2003 Basic Indexes for Population in Different Provinces |||||
	Total population at the end of the year(10,000 persons)	Birth Rate (‰)	Mortality Rate (‰)	Natural growth rate(‰)	Sex rate (Female=100)
China	129227	12.41	6.40	6.01	104.26
Shanghai	1711	4.85	6.20	−1.35	106.08
Beijing	1456	5.10	5.20	−0.10	97.44
Tianjin	1011	7.14	6.04	1.10	104.17
Zhejiang	4680	9.66	6.38	3.28	105.01
Liaoning	4210	6.90	5.83	1.07	104.36
Guangdong	7954	13.66	5.31	8.35	100.05
Jiangsu	7406	9.04	7.03	2.01	100.67
Heilongjiang	3815	7.48	5.45	2.03	103.52
Fujian	3488	11.43	5.58	5.85	99.82
Jilin	2704	7.25	5.64	1.61	97.99
Shandong	9125	11.42	6.64	4.78	102.40
Hebei	6769	11.43	6.27	5.16	106.03
Hainan	811	14.68	5.52	9.16	104.61
Xinjiang	1934	16.01	5.23	10.78	105.16
Hubei	6002	8.26	5.94	2.32	100.42
Shanxi	3314	12.26	6.04	6.22	107.35
Hunan	6663	11.82	6.87	4.95	104.81
Chongqing	3130	9.89	7.20	2.69	108.41
Henan	9667	12.10	6.46	5.64	104.55
Inner Mongolia	2380	9.24	6.17	3.07	109.84
Jiangxi	4254	14.07	5.98	8.09	113.33
Guangxi	4857	13.86	6.57	7.29	103.56
Shaanxi	3690	10.67	6.38	4.29	102.95
Sichuan	8700	9.18	6.06	3.12	107.63
Anhui	6410	11.15	5.20	5.95	109.34
Ningxia	580	15.68	4.73	10.95	92.25
Qinghai	534	16.94	6.09	10.85	105.20
Gansu	2603	12.58	6.46	6.12	105.31
Yunnan	4376	17.00	7.20	9.80	104.15
Guizhou	3870	15.91	6.87	9.04	103.29
Tibet	270	17.40	6.30	11.10	103.77

Source: China Statistical Yearbook 2004

Table 11. 2003 Total Employment and Industrial Structure of Different Provinces			
	Total employment at the end of the year (10,000 persons)	**The percentage of the primary industry(%)**	**The percentage of the secondary industry(%)**	**The percentage of the tertiary industry (%)**
China	74432.0	49.1	21.6	29.3
Shanghai	858.6	7.8	32.6	59.6
Beijing	419.7	19.6	40.0	40.4
Tianjin	339.0	49.3	27.6	23.1
Zhejiang	1469.5	44.3	24.5	31.2
Liaoning	1005.2	54.6	15.2	30.2
Guangdong	1861.3	37.4	24.6	38.0
Jiangsu	1044.6	50.1	17.4	32.4
Heilongjiang	1622.4	51.0	19.5	29.4
Fujian	771.5	9.6	41.0	49.4
Jilin	3610.3	34.6	34.3	31.0
Shandong	2961.9	29.6	36.9	33.5
Hebei	3416.0	54.9	19.0	26.2
Hainan	1756.7	42.5	27.8	29.8
Xinjiang	1972.3	50.1	17.8	32.1
Hubei	4850.6	46.9	26.2	26.8
Shanxi	5535.7	60.2	19.6	20.2
Hunan	2537.3	45.1	18.7	36.2
Chongqing	3515.9	57.4	15.5	27.1
Henan	4119.5	37.9	27.9	34.2
Inner Mongolia	2601.4	59.8	10.7	29.4
Jiangxi	353.8	59.5	9.8	30.7
Guangxi	1659.5	49.2	18.7	32.1
Shaanxi	4449.6	54.5	16.8	28.6
Sichuan	2118.4	62.6	9.6	27.7
Anhui	2349.6	72.7	8.9	18.3
Ningxia	130.7	65.1	9.1	25.8
Qinghai	1911.3	52.1	16.5	31.3
Gansu	1304.0	59.0	13.6	27.4
Yunnan	254.3	54.1	15.8	30.1
Guizhou	290.6	51.8	21.8	26.4
Tibet	721.3	55.1	13.3	31.7

Source: China Statistical Yearbook 2004

Table 12. Registered Number of Unemployeed and Rate of Unemployement in 1990, 2002 and 2003					
	Registered number of unemployed (10,000 persons)			Rate of unemployement (%)		
	1990	2002	2003	1990	2002	2003
Shanghai	1.7	6.0	7.0	0.4	1.4	1.4
Beijing	8.1	12.9	12.0	2.7	3.9	3.8
Tianjin	7.7	22.2	25.7	1.1	3.6	3.9
Zhejiang	5.5	14.5	13.1	1.2	3.4	3.0
Liaoning	15.2	16.3	17.6	3.8	4.1	4.5
Guangdong	23.7	75.6	72.0	2.2	6.5	6.5
Jiangsu	10.5	23.8	28.4	1.9	3.6	4.3
Heilongjiang	20.4	41.6	35.0	2.2	4.9	4.2
Fujian	7.7	28.8	30.1	1.5	4.8	4.9
Jilin	22.5	42.2	41.8	2.4	4.2	4.1
Shandong	11.2	27.7	28.3	2.2	4.2	4.2
Hebei	15.2	22.6	25.1	2.8	4.0	4.1
Hainan	9.0	15.0	14.6	2.6	4.2	4.1
Xinjiang	10.3	17.8	21.6	2.4	3.4	3.6
Hubei	26.2	39.7	41.3	3.2	3.6	3.6
Shanxi	25.1	25.4	26.3	3.3	2.9	3.1
Hunan	12.7	44.7	49.3	1.7	4.3	4.3
Chongqing	15.9	30.4	37.1	2.7	4.0	3.8
Henan	19.2	36.5	35.5	2.2	3.1	2.9
Inner Mongolia	13.9	14.7	14.9	3.9	3.7	3.6
Jiangxi	3.5	4.0	3.6	3.0	3.1	3.4
Guangxi		16.2	16.2		4.1	4.1
Shaanxi	38.0	33.8	33.1	3.7	4.5	4.4
Sichuan	10.7	11.1	11.2	4.1	4.1	4.0
Anhui	7.8	9.8	12.1	2.5	4.0	4.1
Ningxia		1.3			4.9	
Qinghai	11.2	13.5	13.9	2.8	3.3	3.5
Gansu	12.5	8.7	9.3	4.9	3.2	3.4
Yunnan	4.2	2.9	3.1	5.6	3.6	3.8
Guizhou	4.0	3.5	3.8	5.4	4.4	4.4
Tibet	9.6	9.9	9.9	3.0	3.7	3.5

Source: China Statistical Yearbook 2004

Table 13. 2003 Local Fiscal Revenue and Expenditure of Different Provinces(Total amount and per-capita amount)			
	Local fiscal revenue (1 hundred million yuan)	Local fiscal expenditure (1 hundred million yuan)	Local per-capita revenue (yuan)	Local per-capita expenditure (yuan)
China	9850	17229.8	781	1367
Shanghai	886.2	1088.4	5518	6777
Beijing	592.5	734.8	4211	5222
Tianjin	204.5	312.1	2054	3135
Zhejiang	706.6	896.8	1538	1952
Liaoning	447	784.4	1076	1888
Guangdong	1315.5	1695.6	1694	2183
Jiangsu	798.1	1047.7	1094	1436
Heilongjiang	248.9	564.9	660	1499
Fujian	304.7	452.3	889	1320
Jilin	154	409.2	577	1534
Shandong	713.8	1010.6	795	1126
Hebei	335.8	646.7	504	972
Hainan	51.3	105.4	646	1328
Xinjiang	128.2	368.5	681	1956
Hubei	259.8	540.4	439	913
Shanxi	186.1	415.7	571	1277
Hunan	268.6	573.7	410	876
Chongqing	161.6	341.6	526	1112
Henan	338.1	716.6	356	754
Inner Mongolia	138.7	447.3	590	1902
Jiangxi	168.2	382.1	403	915
Guangxi	203.7	443.6	427	931
Shaanxi	177.3	418.2	488	1152
Sichuan	336.6	732.3	393	854
Anhui	220.7	507.4	352	810
Ningxia	30	105.8	532	1872
Qinghai	24	122	460	2336
Gansu	87.7	300	342	1171
Yunnan	229	587.3	535	1371
Guizhou	124.6	332.4	328	876
Tibet	8.1	145.9	309	5531

Source: China Statistical Yearbook 2004

Table 14. The Quantity and Composition of Per-capita Disposable Income of Urban Citizens in Different Provinces in 2003 (yuan)

	Per-capita disposable income (yuan)	Income from wages and salaries	Net operating income	Property income	Transfer income
National average	8472	6410	404	135	2112
Shanghai	13883	10152	314	175	4318
Beijing	10313	6664	469	96	3743
Tianjin	7239	4924	279	119	2286
Zhejiang	7005	5528	302	87	1529
Liaoning	7013	5236	614	84	1418
Guangdong	7241	5204	315	63	2251
Jiangsu	7005	4828	575	101	1807
Heilongjiang	6679	4489	512	38	1929
Fujian	14867	11526	377	130	4347
Jilin	9262	6091	639	151	3031
Shandong	13180	9693	1172	374	3057
Hebei	6778	4878	371	114	1792
Hainan	10000	7499	548	286	2484
Xinjiang	6901	5108	366	64	1615
Hubei	8400	7418	228	110	1301
Shanxi	6926	4758	363	85	2040
Hunan	7322	5848	239	85	1574
Chongqing	7674	5985	356	101	1704
Henan	12380	10413	622	308	2109
Inner Mongolia	7785	6150	402	169	1573
Jiangxi	7259	5021	243	288	2054
Guangxi	8094	6289	114	81	2188
Shaanxi	7042	4911	351	183	2043
Sichuan	6569	4669	380	55	1643
Anhui	7644	5854	287	86	1975
Ningxia	8765	9466		7	223
Qinghai	6806	5170	140	138	1866
Gansu	6657	5269	270	41	1553
Yunnan	6745	4493	276	51	2335
Guizhou	6530	4671	441	82	1797
Tibet	7174	6220	292	76	1279

Source: China Statistical Yearbook 2004

Table 15. The Quantity and Composition of Per-capita Disposable Income of Rural Citizens in Different Provinces in 2003 (yuan)

	Per-capita net income (yuan)	Income from wages and salaries	Net income from household operation	Property income	Transfer income
National average	2622	918	1541	66	97
Shanghai	6654	5252	813	236	353
Beijing	5602	3480	1451	306	365
Tianjin	4566	2153	2163	141	110
Zhejiang	5389	2575	2332	250	232
Liaoning	2934	1057	1710	66	102
Guangdong	4055	1966	1761	184	143
Jiangsu	4239	2189	1794	94	162
Heilongjiang	2509	394	1950	139	25
Fujian	3734	1354	2015	78	286
Jilin	2530	426	1991	66	47
Shandong	3150	1095	1874	64	117
Hebei	2853	1072	1645	75	61
Hainan	2588	330	2122	53	83
Xinjiang	2106	140	1875	59	32
Hubei	2567	707	1785	16	59
Shanxi	2299	898	1317	24	61
Hunan	2533	988	1427	32	85
Chongqing	2215	859	1185	34	137
Henan	2236	636	1488	39	74
Inner Mongolia	2268	345	1819	52	53
Jiangxi	2458	1022	1357	29	49
Guangxi	2095	785	1230	17	63
Shaanxi	1676	616	920	49	91
Sichuan	2230	766	1347	31	86
Anhui	2127	819	1200	36	72
Ningxia	2043	592	1255	69	127
Qinghai	1794	454	1200	51	88
Gansu	1673	489	1109	17	59
Yunnan	1697	318	1243	67	69
Guizhou	1565	459	988	37	81
Tibet	1691				

Source: China Statistical Yearbook 2004

Table 16. The Quantity and Composition of Per-capita Consumption Expenditure of Urban Citizens in 2003(yuan)					
	Per-capita consumption expenditure (Yuan)	**Food**	**Clothing**	**Medicare**	**Transport and communication**	**Culture and education, and entertainment**
National average	6511	2417	638	476	721	934
Shanghai	11040	4103	751	603	1259	1834
Beijing	11124	3523	906	994	1688	1964
Tianjin	7868	2964	580	698	721	1084
Zhejiang	9713	3558	830	738	1224	1487
Liaoning	6078	2395	637	534	631	747
Guangdong	9636	3584	560	617	1273	1437
Jiangsu	6709	2567	588	494	686	972
Heilongjiang	5015	1784	696	456	500	644
Fujian	7356	3105	576	349	868	899
Jilin	5492	1958	666	462	550	742
Shandong	6069	2051	791	444	638	931
Hebei	5440	1912	588	551	608	661
Hainan	5502	2463	280	414	602	630
Xinjiang	5541	1987	784	358	601	807
Hubei	5963	2280	669	397	572	844
Shanxi	5105	1712	726	367	478	799
Hunan	6083	2179	621	391	680	994
Chongqing	7118	2702	735	460	790	1026
Henan	4942	1662	603	443	534	630
Inner Mongolia	5419	1706	794	426	596	771
Jiangxi	4915	1980	481	265	466	664
Guangxi	5764	2306	374	323	608	798
Shaanxi	5667	1960	559	491	529	951
Sichuan	5759	2241	536	425	587	824
Anhui	5064	2239	558	318	503	536
Ningxia	5330	1919	585	451	585	645
Qinghai	5400	1987	613	451	509	713
Gansu	5299	1908	645	435	531	793
Yunnan	6024	2507	595	546	764	736
Guizhou	4949	1968	525	292	561	714
Tibet	8045	3543	1129	310	1184	597

Source: China Statistical Yearbook 2004

Table 17. The Quantity and Composition of Per-capita Consumption Expenditure of Rural Citizens in 2003(yuan)					
	Per-capita consumption expenditure (Yuan)	Food	Clothing	Medicare	Transport and communication	Culture and education, and entertainment
National average	1943	886	110	116	163	236
Shanghai	5670	2004	250	333	587	676
Beijing	4147	1332	288	356	393	691
Tianjin	2320	887	183	168	199	379
Zhejiang	4285	1636	229	306	496	531
Liaoning	1884	814	148	133	171	219
Guangdong	2927	1402	118	137	287	306
Jiangsu	2704	1119	141	142	269	379
Heilongjiang	1662	676	119	135	158	188
Fujian	2716	1222	145	129	278	297
Jilin	1816	799	118	154	174	222
Shandong	2133	892	134	139	187	291
Hebei	1600	639	115	102	150	186
Hainan	1645	947	53	96	108	158
Xinjiang	1465	667	136	116	99	113
Hubei	1802	931	80	96	122	224
Shanxi	1434	621	150	81	119	213
Hunan	2139	1111	106	105	147	271
Chongqing	1583	832	70	89	102	180
Henan	1509	727	96	91	100	161
Inner Mongolia	1771	731	122	124	192	256
Jiangxi	1908	986	100	92	142	224
Guangxi	1751	899	61	75	121	176
Shaanxi	1455	573	85	107	97	268
Sichuan	1747	942	86	91	105	202
Anhui	1596	735	80	87	126	185
Ningxia	1637	680	109	116	171	178
Qinghai	1563	776	114	116	146	132
Gansu	1337	586	74	96	109	192
Yunnan	1406	745	57	80	60	131
Guizhou	1185	675	54	47	50	128
Tibet	1030	670	115	21	37	32

Source: China Statistical Yearbook 2004

Table 18A. Durable Consumer Goods Owned by Urban Citizens in Different Provinces in 2003(every 100 households)						
	Bicycle	**Washing machine**	**Refrigerator**	**Color TV set**	**Video disc player**	**Tape recorder**
China	143.55	94.41	88.73	130.50	58.69	48.55
Shanghai	125.40	94.00	102.00	167.60	73.80	60.20
Beijing	202.06	99.25	100.40	146.99	60.42	71.99
Tianjin	228.53	96.33	98.47	134.53	49.60	56.80
Zhejiang	176.55	92.69	98.60	159.39	63.19	51.46
Liaoning	131.76	89.26	87.05	121.57	44.63	50.55
Guangdong	133.11	97.71	92.56	152.52	81.24	54.93
Jiangsu	172.89	97.65	90.29	142.52	54.84	41.21
Heilongjiang	101.13	89.65	73.30	110.44	43.22	49.61
Fujian	143.91	97.74	96.23	147.35	72.58	38.46
Jilin	139.02	95.10	79.19	120.41	50.13	51.91
Shandong	192.24	92.13	90.52	119.60	55.87	64.53
Hebei	221.91	99.21	93.70	125.22	45.70	56.68
Hainan	113.59	77.16	70.21	117.86	54.97	51.74
Xinjiang	137.44	91.93	84.33	112.39	55.12	64.02
Hubei	116.08	94.85	94.44	128.34	67.63	39.28
Shanxi	182.45	97.22	78.96	114.40	43.22	49.30
Hunan	67.61	95.25	87.06	124.82	61.20	37.91
Chongqing	4.00	97.67	98.00	150.67	70.67	28.00
Henan	204.56	95.94	83.69	124.19	49.25	48.81
Inner Mongolia	196.97	93.41	78.96	113.97	44.07	57.22
Jiangxi	139.92	93.92	84.97	130.37	50.55	36.81
Guangxi	186.62	90.68	85.47	126.84	69.04	40.65
Shaanxi	138.32	94.94	81.47	123.15	58.35	48.26
Sichuan	86.67	94.01	91.16	131.89	67.90	37.69
Anhui	134.15	93.20	88.54	124.17	52.24	40.55
Ningxia	176.64	91.82	79.53	113.83	50.00	42.62
Qinghai	71.02	99.10	78.45	119.25	59.70	54.54
Gansu	161.56	96.39	85.71	119.32	52.49	51.81
Yunnan	139.43	93.16	77.09	124.57	72.46	50.95
Guizhou	21.51	95.58	84.71	122.11	70.00	26.84
Tibet	126.00	91.00	84.00	132.00	73.00	59.00

Source: China Statistical Yearbook 2004

Table 18B. Durable Consumer Goods Owned by Urban Citizens in Different Provinces in 2003(every 100 households)					
	Videocorder	Family computer	Microwave oven	Air conditioner	Telephone	Mobile telephone
China	17.91	27.81	36.96	61.79	95.41	90.07
Shanghai	33.40	60.40	87.60	135.80	102.00	133.00
Beijing	51.27	68.31	79.20	119.31	102.30	133.68
Tianjin	30.33	34.07	61.40	90.87	97.67	77.80
Zhejiang	20.42	40.23	51.21	105.23	100.10	130.64
Liaoning	22.02	23.12	31.39	11.21	93.38	74.50
Guangdong	17.81	56.02	54.64	141.99	102.04	150.66
Jiangsu	19.13	27.91	63.52	90.94	98.65	99.73
Heilongjiang	15.24	13.77	16.06	4.89	89.12	55.58
Fujian	16.34	39.35	56.88	99.88	105.37	121.05
Jilin	15.54	14.07	20.38	3.31	95.81	80.80
Shandong	20.90	31.43	31.89	52.31	97.32	97.48
Hebei	17.78	18.34	26.93	55.91	92.54	65.81
Hainan	11.36	15.61	16.77	29.66	93.50	73.56
Xinjiang	16.07	15.81	12.96	4.92	92.73	72.36
Hubei	14.32	27.68	37.99	77.75	94.11	74.98
Shanxi	12.61	18.01	14.63	18.17	92.17	61.72
Hunan	12.96	26.67	30.81	55.38	92.36	102.66
Chongqing	20.67	34.67	58.67	126.67	97.67	95.67
Henan	10.27	19.19	20.37	73.07	95.05	66.27
Inner Mongolia	10.51	12.07	14.49	3.01	87.92	74.64
Jiangxi	10.10	16.05	23.04	46.01	94.65	78.06
Guangxi	11.66	23.36	33.02	46.82	95.04	75.76
Shaanxi	15.88	18.86	30.59	59.34	89.81	82.94
Sichuan	14.55	21.29	32.10	56.21	91.37	82.37
Anhui	14.70	16.98	28.18	61.75	95.58	69.84
Ningxia	9.15	12.86	20.63	2.58	92.91	73.20
Qinghai	13.71	13.27	26.76	0.29	88.46	75.98
Gansu	16.00	14.40	17.64	1.96	90.28	70.63
Yunnan	20.17	18.61	32.21	0.10	93.65	85.94
Guizhou	14.71	17.51	28.09	4.58	92.00	81.50
Tibet	45.00	16.00	24.00	4.00	87.00	107.00

Source: China Statistical Yearbook 2004

Table 19A. The Quantity and Composition of Per-capita Consumption Expenditure of Rural Citizens in 2003(yuan)					
	Bicycle	**Washing machine**	**Refrigerator**	**Color TV set**	**Black and white TV set**
China	118.5	34.3	15.9	67.8	42.8
Shanghai	210.7	75.0	81.2	125.2	48.3
Beijing	212.8	94.0	96.9	116.7	9.5
Tianjin	197.5	84.2	57.2	105.5	15.7
Zhejiang	168.7	43.1	53.1	109.7	39.9
Liaoning	125.9	58.5	18.3	86.9	26.3
Guangdong	145.5	28.3	18.9	92.3	17.0
Jiangsu	184.6	56.3	27.1	75.1	55.7
Heilongjiang	84.4	54.2	11.0	77.6	29.9
Fujian	83.8	42.1	26.3	88.6	30.0
Jilin	86.4	58.8	7.2	81.6	25.1
Shandong	177.0	24.7	20.9	71.0	42.6
Hebei	191.0	68.2	26.8	79.6	40.7
Hainan	48.6	4.9	5.6	64.6	10.3
Xinjiang	120.1	24.9	14.2	45.7	53.5
Hubei	103.5	20.1	8.5	56.3	55.0
Shanxi	130.9	56.7	12.3	74.1	37.7
Hunan	80.3	20.7	9.0	49.6	57.9
Chongqing	16.9	15.9	8.9	53.3	49.1
Henan	152.1	36.8	7.5	56.0	53.1
Inner Mongolia	80.2	29.9	10.0	65.2	36.8
Jiangxi	119.1	5.4	6.3	52.0	65.9
Guangxi	119.5	3.6	3.4	47.7	57.2
Shaanxi	133.5	40.4	6.3	65.9	42.7
Sichuan	48.2	22.5	7.1	56.1	52.3
Anhui	135.3	17.6	12.6	59.0	60.3
Ningxia	164.7	44.3	8.8	84.3	28.3
Qinghai	55.8	23.2	6.5	56.8	33.0
Gansu	127.2	34.3	5.4	69.4	33.1
Yunnan	44.2	21.0	4.2	57.5	25.3
Guizhou	7.6	17.4	3.5	39.2	32.9
Tibet	55.4	3.5	3.1	26.5	6.5

Source: China Statistical Yearbook 2004

Table 19B. The Quantity and Composition of Per-capita Consumption Expenditure of Rural Citizens in 2003(yuan)					
	Radio recorder	**Videocorder**	**Air conditioner**	**Motorcycle**	**Telephone**
China	18.7	3.5	3.5	31.8	49.1
Shanghai	33.2	11.2	37.0	87.7	108.8
Beijing	29.5	15.1	35.1	41.9	100.7
Tianjin	19.0	7.3	16.0	45.5	73.7
Zhejiang	25.2	10.2	20.4	47.6	84.1
Liaoning	17.4	5.3	0.3	33.4	71.4
Guangdong	18.0	5.8	7.1	71.4	70.2
Jiangsu	20.1	6.6	13.3	40.1	80.3
Heilongjiang	13.2	2.2	0.3	24.1	53.5
Fujian	10.7	7.1	7.6	63.3	86.7
Jilin	19.3	1.8	0.2	32.6	53.4
Shandong	17.1	3.5	1.8	51.3	74.5
Hebei	17.4	2.7	3.1	43.8	57.6
Hainan	18.3	6.4	1.0	65.0	32.4
Xinjiang	58.5	9.0	0.1	27.5	25.9
Hubei	9.8	1.2	1.2	25.0	31.4
Shanxi	24.5	3.3	0.7	32.7	35.3
Hunan	10.9	2.1	0.5	17.5	41.4
Chongqing	5.9	2.5	0.4	7.8	43.7
Henan	11.6	1.2	1.6	21.1	39.6
Inner Mongolia	32.3	1.1		37.6	22.9
Jiangxi	11.2	2.5	0.4	27.8	42.4
Guangxi	13.4	1.3	0.0	32.3	31.1
Shaanxi	22.5	1.0	0.4	22.2	45.7
Sichuan	12.1	2.4	0.7	15.5	23.2
Anhui	16.2	2.4	0.8	17.1	58.8
Ningxia	37.2	0.2		45.5	38.2
Qinghai	56.5	0.7		33.8	21.5
Gansu	38.3	2.6		24.2	36.7
Yunnan	16.4	2.7	0.3	8.1	19.3
Guizhou	9.8	1.2		9.6	17.1
Tibet	72.3	7.5		2.3	4.8

Table 20A. Health Agencies in Different Provinces in 2003

	Number of health agencies	Hospitals	Health centers	Clinics	Disease prevention and control centers (epdemic prevention stations)	mother and child health care centers
China	291323	17764	45204	204468	3584	3033
Shanghai	7500	219	126	5712	22	23
Beijing	5073	458	187	4204	29	19
Tianjin	7132	273	212	6183	25	22
Zhejiang	6261	474	2509	2286	103	88
Liaoning	12533	912	1096	8057	129	117
Guangdong	13213	867	1532	9768	131	127
Jiangsu	8870	898	1607	5492	135	110
Heilongjiang	8469	831	979	5927	202	150
Fujian	8525	338	979	6492	94	91
Jilin	7695	595	836	4775	75	72
Shandong	4855	1042	1864	1116	175	149
Hebei	9018	770	3227	4313	194	186
Hainan	19470	192	311	18604	31	25
Xinjiang	9618	625	840	7564	239	89
Hubei	9498	599	1189	7136	109	92
Shanxi	12960	833	1650	9804	150	133
Hunan	14539	717	2628	9839	167	132
Chongqing	3730	363	1318	1864	46	44
Henan	13621	1102	2043	9308	180	165
Inner Mongolia	4036	450	1368	1728	146	117
Jiangxi	3348	498	1548	763	112	110
Guangxi	6610	444	1305	4374	105	103
Shaanxi	14369	813	1861	10924	128	115
Sichuan	16756	1157	6048	8138	208	198
Anhui	15688	615	2147	11872	133	117
Ningxia	8990	122	279	8372	28	25
Qinghai	9559	131	406	8824	54	19
Gansu	8037	382	1478	5684	103	98
Yunnan	3006	557	1494	442	151	151
Guizhou	13178	390	1465	10719	99	93
Tibet	5166	97	672	4184	81	53

Source: China Statistical Yearbook 2004

Table 20B. The numbers of Medical Workers and Sickbeds in Different Provinces in 2003					
	Number of sickbeds (Total sum)	Hospital/ health centers	Medical workers (persons)	Hygienic personnel (persons)	Practicing (assistant) physician	Registered nurse
China	3144235	2955160	5274786	4306471	1867957	1265959
Shanghai	83360	74731	133038	102211	44136	37894
Beijing	74134	70823	148191	112043	47819	39875
Tianjin	40095	38070	78286	60795	25808	19633
Zhejiang	126363	117644	207937	173010	79310	49298
Liaoning	170636	158215	269252	210705	92835	71890
Guangdong	186865	172549	336175	273620	108677	88536
Jiangsu	176101	169247	302192	242586	103428	73508
Heilongjiang	115594	109073	192858	149964	63876	44989
Fujian	78309	69991	114893	96902	41252	31545
Jilin	85828	80810	161398	128638	57016	40076
Shandong	216116	201827	366895	308123	132372	90204
Hebei	157920	149587	262278	216962	97141	50992
Hainan	17847	17028	36191	29083	11850	9875
Xinjiang	72658	69681	116584	95769	40437	30282
Hubei	136002	127999	255648	207860	86969	63684
Shanxi	103368	98591	169870	143810	66778	39297
Hunan	143631	133772	254697	212126	90507	58235
Chongqing	62696	59794	92978	77449	36426	20405
Henan	202334	192720	348890	278656	106363	72001
Inner Mongolia	64898	60530	120369	101153	49344	25566
Jiangxi	82394	77023	138068	115036	48219	33617
Guangxi	88081	82206	146747	118181	50155	40713
Shaanxi	101963	95712	164398	134732	60294	37183
Sichuan	185423	176616	288300	240898	115797	59494
Anhui	118882	112424	185916	152665	62112	42306
Ningxia	15740	14815	27589	23126	10666	7274
Qinghai	15384	15001	22987	19822	9099	5940
Gansu	60439	56946	96538	82306	35094	22400
Yunnan	95844	89677	134508	112396	52967	35647
Guizhou	59118	56199	91057	77557	36911	21844
Tibet	6212	5859	10058	8287	4299	1756

Source: China Statistical Yearbook 2004

Table 21. The Numbers of People Participating in Basic Pension Insurance, Unemployment Insurance and Basic Medical Insurance in Different Provinces in 2003 (10,000 persons)					
	Basic pension insurance		**Unemployment insurance**		**Basic medical insurance**	
	Employees participating in insurance	Enterprise employees	Number of people participating in insurance	Enterprise personnel	Enterprise employees	Retirees
China	11646.5	10324.5	10372.9	8029.8	7974.9	2926.8
Shanghai	461.1	394.3	441.1	314.6	459.1	250.6
Beijing	307.0	297.1	306.6	231.6	301.5	134.7
Tianjin	185.7	178.4	193.5	158.9	146.2	108.5
Zhejiang	657.0	594.2	396.8	292.5	370.8	139.5
Liaoning	754.9	688.6	622.2	486.3	480.4	217.2
Guangdong	1278.5	1145.7	954.1	858.0	730.6	146.4
Jiangsu	863.8	775.7	761.6	606.3	587.4	227.6
Heilongjiang	518.3	468.0	479.0	429.8	313.2	122.1
Fujian	284.8	230.8	266.4	214.2	185.9	61.8
Jilin	311.5	300.3	292.9	245.1	175.4	55.3
Shandong	916.7	710.9	719.1	568.0	553.0	138.0
Hebei	501.9	410.1	484.2	364.7	298.4	84.7
Hainan	83.1	62.3	57.7	48.5	47.7	15.4
Xinjiang	186.3	178.2	186.5	133.4	191.4	85.3
Hubei	554.4	501.1	390.1	283.5	306.6	110.1
Shanxi	276.3	276.3	284.1	236.1	194.2	51.3
Hunan	468.7	317.4	347.5	228.5	307.4	116.1
Chongqing	187.6	183.3	199.5	160.4	80.0	41.7
Henan	580.0	504.0	680.0	512.0	441.0	126.9
Inner Mongolia	228.3	197.2	221.6	157.2	186.2	66.1
Jiangxi	262.5	242.3	215.5	154.6	142.5	45.7
Guangxi	198.5	195.0	219.1	134.3	169.0	66.1
Shaanxi	265.0	265.0	323.3	257.1	223.6	77.4
Sichuan	418.0	397.2	400.0	276.6	357.4	173.8
Anhui	343.1	323.1	380.8	290.6	238.4	79.8
Ningxia	46.5	42.9	36.3	26.6	35.4	12.7
Qinghai	40.5	37.9	33.2	22.1	38.6	17.8
Gansu	140.8	134.8	162.1	121.3	113.2	32.8
Yunnan	179.6	162.4	183.0	125.2	200.1	81.4
Guizhou	120.0	106.4	128.0	88.6	95.9	38.2
Tibet	4.4	3.5	7.1	3.2	4.2	1.8

Source: China Statistical Yearbook 2004