CHINA NATIONAL HUMAN DEVELOPMENT REPORT 2016

Social Innovation for Inclusive Human Development

This report is a collaboration between UNDP China and
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FOREWORD

As one of the countries that have achieved rapid development in the area of human development over the past 30 years, China has stepped into the group of countries with high-levels of human development.With key measurement indicators such as income, health and knowledge level, China has achieved noticeable progress. The per capita GDP of China reached US $7,575 in 2014, which means that the country has entered the group of middle-income countries. The average life expectancy increased from 67.9 in 1987 to 74.8 in 2010, well above the world average life expectancy of 70; and it also achieved universal nine-year compulsory education and has eliminated illiteracy among young and middle-aged citizens in 2011.

Continued public sector reforms coupled with innovations in social policies have contributed to these achievements. Since 1978, when the period of economic reform and opening-up started, China has implemented a series of social policy changes such as land-use right reform, state-owned enterprise reform, household registration system reform, social insurance and medical security system transformation, and the strengthening of governance autonomy at village level, which have all helped put China on a development path that is fit for the social and economic context.

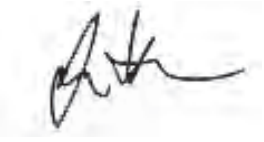
At the same time, we observe that China's achievements in human development have largely relied on economic growth. Although significant accomplishments are recorded in health and education, these have contributed relatively less compared to that of growth of the economy for the composite index of human development. A further important observation is that during the 35 years of rapid economic development, China has experienced an increase in social inequality. Since the 1980s, income disparities have widened rapidly with the Gini Coefficient reaching 0.469 in 2014, which is high by global standards despite some degree of amelioration in the past six years. Development gaps between urban and rural areas, different regions and social communities have also increased gradually. Due to these disparities, the inclusiveness of China's human development remains a challenge.

For China, moving up to be a middle-income country, the risk of falling into the so-called "middle-income trap" is very real, despite sus-

tained heavy investment in education and infrastructure. Demographic change, and population ageing in particular, mightlead to a stagnating ordeclining economic growth rate, calling for changes in human capital and intergenerational relations. China's economy has stepped into "new normal" status, with the possible consequence of a decreasing fiscal growth rate. This calls for the transformation of social policy-making from scaling up to restructuring, sustainable urbanization and large scale population movement, which can boost development and support the provision of education, healthcare, and the relocation of migrant workers and their families. In addition, China also faces a series of complex challenges, such as increasing income disparities, the deprivation of the rights of vulnerable groups, rising public expectations and awareness of participation, and the risks brought about by informatization.

The purpose of this Human Development Report entitled "Social Innovation for Inclusive Human Development" is mainly to explore possible policy options to help address the upcoming challenges through innovations in social policies and public administration. China's unique national conditions make it difficult to use precedents as reference or to duplicate international experience. Thus this report, based on experience and lessons, especially the experience of social innovation, makes suggestions to improve human development that is more inclusive with a reduced level of inequality. These suggestions include innovation of policy itself and recommendations for reform of the implementation mechanisms and governance pattern in specific sectors. The ultimate goal is to help the government to: continue the development-oriented social policies towards more inclusiveness and fairness; enhance efficiency by changing orientation and management of public investment; and improve mechanisms and capacity of social participation.

This report is collaboratively produced by UNDP China and Development Research Center of the State Council. It was compiled by a distinguished team of Chinese and international experts. I would like to extend my sincere thanks and warmest congratulations to all the authors for their outstanding work. I would also like to take this opportunity to thank the Peace and Development Foundation, the Royal Norwegian Embassy, Tsinghua Unigroup, Hengchang Litong Investment and Management, and Stora Enso Group for their contributions that have made this report possible, and to the many colleagues in the United Nations System who provided valuable insights and assistance.



Agi Veres

UNDP Resident Representative a.i

PREFACE

Human Development Index (HDI) is a comprehensive indicator system developed by the United Nations Development Programme (UNDP) to measure the level of the social and economic development of a country. Ever since its launch in 1990, Human Development Index has been widely recognized and played an important role in guiding the developing countries to formulate corresponding development strategies.

Since the 1950s, China has been committed to the socialist construction and the great rejuvenation of Chinese nation by actively exploring the comprehensive social and economic development and continuously enhancing the level of human development. In the process of economic development and social transformation, China's human development has experienced some twists and turns, but the overall performance has been remarkable; especially after the reform and opening-up, China has made great progress. Before 1990, China's Human Development Index belonged to the group of low human development level ($<$0.550), but it entered into the group of high human development level (0.700 — 0.799) in 2011. Among the 47 countries in the group of low human development level in 1990, China is currently the only one ranking among the group of high human development level.

China's progress and promotion in terms of human development are partially attributable to the international environment of globalization, but to a greater extent, it is because that China has seized the opportunities and continuously reformed and innovated according to its national context. In this regard, China has some important experiences of development worth being concluded and summarized.

First of all, China has unswervingly adhered to the reform and opening-up. The reform and opening-up policy is China's basic state policy. In the process of economic development and social transformation, China has always been faced with the complicated domestic and international conditions as well as numerous difficulties and challenges in development, and only by constantly advancing the reform and opening-up can China promote reform through opening-up and promote development through reform. The achievements made by China in nearly 40 years of development show that the reform and opening-up is the source of vital-

ity for China in economic development and social progress and China's core experience in promoting the level of human development. In China's reform and opening-up, there is only a progressive tense without perfect tense.

Secondly, China has adhered to the concept of people-centreed development and continuously improved the people's livelihood. China has insisted in understanding the connotation of the improvement of people's livelihood from the most fundamental and extensive sense and took continuously promoting economic growth, creating sufficient jobs and improving people's well-being as the starting point and objective of economic and social construction. The practice since the reform and opening-up shows the sustained and rapid economic growth has played a key role in China's human development. Remarkable improvements have been made in people's material standard of living, most households have got rid of poverty and lived a fairly comfortable life, and more and more households are heading towards prosperity. At the same time, the role of social policies in promoting China's human development has also been revealed gradually.

Thirdly, China has combined top-level design with local innovations, thus fully mobilizing and giving play to the enthusiasm of both the central government and local governments. In the process of development, China has paid attention to the macro design of development orientation, development concepts and development path, such as the conventional five-year plans for development and all types of unconventional development guidelines, guiding opinions, etc. At the same time, in terms of concrete system and policy design, it has not only paid attention to the central government's top-level design, but also actively encouraged local governments to explore and innovate. This approach can ensure the direction of overall strategy and arouse the enthusiasm and creativity of local governments and all sectors of society, thus it can better adapt to the uncertainties in the process of social and economic transformation, promote the self-regulation ability andmake China's human development more scientific and innovative.

Lastly, China is good at learning and absorbing international experiences and making innovation in accordance with its national context. As a late-development country, China has always attached great importance to learning from international experiences. Especially after the reform and opening-up, China has become an important part of globalization and learned a lot of experiences of development from the international community, particularly from the developed countries; then China has reformed and developed those international experiences with the combination of its own national conditions, thus greatly promoting the transformation and development of China.

There is no doubt that China, during the process of development, also has some lessons that are worth being summarized. For example, outstanding achievements in economic development were made during certain periods after the reform and opening-up, but the development of people's livelihood and other social development were comparatively lagging behind, with the so-called problem of "one leg longer than the other". The overall level of human development has increased faster but with insufficient fairness and inclusiveness. It is also necessary to accumulate more experiences on how to better combine with China's national context while learning and absorbing international experiences. But on the whole, along with the development of society and economy and the increasing emphasis on inclusive growth from all walks of life, these issues are being continuously improved.

Development has not only always been an is-

sue of common concern to all countries in the world, but also one of the issues with the most abundant researches, the most complex content and the most controversial topics in today's world. The "2016 China Human Development Report", which is completed by the Development Research Centre of the State Council in collaboration with UNDP China Country Office, applies the analysis framework of Human Development Index as references, comprehensively reviews and analyzes and systematically summarizes the process of human development and related experiences since the founding of China, especially since the reform and opening-up, from two perspectives, namely people's livelihood and social governance, as well as provides the policy ideas and suggestions on further enhancing the fairness and inclusiveness of China's human development. By analyzing and sorting out China's development process and related experiences, the Report can not only help the world to better understand China, but also help China to recognize its own development process in a more comprehensive and objective manner. China's experiences on human development are important component of the common development and exploration of human society as well as the common wealth in the global human development, which we expect to be used as references by other developing countries in the world in their future human development and to make more positive contributions to the inclusive human development in the world.

Li Wei

President
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ACKNOWLEDGEMENTS

The China National Human Development Report (NHDR) 2016 has been achieved as a result of a collaborative partnership between the United Nations Development Programme (UNDP) China Country Office and the Development Research Centre of the State Council (DRC) of the People's Republic of China (PRC) over a two years period. A large number of partners have contributed to this effort. The successful completion of the report can be attributed to the wisdom, devotion and hard work of every member of the project development team and also stands as an important attempt by China's top think tank and an influential international organization to join forces and make "the stories of China well told."

Since the founding of the PRC, and especially after the reform and opening-up, China has experienced rapid economic growth and has made starkimprovements to people's livelihoods. China's Human Development Index (HDI) also grew at an astonishing rate – among the fastest in the world. Nonetheless, the imbalance of socioeconomic development in China remains prominent; income gaps between urban and rural areas, between regions and between groups are widening. Worse still, due to lagging social policies, issues such as social exclusion and inequality exist in areas such as education, the labour market and social security, weakening social flow between classes.These long-standing issues not only inhibit the sustainable development of China's economy and social development, but also pose a threat to social stability. As a result of these challenges, in recent years (particularly since the new administration came into power), the Chinese government has prioritized social wellbeing at the heart of its programme. More emphasis has been put on fairness and justice and on enhancing social vitality. Against this backdrop, the UNDP China Country Office and DRC chose "Social Innovation for Inclusive Human Development" as the theme of the NHDR 2016. This report teases out basic theories and international experiences of inclusive human development and makes systematic analyses of the history and status quo, problems and challenges, and the ongoing innovation practices and explorations with regard to China's inclusive human development; it then advances the overall picture and outlines key recommendations for promoting the fairness and inclusiveness of human development through social innovations.

The China NHDR 2016 was initiated in Beijing

in December 2014 and followed by a series of research activities. During the entire process, experts and scholars across society have participated extensively in discussions about the framework and the content of the report, and have provided many constructive suggestions that have been taken forward within the report. Zhang Laiming, Yu Keping, Zhan Chengfu, Hao Fuqing, Chen Ningshan and Zhang Lide serve our thanks for making valuable advisory contributions to the NHDR. In the initial phases of this study, UNDP China Country Office and the DRC jointly held a number of workshop, which a number of experts were invited to attend, including Tan Zhonghe, Fang Jin, Xiong Yuegen, Tian Kai, Li Bingqin, Wang Youqiang, Li Zhen, Chu Songyan, JinChenggang, Pan Yi, Li Yingtao, Zhang Shuo, JinSanlin and Zhou Hongyun, who shared opinions and suggestions that provided a theoretical background for our project team. We also extend our appreciation to Professor Zhang Xiulan at Beijing Normal University, who provided the quantitative analytical models for our research. The results provided a strong background for our understanding of the indices that make up the Human Development Index, and predictions of future human development in China.

During this research, Professor Stein Kuhnle, an expert in social development from Bergen University in Norway, provided us with important theoretical and empirical support from an international comparative perspective. We also express sincere thanks to him.

The first draft of the NHDR was completed in June, 2015. Following the first round of editing, we convened a range of consultation meetings with relevant Chinese governmental departments, research experts and several UN bodies in China; this draft was also sent to domestic and international experts for peer review. For their thoughtful and valuable advices, we extend sincere thanks to the following experts and professionals: Hu Angang, Yu Keping, Zhan Chengfu, HaoFuqing, Chen Ningshan, Zhang Li, Nora Lustig, Sarah Cook, Robert Walker and Christopher Lakner.

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As with past reports, the successful completion of the NHDR 2016 was only possible as a result of the strong support and guidance of the UNDP China Country Office. We therefore extend sincere thanks to the former UN Resident Coordinator and UNDP Resident Representative in China, and incumbent Chief of Staff & Director, Executive Office of UNDP Headquarters, Alain Noudehou; UNDP Resident Representative a.i. and China Country Director, Agi Veres; former-Deputy Country Director, Patrick Haverman; and former Head of Policy and Partnerships, Hannah Ryder. They have provided constructive inputs toward the accomplishment of the report. In addition, we wish to thank the former UNDP China Country Director and incumbent UNDP Indonesia Country Director, Christophe Bahuet for his support during the initial phases of this project.

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As the Chief Editor of the report, I would like to take this opportunity to thank everyone else who offered direct or indirect assistance to ensure the successful completion of this report. Finally, I wish to thank the team of authors for their hard work, including Wang Liejun, Wang Xiongjun and Feng Wenmeng. I also wish to thank Zhang Jiahui, BaoYajun, Shan Dasheng, Zhang Bingzi, She Yu, Leonard S. Miller, Xu Xiaoxin and Yu Qian for their technical support with the report. Lastly, but not least, I would like to express my appreciation to other staff at the Research Department of Social Development of the DRC for their assistance and support with our daily workat the DRC. The authors assume all responsibility for mistakes in the NHDR 2016.

Gong Sen and Ge Yanfeng

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ABBREVIATIONS

ACWF	All-China Women's Federation
AIDS	Acquired Immune Deficiency Syndrome
CCT	Conditional Cash Transfers
CCTF	China Children and Teenagers Fund
CHNS	China Household Nutrition Survey
CPC	Communist Party of China
CPIB	Corruption Practices Investigation Bureau
EPI	Extended Programme of Immunisation
GDP	Gross Domestic Product
HDI	Human Development Index
ILO	International Labor Organisation
LIS	Labour Insurance System
MDGs	Millennium Development Goals
NBS	National Bureau of Statistics
NGO	Non-Governmental Organisation
NHDR	National Human Development Report
NHS	National Health Service
NPC	National People's Congress
OECD	Organszation for Economic Cooperation and Development's
PISA	Program for International Student Assessment
PPP	Purchasing Power Parity
PRC	People's Republic of China
PSE	Poverty and Social Exclusion
SARS	Severe Acute Respiratory Syndrome
SDGs	Sustainable Development Goals
SOEs	State-Owned Enterprises
UNDP	United Nations Developmental Programme
UNESCO	The United Nations Educational, Scientific and Cultural Organisation
WHO	World Health Organisation
WWII	Second World War

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INTRODUCTION

The concept of "human development" originates from a series of Human Development Reports (HDRs) published by the United Nations Development Programme (UNDP). The first HDR was launched in 1990, and clearly explained the reason for introducing the concept of human development. According to the report, while growth in Gross Domestic Product (GDP) is absolutely necessary for meeting all essential human objectives, it is perhaps even more important to study how this growth translates — or fails to translate — into human development in certain societies. While some countries have achieved levels of human development that are higher than levels of per capita income would expect (with levels of equality that are adequate), some other countries with high per capita income have lower levels of human development than one might expect, with high levels of inequality. This shows that economic growth will not naturally result in human development improvements, although it does tend to have a positive impact. Many factors affect the translation of economic growth into high levels of human development. [1] Social innovation is arguably one of these decisive factors. Over the past six decades, drastic changes have occurred to China's social, economic and political conditions. This report seeks to examine these changes and explores how human development has been advanced through social innovation in China, drawing on relevant experiences and lessons.

1 United Nations Development Programme (UNDP) (1990), *Human Development Report 1990: Concept and Measurement of Human Development.*

1 RESEARCH DEFINITIONS

As the understanding of development deepens, policymakers and researchers are gradually recognizing and accepting the multidimensionality of development. Understanding and pursuing development from a wider number of perspectives has become the norm within which theoretical studies and practical explorations of development are conducted.

HUMAN DEVELOPMENT AND INCLUSIVE HUMAN DEVELOPMENT

This report goes beyond pure economic growth and discusses human development from social and political dimensions as well. The concept of "human development" stresses that development is not simply about economic growth, but

that the development of people — their well-being and life chances — is equally important. Human development is a process that involves expanding people's life choices. Since income increases individuals' choices it should be considered as a means, instead of an end. The most critical choices people make include: leading long and healthy lives; gaining an education; enjoying a decent standard of living; and engaging or participating in society.[1]

As for the inclusiveness of human development, this report argues that inclusiveness refers to the degree and level at which all groups of people in different areas can equally participate in economic, social and political development and share their results. The concept of "inclusive human development" in this report emphasises that we should not only pay attention to the average level of human development but that we should also pursue more equitable human development, and work to narrow human development gaps between different countries, different regions, and different populations. Moreover, inclusive development incorporates a wide range of dimensions while the ecological sustainability of development (e.g. climate change, environmental pollution, and energy shortages), natural disasters and rural infrastructural developments also exert a significant impact on the economy, income and health. However, since these factors are not directly related to human development, this report does not focus on them.

SOCIAL INNOVATION

With respect to social innovation, this report focuses on institutional or governmental innovation (both the central government and local governments). By examining social policies and social governance. It looks the attwo specific aspects of this, It includes new perspectives on and new approaches to existing problems as well as efforts to seek innovative solutions to new problems and address new social needs. Innovation can be encouraged by governmental or non-governmental entities. Innovation can take many forms: innovations in method or models, policy instruments or institutional frameworks. Moreover, practices borrowed from other countries and successfully transformed to suit local conditions can also be considered. However, the subjects, models and concrete forms of innovation usually differ significantly by culture and throughout different development stages. Since the development of modern society, political and institutional innovation practices have often had a profound impact on development. As a result, the focus of the report is government-dominated innovation, taking into account methodological and technological social innovations dominated by non-governmental organizations at the same time.

2 RESEARCH BACKGROUND

Since the establishment of the People's Republic of China (PRC), especially since the reform and opening up, China has made enormous advancements to its social and economic development at the same time as it faced various national challenges. It is possible to conduct an objective and comprehensive analysis of China's development and to systematically summarize China's experience of social innovation by referring to the "Human Development Index" (HDI) advocated by the United Nations Development Programme (UNDP). Following the progress of China's HDI also helps to understand China's development process comprehensively, and to carve out its future development. It is also useful for enriching international theoretical research and practical explorations surrounding human development and inclusiveness. For example:

1 Id.

- Since the foundation of the PRC, China's HDI has grown at an astonishing rate — among the fastest in the world — while issues such as declining inclusiveness and social divisions have occurred. Overall, research systematically analyzing China's development history and current status from an international perspective is lacking.
- China's human development can be attributed to its rapid economic growth. However, research on the influence and effect of social policies and social governance inpromoting human development and in clusiveness is relatively sparse. The experiences of other countries also fail to translate to China's national circumstances.
- In the fields of development and social welfare rich international knowledge and experience has been accumulated and new theories have been formed. China is undergoing a large-scale transition and the construction of a comprehensive social policy system — China is able to learn from invaluable international experience in the process. However, China needs to be careful to translate these experiences to suit its own national conditions and social needs.

Since the start of 21 century, the Chinese government has increasingly paid attention to promoting inclusiveness and sustainable development. Especially since 2013, China's new administration has actively promoted inclusive human development as a national objective, and governments at all levels have conducted multiple explorations and innovations in this field, bringing about both valuable results and new challenges. Given the above mentioned issues, it is necessary to learn from experience quickly in order to facilitate local innovations and promote China's social and economic development in a comprehensive, coordinated and sustainable way.

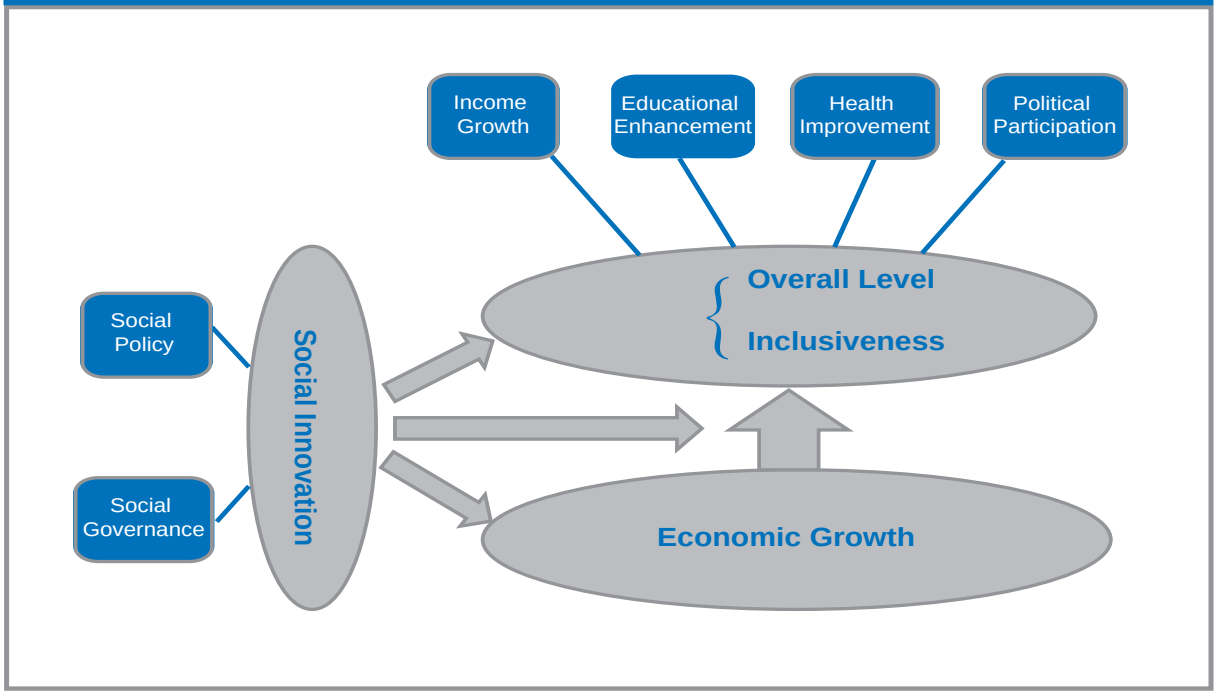
3 ANALYSIS FRAMEWORK

Based on the above definitions, discussions on inclusive human development through social innovations will reply on probing how innovations — namely to social polices and social governance mechanisms — will impact on income growth, improved educational levels, improvements to healthcare and the evolution of political participation. This report attempts to explore the multiple ways social policies and social governance mechanisms impact on human development. This includes overall levels of inclusiveness and each component part – including the even distribution of economic growth (See Figure 1).

4 STRUCTURE OF THE REPORT

This report is structured in the following way: Chapter I explains the concept of inclusive human development, social innovation and related theories; it also reviews how they have historically interactedfrom an international perspective, and charts the broad course of China's inclusive human development since1949. Chapter II gives an overview of the conditions and characteristics of China's human development and analyzes the problems China is facing in seeking to improve its inclusive human development. Chapter III discusses China's inclusive human development practices, including social innovation – at both central and local level – and discusses some innovative pilot projectsthat have been trialed since the start of the 21st Century. Chapter IV focuses upon future challenges posed to China and recent explorations into social innovation and inclusive human development. Chapter V selects several relevant international experiences that China may draw on to improve the inclusiveness of its human development. Finally, Chapter VI

Figure 1 FRAMEWORK OF ANALYSIS



concludes by offering a general approach and practical suggestions regarding how China may further promote inclusive human development through social innovation.

CHAPTER 1

SOCIAL INNOVATION AND INCLUSIVE HUMAN DEVELOPMENT WITHIN A GLOBAL CONTEXT

Key Messages

- **Human development encompasses far more than economic conditions or income growth.It also includes the protection of citizens' social rights such as the right to healthcare and education, equality among different communities and genders, and mass participation in public affairs, all of which can be achieved through a sound social policy system.**
- **History has shown that human development evolves gradually through several phases. At present, the "inclusiveness of human development" is increasingly gaining attention in policy circles.The main way to improve inclusiveness is via both economic and income growth, and via innovation and improving social policies.**
- **China's development has passed througha series of these development phases. Human development at every phase isclosely linked withthe social and economic characteristics of the time. China's overall human development has significantly progressed, but challenges still remain.**
- **There are competing theories regarding which is the appropriate method for improving human development in China (and globally) – top-down or bottom up. This report addressesboth of these theories.**

1.1 REVIEW OF INCLUSIVE HUMAN DEVELOPMENT AND SOCIAL INNOVATION FROM A GLOBAL PERSPECTIVE

Economic growth is the driving force for human development. According to the history of human development, rapid economic growth mainly occurred during the three hundred years following the 18th century. According to Angus Maddison, an economic historian, the average annual growth rate of global GDP from year 1 to 1700 AD was around 0.1 percent, reaching1.6 percent between 1700 and 2012. [1]

This rapid economic growth that began in the 18th century laid the material foundations for

1 *Angus Maddison,The World Economy (OECD, Paris, 2004)*

inclusive human development; making inclusive human development a reality, however, depends more on the capacity to govern a nation, at the heart of which lies institutional innovation. Although the origin of countries can be traced back to ten thousands of years ago when the first agricultural societies were established in Mesopotamia, the first truly modern European state emerged four to five hundred years ago in the 16th century. [1] At the same time, studies have also revealed that national inclusive political and economic systems first emerged in the so-called 1688 "Glorious Revolution" in the United Kingdom, although successful attempts at developing such systems are recorded in ancient Rome between 4th century BC and 4th century AD in Venice between the 9thand 15th centuries. Only after the establishment of these systems could inclusive human development be achieved progressively. [2]

The above research results – especially from a European perspective – imply that the 18th century is a suitable starting point for a study examining social innovation practices in achieving inclusive human development. On one hand, rapid economic growth during this period provided the basic resources for inclusive human development; on the other hand, modern state systems and their basic social safety nets also improved markedly during this period. Rapidly improved social innovationsduring this eraenhancedthe capacity of state governance and provided the basic institutional systems that would gradually help achieve inclusive human development.

1 According to Francis Fukuyama, a modern European state is a centralized bureaucracy that is able to control large scale military, levy taxes, and exert sovereignty over a vast territory. In this sense, the earliest form of modern European state can be traced back to three monarchies four hundred years ago - France, Spain and Sweden. See Francis Fukuyama,*State-Building: Governance and Beijing World Order in the 21st Century* (China Social Sciences Press, 2007)

2 Daron Acemoglu and James Robinson, *Why Nations Fail- The Origins of Power, Prosperity and Poverty* (Crown Publishers, New York, 2012)

THREE STAGES OF SOCIAL INNOVATION IN INCLUSIVE HUMAN DEVELOPMENT

Social innovation and its impact on inclusive human development since the 18th century can be divided into three stages according to a number of relevant criteria and the social groups that benefited from inclusive development.

Stage I: Limited inclusive human development centering on economic growth (from the 18th century to the early 20th century)

As the Industrial Revolution broke out in the United Kingdom and spread throughout the world, the 18th and 19th centuries saw unprecedented economic growth, which resulted in significant improvements to personal wealth. Evidence shows that global GDP growth was around 0.5 percent per annum from 1700 to 1820, and this rose to 1.5 percent from 1820 to 1913.[3] Rapid economic growth provided thesolid material foundation that supports inclusive human development. However, due to lagging progress in social innovation and governance, inclusive growth during this period was fairly limited (although markedly improved compared to conditions before the 18th century).

The limitations of inclusive human development during this period were twofold. Firstly, while economic growth was substantial, developments in social progress, political equality, cultural prosperity – and other areas –were relatively limited. Secondly, as far as social class was concerned, while the beneficiaries of development extended to monarchs, aristocrats, churches, merchants and craftsmen, the benefits of development were not equally available to the vast majority of the population,who were typically workers.

3 Angus Maddison, *The World Economy (OECD, Paris, 2004)*

Basic state functions during this period were limited to the police force, the courts, the military, diplomats and general administrative staff, and taxes accounted for less than 10 percent of national income. In addition, most of the profits earned from industrial production were held by factory owners and other minority groups. As a result, the wages of workers remained at very low levels for a long period of time. It was not until after 1870 that wages significantly increased. In the early 20th century, the income of the richest 10 percent of developed countries' populations accounted for 50 percent of national income, reflecting the extreme inequality in many societies. [1]

Social innovation during this period was mainly accomplished by expanding the pluralism of political systems and by strengthening centralized state systems. The Glorious Revolution in the United Kingdomin 1688 and the French Revolution in 1789 contributed to the development of an inclusive political system in these two countries, [2] however, political equality for all members of society was still not achieved during this period. Furthermore, education, health and other services that are commonly recognized as basic public services offered by a modern state, were excluded from the government remit at the time. In terms of access to the above services, there were still significant gaps between members of society and inequality remained pervasive for a number of years.

Stage II: Enhanced inclusive human development centering on social policy and social welfare construction(from the 1920s to the 1970s)

After the 1920s, rapid technological advances caused the global economy to grow more quickly, providing a stronger material basis for inclusive human development. More importantly, with the expansion of government functions during this period, rapid development in social innovation and governance capacity encouraged improved institutional support for inclusive human development.

During this period, frequent social innovations and changes in governance models in developed countries were stimulated by two world wars and the Great Depression, whose events alerted most developed countries to the limitations of laissez-faire economics. In this context, most developed countries strengthened government intervention, increased government spending, introduced new social policies and expanded the scope of public services provided by the government. These efforts efficiently promoted inclusive human development. As a result – in addition to economic growth – developed countries also saw significant improvements in social progress, political participation and many other development indicators. Unlike development in the 18th and 19th centuries, which benefited only certain groups of people, ordinary members of society were afforded fairer access to benefits during this later period. Whether in terms of the policy areas or the people involved, developed countries reached higher levels of inclusive development in the mid-to-late 20th century.

This progress was also achieved due to the rising ratio of government spending to GDP in developed countries. In the late 1970s, overall government spending accounted for up to 50 percent of GDP in some countries, and even up to 70 percent in Western European and Nordic countries with high levels of welfare provision. Meanwhile, income distribution gaps were narrowing in these countries. The proportion of income earned by the richest 10 percent of the population relative to the national income dropped from 45-50 per-

1 Thomas Picketty, *Capital in the Twenty-First Century* (The Belknap Press of Harvard University Press, London, 2014)

2 Daron Acemoglu and James Robinson, *Why Nations Fail- The Origins of Power, Prosperity and Poverty* (Crown Publishers, New York, 2012)

cent between1900-1910 to 30-35 percent between1950-1970. [1]

During this period, social innovations in developed countries occurred in several spheres. In the economic sphere, the government further expanded the protection of property rights, strengthened intervention in monopolies, and introduced progressive income and property taxes. In the political sphere, the government adopted an electoral system that provided equal rights for all, promoted citizen participation, strengthened the role of trade unions, and improved worker protection. In the social sphere, governments implemented a wide range of social security measures, such as popularizing education, improving human capital through universal compulsory education policy, implementing extensive social security measures, intensifying poverty alleviation efforts and increasing assistance for vulnerable groups.

Stage III: Divergence of inclusive human development (since the 1980s)

Since the 1980s, there has been a trend towards a global divergence in inclusive human development. Although the overall trend in developed countries has been the continuation of social innovation and inclusive human development, some income gaps have widened, leading to the deterioration of inclusive development. As for developing countries, some have taken the initiative to promote social innovation, achieved rapid economic growth, and have raised overall levels of inclusive development. Others have experienced constant economic downturns or even deteriorations, and are far from achieving inclusive human development. In other words, since the 1980s, in the context of globalization, major developed countries have entered a post-modernization era, and at the same time the number of emerging economies have continuously grown. Social innovation and inclusive human development worldwide have developed unevenly, with progress, stagnation and setbacks occurring regularly.

The above mentioned divergences in developed countries have stemmed directly from economic slowdowns, population ageing, differentiated patterns of public spending, and the influence of neo-liberalism and new administrations that focus attention on development issues. In the 1980s, under the influence of neo-liberalism, the United Kingdom and the United States introduced a number of anti-interventionist measures, deregulating the economy and lowering tax rates. However, these measures resulted in further income inequality. From 2000 to 2010, the income of the richest 10 percent of the US population as a percentage of national income increased to 45-50 percent reaching that of Europe during 1900-1910. The income gap also widened in Europe, especially in the UK where the income of the richest 10 percent rose to 40 percent among the national income. [2] As the growth rate of public spending declined, social support mechanisms available to disadvantaged groups was also inhibited, causing the living conditions of low-income groups to deteriorate.

Some developing countries have gradually introduced more inclusive political and economic systems, which have brought about rapid economic growth as well as progress in other areas. However, due to the lack of a strong central authority to in still law and order, some other countries have remained caught in prolonged political divisions and civil wars. It is difficult for the latter to maintain economic growth, let alone achieve inclusive development. What is more, in some middle income Latin American countries, the absence of inclusive political

1 Thomas Picketty, *Capital in the Twenty-First Century* (The Belknap Press of Harvard University Press, London, 2014)

2 Ibid.

or economic systems has partly led to serious income inequality, causing them to become stuck as middle income countries for decades. Some of these countries have failed to achieve further development and some have fallen into decline.

Social innovation during this period was often a continuation of what had been achieved in previous years. While in developed countries, social innovation occurred due to the strengthened role of social and community organizations, in developing countries, social innovation occurred by adapting and improving measures that had already been implemented in developed countries.

Importantly, in the late 20th century, some countries and international organizations actively continued exploring how to improve levels of inclusive development. These explorations saw both successes and failures.

Since the late 20th Century, more than 20 countries have joined the group of high income countries, most of which are European countries with high level of inclusiveness. Furthermore, the entry of Japan and the "Four Tigers" into this group largely relied on social innovations for inclusive development at the same time as they were developing economically. In contrast, since the 1970s, some Latin American counties have gradually fallen into the "middle-income trap". These countries paid inadequate-attention to inclusiveness while their economies were experiencing economic growth, which resulted in severe income disparities. These income disparities caused slow economic growth and a "growth poverty" phenomenon – where an economy grows at a slow rate while poverty rates remain high. As a result of this phenomenon, the coexistence of irregular affluence and poverty occur. This sharp contrast shows that inclusive development is vital for countries aiming to avoid the "middle income trap". Moreover, in the process of achieving inclusive development, social policy and governance innovations are key.

As is evident from the social innovations that happened during the 18th century, constant social innovation gradually drives inclusive human development. At the same time, huge differences in the way social innovations were framed and carried out in different countries and over different historical periods have led to variation in levels of development in countries around the world.

1.2 RETHINKING AND REFLECTING ON INCLUSIVE HUMAN DEVELOPMENT

Since the late-20th century, as international communities have continued deepening their understanding of inclusive human development, adjustments to development concepts have occurred and investigations into inclusive human development have evolved.

National level: Exploring a new index to measure human development

After the 1970s, countries at different levels of development have deepened their understanding of development concepts and attempted to build a more accurate index to measure development. Throughout this process, the explorations of countries like Bhutan, the United Kingdom and France have remained prominent.

The King of Bhutan first proposed the concept of Gross National Happiness in 1970. The King of Bhutan, at the time, believed that the government should work towards the goal of achieving happiness for all of his citizens and that authorities should pay attention to the balance between material and spiritual well-being.

Based on this philosophy, four pillars of national development were developed by the Bhutan government: Good governance, economic development, cultural preservation, and environmental conservation.

After the 2008 financial crisis, conceptualizing-development once again became a focal point in the international community. In this context, French President Nicolas Sarkozy proposed and established the Commission on the Measurement of Economic Performance and Social Progress in 2009. This commission comprises 25 eminent experts from five countries who specialize in economics, political science, psychology and other fields. Five of them are winners of The Nobel Memorial Prize in Economic Sciences.[1] The goal of the Commission was to design a broader and more comprehensive tool than GDP to measure economic and social progress. Following Sarkozy's initiative, in 2010 British Prime Minister David Cameron directed the UK's Office for National Statistics to launch a project to develop a national happiness assessment tool, which would serve as an important public policy tool for the British government. The first results were presented in 2012. Since then, the practice of measuring development including a metric that assesses people's well-beinghas gradually spread across the globe. These programmes have had a significant impact on the development of public policies and global governance.

International organizations: Exploring multidimensional measurements of development

Since the late 20th century, international organizations have had a much larger influence on the measurement and interpretation of human development compared to national governments with regard to the measurement of people's wellbeing.

In 1990, UNDP introduced a Human Development Index (HDI), which measured national human development from three dimensions: income, education and health. UNDP now publishes annual Human Development Reports based on this index. Although the HDI includes fewer indicators than the Organization for Economic Co-operation and Development's (OECD's) Better Life Index (see below), both indices look beyond income to measure multiple dimensions of development. Moreover, since fewer indicators are used, the HDI is more operable and more impactful.

In addition to HDI, the Millennium Development Goals (MDGs) introduced by the United Nations, is another example of how international organizations have contributed tonational and international development practices. The MDGs were first proposed and adopted at the United Nations Millennium Summit held in September 2000. There were eight goals with18 associated targets and 48 indicators. The eight goals were: to eradicate extreme poverty and hunger; to achieve universal primary education; to promote gender equality and empower women; to reduce child mortality; to improve maternal health; to combat HIV/AIDS, malaria and other diseases; to ensure environmental sustainability; and to develop a global partnership for development.

The MDGs provided a new model for understanding development and taking action against a wide range of social ills. Nearly 190 countries signed and committed to the MDGs. Targets for 2015 were clearly laid out, and 1990 was set as the baseline year. The conception and implementation of the MDGs represents the first collective and integrated attempt to

1 They are Kenneth J.Arrow (1972), Amartya Amartya Sen (1998), James Heckman (2000), Joseph E. Stiglitz (2001) and Daniel Kahneman (2002). Joseph E. Stiglitz was named as the Chair of the Commission. Amartya Sen was the Economic Adviser and Jean-Paul Fitoussi, Professor of Economics at the Paris Institute of Political Studies, was the coordinator. Available here: http://www.stiglitz-sen-fitoussi.fr/en/membres.htm

improve the lives and life chances of the world's poor, [1] and has had a profound impacton the history of human development. Progress assessments of the MDGs by all countries involved were completed by 2015.

In 2012, United Nations began work to adopt a new development agenda, the "post-2015 agenda", which sets out goals to be achieved by 2030.The post-2015 agenda, or 2030 agenda, for sustainable development comprised of 17 Sustainable Development Goals and 169 targets was passed during the UN Summit in September 2015. It represents a transformational and universal agenda that differs in many ways from the Millennium Development Goals agenda set forth 15 years ago:

- It is a more ambitious agenda. It calls for the eradication of poverty, not just a 50 percent reduction to the poverty rate as dictated in the MDGs. More ambitious aspirations have also been formulated for health, education, and gender equality;
- It is a broader agenda. It goes beyond MDG-era issues – which were mainly social to encompass productivity and inclusive growth; peaceful and inclusive societies; climate change, and patterns of production and consumption for enhanced living standards. It also suggests that we live within the means imposed by our planet.
- It is a universal agenda. Although it will be implemented at the national level, where specific national priorities should be taken into account, the new agenda breaks the artificial, and increasingly outdated, divide between developed and developing countries, and calls on all countries to embrace the same set of goals.
- It is a global agenda. Achieving the post-2015 agenda implies not only taking action within national boundaries, but calls for collective action to deal with global challenges ranging from climate change to financial and economic stability, and communicable disease control.

In addition, the OECD launched its Better Life Index in May 2011. The index includes 11 dimensions of wellbeing: income, jobs, housing, education, environment, health, community, civic engagement, safety, work-life balance, and life satisfaction.The Better Life Index demonstrates the following four characteristics: Firstly, it emphasizes wellbeing over GDP, productivity and/or innovation; secondly, it focuses on inequality and examines the wellbeing of independent groups rather than the 'average' experience; thirdly, it is concerned with wellbeing as an output rather than an input, and it uses the achievement of wellbeing as an indicator; fourthly, it contains both subjective and objective measures, calculating wellbeing based on both objective living conditions and people's personal, subjective experiences.

The OECD has also developed an online testing tool, based on the Better Life Index. People can use this tool to find out how their countries measure on the 11 topics most important to them by rating these topics according to their importance. The index created as a result of this data gathering process will be used to measure citizens' personal satisfaction.

Moreover, the World Economic Forum published its Inclusive Growth and Development Report 2015 in September 2015. As part of the Forum's Global Challenge Initiative on Economic Growth and Social Inclusion, the report presents a framework consisting of seven policy dimensions and analyzes how countries can use policy incentives and institutional mechanisms to make economic growth more socially inclusive. The seven dimensions are:

- Education and skills;

1 Jonathan Rigg, *"The Millennium Development Goals", in Vandana Desai and Robert B. Potter (eds) The Companion to Development Studies* (The Commercial Press, 2014)

- Employment and labour compensation;
- Asset building and entrepreneurship;
- Financial intermediation and real investment in the economy;
- Corruption and rent seeking;
- Basic services and infrastructure; and
- Fiscal transfers

According to the authors, the report is intended to provide an actionable framework [1] for countries around the world to promote social inclusion and economic growth. This analytical framework represents another important outcome of international organizations' efforts to promote inclusive human development.

1.3 THEORETICAL EXPLORATIONS INTO ACHIEVING INCLUSIVE DEVELOPMENT

There are numerous theoretical explanations that address how development and inclusiveness should be realized. The most eminent are:

- New institutional economics;
- Inclusive institutions theory;
- State function and state strength theory;
- Development as freedom; and
- Causes of inequality and how to deal with it.

New institutional economics: Institutions and their contribution to the development agenda

According to the notion that inclusive development is promoted via social innovation, the theory of new institutional economics contributes to the canon by recognizing institutional validity as a prerequisite for development. [2] New institutional economics originated in 1937 and developed from Coase's analysis[3] of why firms exist. Coase's central argument was that institutions provide a mechanism wherein rational individuals are able to transcend social dilemmas to cooperatively establish firms, and thereby reduce transaction costs. [4] Understanding that the assumptions of neoclassical economics are irrelevant to developing countries, new institutional economics scholars suggested that, since the free market is not sufficient to ensure development, it is necessary for the government to design growth-oriented institutions in the form of development policies.

Regarding the evolution of inclusive human development, new institutional economics directs the focus of development studies to institutional innovation by identifying the importance of institutions to development. Moreover, information asymmetry, transaction costs, adverse selection, moral hazards and other concepts proposed by new institutional economics also became important foundations for international organizations' project design after the 1990s. New institutional economics was also a strong driving force for the development of social innovation methods and models after this period.

Inclusive institutions theory: Directly explaining the role of institutions to inclusive development

From an institution building perspective, the most direct theoretical explanation for inclusive human development is the theory of inclusive institutions, proposed by Daron Acemoglu and

1 World Economic Forum, *The Inclusive Growth and Development(2015)*

2 Phillipp Lepenies, *"New Institutional Economics and Development", in Vandana Desai and Robert B. Potter (eds) The Companion to Development Studies* (The Commercial Press, 2014)

3 Ronald Coase, *The Nature of the Firm (1937), The Problem of Social Cost (1960).*

4 Robert Bates, *"Social Dilemmas and Rational Individuals: An Assessment of the New Institutionalism"*, in John Harris, Jane Hunter and Colin Lewis (eds) *The New Institutional Economics and Third World Development (Routledge, London, 1995)*

James A. Robinson. [1]When analyzing the roots of inequality, poverty and overall prosperity in human society, the inclusive institutions theory is used to critique geographic/climatic determinism, cultural determinism and other similar concepts. Based on case studies conducted to demonstrate the real-life development experiences of several countries, the theory proposes that for a country to eliminate poverty and achieve sustained economic development and social prosperity, the establishment of inclusive political and economic institutions of which the former play a more fundamental role is necessary.

The theory of inclusive institutions points out that choices made by institutions, i.e. the political processes required to build institutions, are critical for explaining why some countries decline. To achieve sustained economic growth, the key is to design proper economic institutions that exploit the full potential of inclusive markets, encourage technological progress, invest in people, and utilize the ingenuity and skills of citizens.This relies on economic institutional arrangements that encourage the protection of private property rights, support covenants, create a level playing field, and ensure smooth entrance of new companies into market competition. To build such economic institutions requires well-structured political institutional arrangements. As such, inclusive political institutions underpin inclusive economic institutions, support creative destruction and sustainable innovation, and the latter directly leads to comprehensive social development and progress. Furthermore, this theory recognizes the coexistence of centralization and pluralism within inclusive political institutions. Pluralism ensures effective representation of the interests of each group in society, while centralization of power ensures that the state has the capacity to maintain order, implement policies and formulate appropriate response measures.

Lastly, this theory suggests that in general, inclusive institutional arrangements are composed of three elements:the protection of private property rights and the freedom to conduct desired economic activities; a fair and equitable legal system to ensure that the rights of all citizens are equally protected; necessary public services provided by the government to bring prosperity to all members of society.

State function and state strength theory: Explaining the importance of institutions to inclusive development – another perspective

Similar to the theory of inclusive institutions, the theory of 'state function and state strength' looks at the way national institutions contribute to development from another perspective. Francis Fukuyamais the leading contemporary expert that advocates this theory.

According to this theory, to ensure that political institutions evolve towards inclusive human development, it is necessary to strike a balance between the state, rule of law and accountability, which allows each to play their respective roles effectively. [2] Among them, the state is the most important.

With respect to the state, this theory argues that we should distinguish between two dimensions: state function and state strength. The former mainly refers to the various functions and actions taken by the government; the latter refers to the ability of the state to develop and implement policies and enforce laws – this is usually referred to as state capacity or institutional capacity. Furthermore, this theory stresses that a distinctive feature of politics in the 20th century has been the long-lasting de-

1 Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*(Crown Publishers, New York, 2012).

2 Francis Fukuyama, *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy* (Farrar, Straus and Giroux, New York, 2014)

bate regarding how large and powerful a state's strength should be. [1]

Based on the World Bank's World Development Report 1997 which categorized state functions into minimal, intermediate and activist functions, the theory of state function and state strength further develops these classifications. Within the analytical framework of the theory of state function and state strength, minimal functions include: providing pure public goods, defense, law and order, protection of property rights, macroeconomic management, public health, improving equity and protecting the poor. Intermediate functions include: addressing externalities, education, environmental protection, regulating monopoly, vocational education, insurance, financial regulation and social insurance. Activist functions include: industrial policies and redistribution of wealth. Institutional capacity, as defined by this theory, includes the ability to formulate and carry out policies and enact laws, to administer efficiently, to control malpractice, corruption, and bribery, to maintain a high level of transparency and accountability in government institutions and, most importantly, to enforce laws.[2]

In addition to the above two dimensions, the theory outlines where countries should be positioned in terms of state functions and state strength. The results show that from an economic growth perspective, narrow state functionand great state strength is probably the ideal combination; however, from an inclusive human development perspective, wide state function and great state strength is optimal. This theory also points out that a state with very broad state function but with limited state capacity would be the worst possible scenario.

Since the 1980s, many countries have been opposed to the idea of "big government". [3] Significant attempts were made to move some activities under the remit of the state into private markets or civil society. However, in developing countries, the weakness and incompetence of governments or anarchy has been the root of many serious problems; stagnation and deterioration that has occurred in developing countries during this period can be attributed to narrowing state functions, while building and enhancing state-capacity has not materialized.[4]

Both the theory of state function and state strength and the theory of inclusive institutions analyze the inclusiveness of development from the perspective of institution building at the state level; they also attempt to explain the causes of failure in some countries. In some respects, these two theories are markedly similar. For example, when explaining the deterioration of development performance in newly independent developing countries after the mid-20th century, the theory of inclusive institutions suggests that deterioration has often happened when countries have lacked the required centralized power to maintain state order and implement necessary policies, and thus have not been able to provide basic support for inclusive human development. Similarly, the theory of state function and state strength attributes the failure of these countries to their lack of state capacity. Moreover, both of them convey relatively negative sentiments towards the role of international organizations performed during the 1980s. According to the theory of inclusive institutions, when borrowing inclusive economic institutions from other nations, countries often fail to take into account the fundamental importance of inclusive political institutions. The theory of state function and state strength argues that these countries only follow the recommendations of international organizations

1 Francis Fukuyama, *State-Building: Governance and World Order in the 21st Century*(China Social Sciences Press, 2007)

2 *Ibid.*

3 See Rose and Peters, *Can Government go Bankrupt? (1977) or The Welfare State in Crisis* (OECD, 1981)

4 Francis Fukuyama, *State-Building: Governance and World Order in the 21st Century* (China Social Sciences Press, 2007)

to reduce state function, but do not promote statebuilding, the purpose of which is to improve state capacity.

Development as freedom: Attempting to understand the inclusiveness of development from a human centered perspective

Compared to the theory of inclusive institutions and the theory of state function and state strength, both of which look at development from the macro or statelevel, the theory of development as freedom provides a human centered and more micro-level view of development. Amartya Sen is a canonical theorist in this field. [1]

According to Sen, development should be seen as a process that focuses on expanding the freedoms that people enjoy, and various types of "unfreedom" that leave people with few choices and opportunities to exercise their agency should be removed. Freedom is not only the primary purpose of development butan indispensable tool for promoting development. To expand the freedoms enjoyed by members of society, personal income growth is very important. However, freedom also depends on other determinants, such as social and economic arrangements (education and health facilities), as well as political and civil rights (participation in public discussions, etc.). Development requires the removal of major sources of unfreedom, including poverty as well as tyranny, poor economic opportunities, systematic social deprivation, neglect of public facilities as well as intolerance and excessive intervention of repressive states.

The theory of development as freedom points out that "freedom" is defined in a substantive sense and represents the practical ability to choose the life one has reason to value.Substantive freedom includes the basic ability to be free of hardship (such as hunger, malnutrition, preventable diseases and premature death). Freedom alsoincludes "political interest", which includes possessing literacy and numeracy skills, and the ability to enjoy political participation. For example, the unemployed should be eligible to relief, people with an income below the minimum level should be able to access grants, and every child should have access toan education.

Within the theoretical framework of development as freedom, "freedom" plays a fundamental role in development: freedom is a constitutive part of social value and development; freedom is intrinsically valuable and thus does not need to display its value through its association with other valuable things or through its role in promoting other valuable things. The five most important freedoms instrumental to development are: political freedom, possessing economic facilities, social opportunities, transparency and security. These five instrumental freedoms not only contribute to the general ability of people to live more freely, but they also complement each other. [2]

Furthermore, the theory points out that the 20th century established democratic and participatory governance as the best model of political organization. A precondition for the success of market mechanisms is that opportunities offered by market mechanisms must be reasonably shared. To make this happen, a state needs appropriate public policies to provide basic education and universal access to primary healthcare facilities and to ensure that there are sufficient resources (e.g. land) that are critical to certain economic activities (e.g. agriculture). To achieve social equity and justice, the far-reaching power of the market must be supplemented by the creation of basic social opportunities. Therefore, for developing countries in particu-

1 Amartya Sen, *Development as Freedom* (Renmin University Press, China, 2012)

2 Amartya Sen, *Development as Freedom* (Renmin University Press, China, 2012).

lar, it is extremely important to create opportunities through public policy innovations. [1]

Development as freedom provides a new perspective for understanding and measuring development, and has revolutionized development theories and practices.

Causes of inequality and how to deal with it: Discussing the cause and impact of the lack of inclusiveness in development and how to address it

In recent years, when analyzing how to increase the inclusiveness of development, some economists have conducted systematic studies, from a more comprehensive perspective, on the causes and impacts of inequality and the strategies required to address it. The two most prominent economists recently working in this area are Thomas Piketty[2] and Joseph Stiglitz. [3,4]

Thomas Piketty has conducted pioneering studies on long-term inequality trends and the factors underlying these trends. Based on an analysis of wealth data relating to European and American countries over the past three hundred years, he argues that inequality has been expanding in all countries since the end of WWII and that it will soon become more damaging. He also argues that the amount of wealth owned by an individual depends not only on labour but more on inherited wealth. Therefore, family background outweighs hard work and talent in terms of wealth possession.

Piketty also notes that due to economic growth and the dissemination of knowledge and skills, extreme inequalities, as predicted by Karl Marx, have not occurred in today's societies, but deep-seated wealth and income inequalities remain unchanged. Returns on capital have been higher than economic growth rates for a long time; this reinforces income inequality and may threaten the values of modern democracy. One of Piketty's main solutions to the problem is to use political institutions and means, that is, to introduce a progressive tax on wealth globally to curb the rich-poor divide and income inequality.

Piketty's research results are clearly explained in his book Capital in the Twenty-First Century, which is regarded by some economists as "one of the most important economic books ofthe past decade". [5] Therefore, this report discusses the role of taxation in addressing income inequality in China in later chapters.

Like Piketty's studies on wealth and income inequalityand the factors affecting these trends, Joseph Stiglitz focuses on the impacts of inequality and the corresponding mechanisms to eradicate it.

In his book The Price of Inequality, [6] he presents a comprehensive agenda for creating a more dynamic economy anda fairer and more equal society. His critical analysis is mainly concerned with developments in America, and how what is happening there relates to what is happening elsewhere in the world. In his The Great Divide: Unequal Societies and What We Can Do About Them [7] Joseph Stiglitz widens his perspective on how to deal with America's growing inequality and social divisions.

1 Ibid.

2 Thomas Piketty, born in 1971, is a French economist who works on wealth and income inequality. He is currently Professor at the Paris School of Economics and Directeur d'études at the L'ecole des Hautes Etudes en Sciences Sociales (EHESS). In 2013, he received the Yrjö *Jahnsson Award, an award given to European economists under the age of 45 "who have made a contribution in theoretical and applied* research that is significant to the study of economics in Europe".

3 Joseph Stiglitz, born 1943, is a US economist and currently Professor at Columbia University in New York. He was Chief Economist at the World Bank until January 2000. He was awarded the Nobel Memorial Prize in Economic Sciences in 2001.

4 In fact, apart from Thomas Piketty and Joseph Stiglitz, some other economists have also made significant contributions, including Anthony B. Atkinson. See Anthony B. Atkinson, *Inequality: What can be done?*(Harvard, 2015)

5 Thomas Piketty, *Capital in the Twenty-First Century* (CITIC Press, China, 2014)

6 Joseph Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (W. W. Norton and Company, New York, 2012).

7 Joseph Stiglitz, T*he Great Divide: Unequal Societies and What We Can Do About Them*(W.W. Norton and Company, New York, 2012)

Overall, Stiglitz asserts that badly regulated markets are neither efficient nor stable and tend to amass wealth in the hands of the few. Money given to those at the top does not necessarily "trickle down" and turn into job creation and innovation. Competition is hampered, thus producing slower growth and lower levels of GDP. Extensive and growing inequality is inefficient and bad for both the economy and for growth. Markets are shaped by politics, and political institutions and policies often shape and strengthen inequality. He argues that an efficient system of social protection is an important part of any modern society. Stiglitz observes that many countries with comprehensive social security systems and with policies that promote egalitarianism in terms of income and wealth distribution, health and education, have been growing much more rapidly than countries like the United States where social protection is less comprehensive. He argues that the economy as a whole would be better off if there was less inequality, and that those at the top would also profit from a more equal society. Policies that would simultaneously increase growth and equality are achievable. More efficient economies and fairer societies are created by making markets more competitive and less exploitative. Politics can help make markets and the economy more efficient and can ensure that society is less divided. The economic reform agenda he proposes would, he argues, simultaneously increase economic efficiency, fairness, and opportunity. He observes that "Historically, early stages of growth are often marked by large increases in inequality, as some parts of the country grow faster than others, and as some individuals are better equipped to cope with modernization than others. This growth of inequality is certainly apparent in China, but it is far from inevitable".

Stiglitz' reform agenda would primarily address the situation in America, but it also includes elements of general interest to many other countries. It encompasses the following components: (1) control excesses at the top of society by curbing the financial sector; introduce stronger and more effectively enforced competition laws; improve corporate governance; introduce comprehensive reform of bankruptcy laws; end government giveaways – whether this includes public assets or procurement trends; end corporate welfare – including hidden subsidies; legal reform – promoting democratizing access to justice, and preventing an arms race; (2) reform tax by creating a more progressive income and corporate tax system; create a more effective estate tax system to prevent the creation of a new oligarchy; (3) help the rest of the population through improving access to education; help ordinary Americans (i.e. citizens) save; provide healthcare for all; strengthen other social protection programmes; (4) temper globalization by creating a more level playing field and ending the race to the bottom; (5) restore and maintain full employment with the help of fiscal and monetary policies and correct trade imbalances; design active labour market policies and improve social protection; (6) implement a new social compact through which workers' and citizens' collective action is supported; support affirmative action, which would eliminate the legacy of discrimination; and finally (7) restore sustainable and equitable growth with a policy based on public investment; redirect investment and innovation to preserve jobs and the environment.

The above theories shed light on the importance of institutional design to understanding and achieving inclusive development. New institutional economics firstly stresses the importance of institutions, while the theories of inclusive institutions, state function and state strength, and development as freedom, respectively explain institutional mechanisms from perspectives of the state and the individual. Moreover, in terms of understanding inclusiveness trends, and how to rectify inequality and enhance in-

clusive development, Thomas Piketty and Joseph Stiglitz have provided critical insights into institutional design from different perspectives.

Additionally, the abovementioned theories demonstrate two approaches to development. One is a bottom-up approach, such as Amartya Sen's theory, which focuses on people's livelihoods and considers direct support for underprivileged groups to be a key priority. The other is top-down, which considers policy design, mechanism building and super structures as crucial to development — such as Francis Fucuyama's theory. This report believes that the above mentioned approaches are key to inclusive development, and that they are complementary to each other. Therefore, this report will adopt both approaches to inform examinations of innovations at the grassroots level and discussions about institutional design.

1.4 RECENT THEORY EXPLORATION AND SOCIAL INNOVATION PRACTICES BY CHINA

Since its foundation in 1949, China has made a series of explorations to achieve inclusive development. The Chinese government has adjusted and improved its development plans and has designed and promoted new development concepts. These explorations have considerably boosted China's development, and have bolstered China's experience of promoting inclusive human development through social innovations.

Theoretical explorations: introduction of multi-dimensional development and shared development

Since the establishment of the People's Republic of China in 1949, eradicating inequality has been one of the core goals of China's economic and social development. The Chinese government has not only eliminated class differences via public ownership, but has also introduced policies that have gradually ameliorated urban-rural differences, worker-farmer differences and differences between manual and non-manual workers. China stresses the importance of economic growth and the enhancement of citizens' material living standards, and is striving for social developments in areas such as education and health.

Since the start of the reform and opening-up, China's development goals have been consistently adjusted and improved. The idea of "promoting economic, political and cultural progress" was proposed at the Sixth Plenary Session of the 12th Communist Party of China (CPC) Central Committee in 1986. Following this at the Sixth Plenary Session of the 16th CPC Central Committee in 2006, the idea was to "promote economic, political, cultural and social progress" and to "promote economic, political, cultural, social, and ecological progress" – an idea launched at the 18th CPC National Congress in 2012. This evolution of ideas demonstrates that the Chinese government has enhanced its understanding of development over a number of years. Along with this evolution of concepts, the Chinese government has placed more emphasis on inclusive development, and introduced core concepts such as "Harmonious Society", "Scientific Outlook on Development" and "Shared Development".

In 2004, the CPC set the goal of social development to build a harmonious socialist society, which refers to a state of society characterized by harmony, peace, and working together. On September 19 2004, the Fourth Plenary Session of the 16th CPC Central Committee officially introduced the concept of "building a harmonious socialist society". Since then, the concept has been abbreviated to as "Harmonious Society" in China.

The concept of "Harmonious Society" involves multiple dimensions, including harmony among individuals, harmony between people, harmony between different sectors and strata of society, harmony between individuals, society and nature, and harmony between individual countries (i.e. China) and the outside world. According to theoretical explanations, in this new historical period, efforts to promote socialist cultural and ethical progress should be built around the long-standing ideals of peace and harmony, and building societies where all people live in harmony and govern the nation together.

Compared with the concept of "Harmonious Society", the "Scientific Outlook on Development" explains the Chinese government's ideal development model directly. It was proposed by then General Secretary of the CPC Central Committee Hu Jintao in his speech on July 28 2003. In his words, this concept meant "putting people first, pursuing all-round, balanced and sustainable development, and promoting the all-round development of the economy, society and people. In practice, this concept stresses the importance of coordinating development between urban and rural areas, development between regions, between the economic and social sector, between man and nature, and development domestically and internationally to push forward comprehensive reforms. At the 17th CPC National Congress in 2007, the "Scientific Outlook on Development" was written into the CPC Constitution as part of the Chinese government's theoretical guidance. According to Hu Jintao, development was the top priority people mattered most, all-round, balanced and sustainable development was a basic requirement and coordination was the fundamental means of achieving this goal.

New development concepts including "Shared Development" were proposed in the China's 13th Five-Year Plan adopted by the Fifth Session of the 18thCPC Central Committee in November 2015. "Share Development" refers to engagement and participation, and to enjoying economic and social development. It aims to build a comprehensive and moderately prosperous society by 2020, and stresses the fundamental principles of improving institutional reforms, guiding public expectations, equality of opportunity, and improving basic living standards. "Shared Development" will be the primary guiding principle for improving people's living standards in future.

Evolvement of Social Innovation: Changes since 1949

China's social innovations for inclusive human development over the last sixty years can be divided into three phases, which the author will refer to in the rest of this report.

Phase I lasted from the 1950s to the 1970s. During this period China achieved a low level of development that featured high inclusiveness

After its establishment in 1949, the PRC China launched a series of socialist transformations, replacing its economic and social systems with a planned economy, characterized by public ownership. It also introduced land system reforms, which brought land under collective, national ownership and ensured that farmers would have equal land-use rights. During this phase, almost all sectors of China's economy and society underwent egalitarian-oriented innovations, where a series of new systems were designed and implemented. As a result of these institutional changes, China's Gini coefficient declined from 0.558 in 1953 to 0.317 in 1978. [1]

Social innovation and human development during this phase featured fairness by "egalitarian distribution". A comparatively high level of inclusiveness was achieved at the expense of

1 *See the database ALG of 166 countries' Gini Coefficient between 1950 and 2012* (2014 version), Branko Milanovic.

a relatively low level of development, because little attention was paid to efficiency. Nonetheless, many of the institutional innovations during this phase laid solid foundations for China's future development. For instance, healthcare systems, which provided community-level care, were established during this phase. This improved Chinese citizens' health substantially and was thus recognized by some international organizations as an example for other developing countries. Amartya Sen spoke highly of China's institutional improvements during this phase. In his book Development as Freedom, Sen clearly points out that "China has always been one of the contemporary world's forerunners in promoting social reforms, especially through huge progresses in educational expansion, change of healthcare system and land reform. The complementarity between social progress and economic growth has been testified by China's recent history. Thanks to the progress in the abovementioned three aspects, China has gained required strength at the onset of its reform and opening-up campaign and also become capable of capitalizing on market discriminatively in the process of development."

Phase II spanned from the 1980s – after the reform and opening-up period– to the end of the 20th century, during which China achieved fast development,with limited inclusiveness

During this phase, China gradually introduced and improved its market economy, which helped to mobilize citizens and enhanced efficiency moving away from the egalitarianism that was imposed in Phase I. Seeking a faster rate of development, the Chinese government proposed a principle of "giving priority to efficiency with due consideration to fairness" with a goal of "encouraging some people to get rich first" in 1980s. The plan was to "promote economic, political and cultural progress" proposed at the Sixth Plenary Session of the 12th CPC Central Committee in 1986. During this phase, China's social innovations were designed to improve efficiency. In light of the wide differences between regions with regard to natural resources, the Chinese government devised differentiated policies for different regions and populations. Such a move helped to stimulate the Chinese economy by an average annual rate of over 10 percent; it also resulted in an increasingly widening income gap among different population groups. As rural-urban disparities widened, China's Gini coefficient rose from 0.317 in 1978to what was widely considered as an alarming level of inequality – 0.4 – in 1993. At the same time, with the introduction of the market economy, state responsibilities began to narrow and some local governments cut their spending on health and education. As a result, despite maintaining high rates of economic growth, China lagged far behind other countries regarding social development, and the inclusiveness of China's development was limited. However, rapid growth during this phase undeniably brought considerable social benefits to the country. On one hand, there was a rapid decrease in the number of poverty-stricken citizens in China. On the other hand, rapid economic growth generated substantial government revenues, laying a foundation for the government's efforts to advance social progress, expand administrative functions, and increase spending in later phases.

Phase III began with the start of the 21st century. During this phase, China focused on enhancing the inclusiveness of development, giving due consideration to levels of growth

Since the beginning of the 21st century, to address problems such as wide income gaps and lagging social development, China aimed to achieve inclusive development, by introducing guidelines for improving social equity and justice and by putting people first; it also highlighted the principle of "paying equal attention to

efficiency and equity". During this phase, social innovation in all fields was intended to ensure that people benefitted equally from China's development, that is, to make development more inclusive by paying more attention to social equity. Specifically, the Chinese government has gradually scaled up its support to rural areas and disadvantaged groups, rebuilt its public health system, fulfilled its responsibility to provide education at all levels, put in place a sound pension system covering the whole country, and progressively expanded its state functions without reducing its state strength. In addition, China has made active efforts to develop indices to measure people's wellbeing, seeking to establish an index that can measure social development in an all-encompassing way. In addition to elevating its levels of development, such social innovation has made development in China increasingly inclusive. As a result, urban-rural income ratios in China dropped to 2.73 in 2015 after reaching its peak of 3.33 in 2009. China's Gini coefficient also fell to 0.462 in 2015 after hitting its peak of 0.491 in 2008.

The above analysis reveals that during each phase China's social innovations have served to tackle problems that occurred in preceding phases. This phenomenon, where social issues lead to social innovations, is fairly common. As a result of corrective mechanisms, China has gradually, but successfully, improved its inclusive human development.

CHAPTER 2

SITUATIONS AND CHARACTERISTICS OF HUMAN DEVELOPMENT IN CHINA

Key Messages

- **China's HDI has significantly improved and China has already reached a high level of human development.**
- **Compared to most countries in the world, China's progress should be attributed to rapid economic growth that has played a critical role in enhancing human development. Although the contribution of social policies is insufficient to fully explain this improvement, its impact has been significant on levels of human development in China.**
- **While citizens' income levelshave significantly increased in China, the income gap has widened between the poor and the rich. Economic inequality is particularly prominent in China compared with other countries, and is likely to worsen if not addressed imminently.**
- **Inequalities of opportunity and outcome in health and education have diminished, but discrepancies between regions and urban/rural areas remain large.**

2.1 CHINA'S HUMAN DEVELOPMENT ACHIEVEMENTS

China has made tremendous progress in human development since the reform and opening up campaign was launched at the end of 1970s. As per the Human Development Report 2015 published by UNDP, China's Human Development Index (HDI) reached0.727 in 2014, ranking 90th among 188 countries/regions, indicating that China has entered a phase of high human development. Reflecting upon the past 30 years, China in the 1980s was in the group of countries with low human development. [1]After 1995 China was classified as having a medium level of human development, finally achieving

1 According to the latest criteria of the UNDP, HDI below 0.550 indicates low human development, HDI between 0.550 and 0.699 means medium level of human development, and HDI between 0.700-0.799 implies high-level human development. HDI above 0.800 means super high human development.

high-levels human development in 2011. After 2008, China's HDI exceeded the world average (see Figure 2.1). Out of 47 countries in the low human development group in 1990, China is the only country that has moved into the high level group. [1]

Indeed, human development in China captures several key indicators such as income, poverty reduction, health, education and socio-political participation. Its success is also evident in its achievement of the Millennium Development Goals (MDGs) (see Box 2.1). [2]

PROGRESS ON INCOME GROWTH AND POVERTY REDUCTION

Thanks to three decades' worth of rapid economic growth, China has become the second largest economy in the world. In terms of per capita GDP, China has become an upper-middle-income country (according to World Bank-criteria); [3] itsper capita GDP reached US$7620 (current prices) in 2015, at the same time as its per capita GNP reached US$7580 (current prices). The per capita disposable income of urban residents increased from RMB343 in 1978 to RMB29,381 (US$4,800 in current prices) in 2014 and the per capita net income of rural residents[4] grew from RMB133.6 to RMB9,892.0(US$1,600 in current prices), [5] increasing by 13.1 and 14.00 times respectively if adjusted for inflation. Citizens' material livelihoods also drastically improved; most households have escaped the poverty trap and now lead a moderately prosperous life. An increasing number of families are also becoming rich. According to a research report compiled by the Development Research Center of the State Council and the World Bank (China 2030), despite its economic slowdown in 2015, China is likely to join the group of high-income countries and become the world's largest economy by 2030. According to international poverty alleviation criteria, [6] 660 million people were lifted out of poverty from 1978 to 2010, [7] which represented a huge contribution to the world poverty alleviation cause. According to China's poverty alleviation criteria, [8] 250 million rural poverty-stricken people were lifted out of poverty over the same period.In 2011, China raised its national poverty line to RMB2,300 per annum(constant price levels in 2010) [9] – according to this poverty line, there were 166 million poverty-stricken rural residents that year. This number had nearly halved to 55.75 million by2015,[10] just four years later.

HEALTH IMPROVEMENTS

Chinese people enjoyed comparatively good health conditions before the reform and opening up, with almost all health indicators far above the average levels of other developing countries. China's health indicators have continued to improve since the 1980s.

1 *Human Development Report (UNDP, 2014)*

2 *For details of China's MDG progress please refer to a separate progress table for each goal in the annex of this report.*

3 *As per the World Bank's classification in 2014, countries with per capita GNP below US$1,045 are low-come countries, those with per capita GNP between US$1,045 AND US$4,125 are mid and low-income countries, those between US$4,125 and US$12,746 are mid and high-income countries, and those with per capita GNP higher than US$12,746 are high-income countries.*

4 *For a long time, China has used disposable income as a way to measure urban residents' income (and the net income of rural residents). Net income, as a result of primary distribution, does not include income transfers, such as pensions, medical care or insurance. Disposable income is the final result of primary and secondary income distribution. Transfer expenditure, like spending on public goods, donations and penalties, have not been considered before but augmented the living standards of peasants. Therefore disposable income was used by peasants for final consumption, non-compulsory spending and deposits. Since the fourth quarter of 2012, the National Bureau of Statistics has integrated measures for urban and rural households, which used to be separate, and collected data about the disposable income of rural residents. The per capita disposable income of rural residents was RMB 10,488.9 in 2014, slightly higher than net income.*

5 *China Statistical Yearbook (2015).*

6 US$1.25 per day, the poverty standard set by the World Bank.

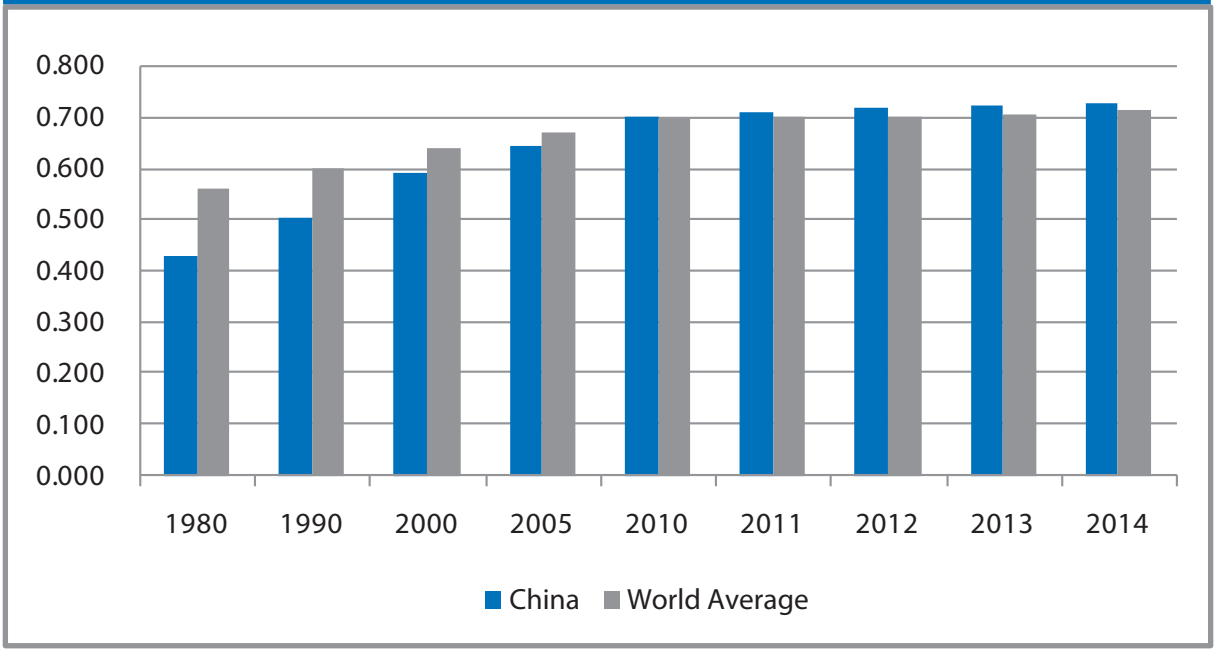
7 *"China's Poverty Alleviation Efforts See Great Achievements",* http://www.scio.gov.cn/xwfbh/xwbfbh/wqfbh/2014/20140127/zy30356/Document/1362130/1362130.htm

8 The poverty standard for rural residents was RMB100 in 1978, and was increased year by year. It was enhanced to RMB 625 and RMB1,274 respectively in 2000 and 2010, and significantly to RMB2,300 in 2011 (at the constant price in 2010).

9 Surge from RMB1,274 to RMB2,300 (as per the constant price in 2010).

10 *National Bureau of Statistics of the People's Republic of China, Statistical Communiqué of the People's Republic of China on the 2015 National Economic and Social Development(2015).*

Figure 2.1 Changes in China's HDI and the World Average



Source: Statistical Annex 2, Human Development Report 2015 and 2014 by UNDP.

China's average life expectancy increased from 67.9 in 1981 to 74.8 in 2010, which was above the world average life expectancy of 70. Between 2000 and 2010 life expectancy further increased by 3.4 years, suggesting accelerated progress (see Table 2.1).

The infant mortality rate[1] dropped from 50.2percentin 1991 to 8.9percentin 2014.[2]China's maternal mortality rate declined by 75.6percent,from 88.8/100,000 in 1990 to 21.7/100,000 in 2014.[3] China successfully achieved some of the UN Millennium Development Goals (MDGs) ahead of schedule.

PROGRESS IN EDUCATION

China's illiterate population accounted for 80 percent when the People's Republic of China (PRC) was founded in 1949. [4] By 2011, when a universal nine-year compulsory education policy was introduced and the elimination of illiteracy among young and middle-aged citizenswasrealized, the illiteracy rate among young and middle-aged people had fallen to 1.08 percent. [5]

The net enrollment rate of school-age children into primary schools has reached and maintained levels above 99 percentover the past decade, reaching 99.81 percent in 2014, with net enrollment rates for boys and girls at 99.8 percent and 99.83 percent respectively. [6] Gross enrollment rates[7] into middle schools increased from 88.6 percent [8]in 2000, to 103.5 percent

1 The proportion of infants who die within one year after their birth (out of the total newborns).

2 *China Statistical Yearbook(2015)*

3 Ibid.

4 Minister of Education Zhou Ji, *China 60 Years: Education Shapes A Nation, a series of interviews with ministers of the PRC on Education* (People's Daily, August 27, 2009)

5 Yuan Guiren, *Education is the Fundamental Task: The Development of Education Reform since the 16th National Congress of the Communist Party of China* (People's Publishing House, 2012)

6 *Statistical Bulletin of Education Development in China (2014),* available here: http://www.moe.edu.cn/jyb_xwfb/gzdt_gzdt/s5987/201507/t20150730_196698.html

7 The gross enrollment rate refers to the proportion of students in specific grade in the total population at corresponding school age, regardless the age of the student; therefore, this figure might be over 100 percent.

8 *Statistical Bulletin of Education Development in China in 2000,* http://www.moe.edu.cn/publicfiles/business/htmlfiles/moe/moe_372/200407/843.html

Table 2.1 China's Average Life Expectancy in years			
Year	Average life expectancy		
	Total	Male	Female
1973-1975	-	63.6	66.3
1981	67.9	66.4	69.3
1990	68.6	66.9	70.5
2000	71.4	69.6	73.3
2010	74.8	72.4	77.4

Source: China Health and Family Planning Yearbook in 2014.

in 2014.[1] People receiving China's nine-year compulsory education[2] reached 93.0 percent in 2015. Gross senior high school enrollment rates increased from less than 50 percent in 2000 to 87.0 percent in 2015, and gross enrollment rates into higher education grew from around 10 percent in 2000 to 40.0 percent in 2015.[3] In 2014, the working age population (20-59) that had received a high-school education accounted for 15.83 percent. By 2015, the gross enrollment rate of China's three-year pre-school education had increased significantly from 50.9 percent in 2009 to 75.0 percent.

PROGRESS IN CHOICE AND PARTICIPATION

China's human development progress is not onlyevident in terms of income growth, poverty reduction, healthcare and educational attainment, but also in the number of options available to people and expanding participation in economic, social, and political affairs.

Along with improvements to China's market economy since the 1980s, China's planned economy has since disbanded, offering people the freedom to choose their occupation and making occupational mobility possible.[4] Individuals are now afforded more opportunities to realize their potential and to develop professionally. This has played a critical part in driving China's remarkable economic success.

Since the 1980s, China has encouraged community autonomy in rural and urban areas by devolving more responsibilities to local governments and communities, which has helped residents to participate in political and social affairs. As reforms to state and social governance came onto the agenda, the government has steadily supported the development of social organizations [5] and opened channels to encourage the public to participate in decision-making and consultation exercises. Each of these reforms has enhanced citizens' involvement in national affairs. [6]

2.2 CHARACTERISTICS OF CHINA'S HUMAN DEVELOPMENT: FROM THE HDI ANGLE

China has achieved tremendous results in terms

1 *Statistical Bulletin on Educational Development in China (2014)* http://www.moe.edu.cn/jyb_xwfb/gzdt_gzdt/s5987/201507/t20150730_196698.html.

2 The percentage of students in graduating classes at middle schools, and total enrollment at primary schools.

3 *National Bureau of Statistics of the People's Republic of China, Statistical Communiqué of the People's Republic of China on the 2015 National Economic and Social Development.*

4 The household registration system still prevents the migrant population from enjoying all local services and rights, but does not restrict employment.

5 A social organization is similar to a non-governmental organization. Originally termed "civil organizations", and renamed "social organizations" in China from 2007. Social organizations currently include social groups, foundations, private non-enterprise units (mainly non-profit organizations that provided social services such as education, health etc.).There were 6.6 million social organizations in China by the end of 2014.

6 This will be discussed in chapter 3 in more detail

Box 2.1 Progress towards MDGs in China

In September 2000, 189 member states attended the UN Millennium Summit, which adopted the UN Millennium Declaration. The Declaration set a series of detailed objectives, the so-called Millennium Development Goals (MDGs). The MDGs cover many areas such as the economy, society and the environment. Measurement of the MDGs began in 1990 and ended in 2015. These goals have been the main criteria for measuring the progress of global development, and have formed an important framework for promoting international development cooperation; as a result, they have been widely accepted and adhered to globally. The UN set indicators to separately monitor goals in eight different areas, and submitted MDG progress reports on a regular basis. In July 2015, the Chinese government and the United Nations (UN) System in China jointly published the Report on China's Implementation of the Millennium Development Goals (2000-2015), which reflected on China's progress in achieving several MDGs over 15 years. The MDG table below summarizes China's progress.

Goals and targets	Current Situation	Detailed data
Goal 1: To eradicate extreme poverty and hunger		
Target 1A: Halve, between 1990 and 2015, the proportion of people whose income is less than US$1.25 a day	Already met	The number of poverty-stricken people in China decreased by 439 million, from 689 million in 1990 to 250 million in 2011.
Target 1B: Achieve full and productive employment and decent work for all, including women and young people	Basically met	The number of employed people in China was 773 million in 2014; or 393 million urban residents. From 2003 to 2014, 137 million new jobs were created in urban areas. This reduced the unemployment rate, which over the past ten years has remained below 4.3 percent. In 2014, the number of female employees has remained at 44.8 percentof employees nationwide. Initial employment rates of college graduates were continuously above 70 percent until 2014.
Target 1C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Already met	The number of people with malnutrition made up 23.9 percent of China's entire population between 1990 and 1992. This figure declined to 10.6 percent between 2012 and 2014, by the number of 138 million people.
Goal 2: To achieve universal primary education		
Target 2A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Already met	China has fully implemented a nine-year free compulsory education system, with a net enrollment rate for primary-school-age children that increased from 99.1 percent in 2000 to 99.8 percent in 2014. China's illiteracy rate dropped from 6.7 percent in 2000 to 4.1 percent in 2014.
Goal 3. To promote gender equality and women empowerment		
Target 3A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	Already met	Since 2008, the net enrolment rate at primary schools has been above 99 percentfor both boys and girls. China has practically eliminated gender disparities in primary and secondary school education.
Goal 4. To reduce child mortality		
Target 4A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	Already met	In 2013, the mortality rate of children under 5 in China stood at 12.0 percent; 80.3 percent lower than the rate in 1991. In 2013 the mortality rate of newborns was 6.9 percent; 79.2 percent lower than in 1991; and the mortality rate of infants in 2013 was 9.5 percent; 81.1 percent lower than in 1991.
Goal 5. To improve maternal health		
Target 5A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	Already met	The national maternal mortality rate (MMR) fell from 88.8 in 100,000 in 1990 to 23.2 in 100,000 in 2013. This represents a drop of 73.9 percent. The proportion of urban MMR to that of rural areas narrowed from 1:2.2 in 1991 to 1:1.1 in 2013.
Target 5B: Achieve, by 2015, universal access to reproductive health	Basically met	The rate of systematic maternal management in China stood at 89.5 percent in 2013, while prenatal care and postnatal care reached 95 percent and 92.6 percent respectively in 2012.
Goal 6. To combat HIV/AIDS, malaria and other diseases		
Target 6A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	Basically met	The annual incidence (of HIV/AIDS) growth rate began to slow from 2012, and the prevalence of the disease has been contained – spread of the disease is mostly controlled.
Target 6B: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it	Basically met	Over 80 percent of people that meet HIV/AIDS treatment standards have received standardized antiviral treatment. The fatality rate has been reduced from 33.1 percent in 2003 to 6.6 percent in 2013.
Target 6C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	Basically met	In 2014, China saw 889,400 new cases of tuberculosis, a decline of six consecutive years since 2008. In 2014, China saw 3,149 new cases of malaria, 97.7 percent of which were imported from outside China. China is committed to eliminating malaria across the country.
Goal 7. To ensure environmental sustainability		
Target 7A: Integrate the principles of sustainable development into country policies and programs, and reverse loss of environmental resources	Basically met	Since 2000, with a focus on sustainable development, China has promulgated and amended a series of its laws and regulations; some of which have been incorporated into the government's five-year plans for national economic and social development.
Target 7B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss	Unfulfilled	The percentage of threatened fauna and flora is still relatively high in China. The government environmental protection protects 90 percent of China's land ecosystems, 85 percent of its wildlife and 65 percent of its rare plants, 25 percent of its natural forests, over 50 percent of its natural wetlands and 30 percent of its deserts.
Target 7C: Halve, by 2015, the proportion of the population without sustainable access to safedrinking water and basic sanitation	Already met	By 2012, the proportion of China's population with access to improved safe drinking water had reached 92 percent; the proportion of the population using improved toilet facilities had reached 84 percent.
Target 7D: Achieve, by 2020, significant improvement in the living conditions of around 100 million slum dwellers	Probable	By the end of 2014, China's national and local governments had resolved systemic housing issues for over 40 million urban households.
Goal 8. To develop a global partnership for development		
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Table 2.2 China's HDI rank by date (124 sample countries) [1]				
Year	HDI	Income index	Health index	Education index
1980	92	122	52	73
1985	92	114	54	80
1990	86	103	56	79
2000	79	86	51	81
2005	72	79	46	80
2010	68	67	45	72

Source: scores calculated using data from the UNDP website(http://hdr.undp.org/en/content/human-development-index-hdi-table).

1 This rank is China's position among 124 countries. In comparison, China ranks 90th among 188 countries in terms of HDI, as described at the beginning of the report.

of human development since 1949. However, certain distinctive features are characteristic of certain periods.

Before the reform and opening up in the 1980s, though faced with a low per capita income, China realized relatively positive education and health outcomes, which laid a solid foundation for national human development. Although China's economic system at the time faced some deficiencies and suppressed citizens' creativity, China's social policies were helpful and substantially promoted the accumulation of human capital and human development. Following the foundation of PRC in 1949, the government began to pay great attention to public health outcomes and focused on preventing epidemics that severely harmed people's health and threatened the lives of mothers and their children. Consequently, China's average life expectancy increased from 35 to 68 in just 30 years. Similarly, in around 1949, the enrollment rate of school-age children was only 20 percent. [1] This increased to 95.9 percent [2] in 1978. In other words, China had already made great progress in terms of human development before the reform and opening up in 1978. In particular, developments in health and education were much more advanced than developments in other low-income countries at the time. Although data before 1980 is not available, China's achievements before the reform and opening-up can be deduced from human development figures in 1980. According to a ranking of 124 countries that possessed complete data on human development between 1980 and 2010, China's HDI in 1980 ranked 92nd, with scores for income, health and education ranking 122nd, 52nd and 73rd respectively (see Table 2.2).China's scores for health and education ranked far higher than its score for income; demonstrating that China has been one of the most progressive countries regarding human development — especially considering its fast economic growth since the 1980s.

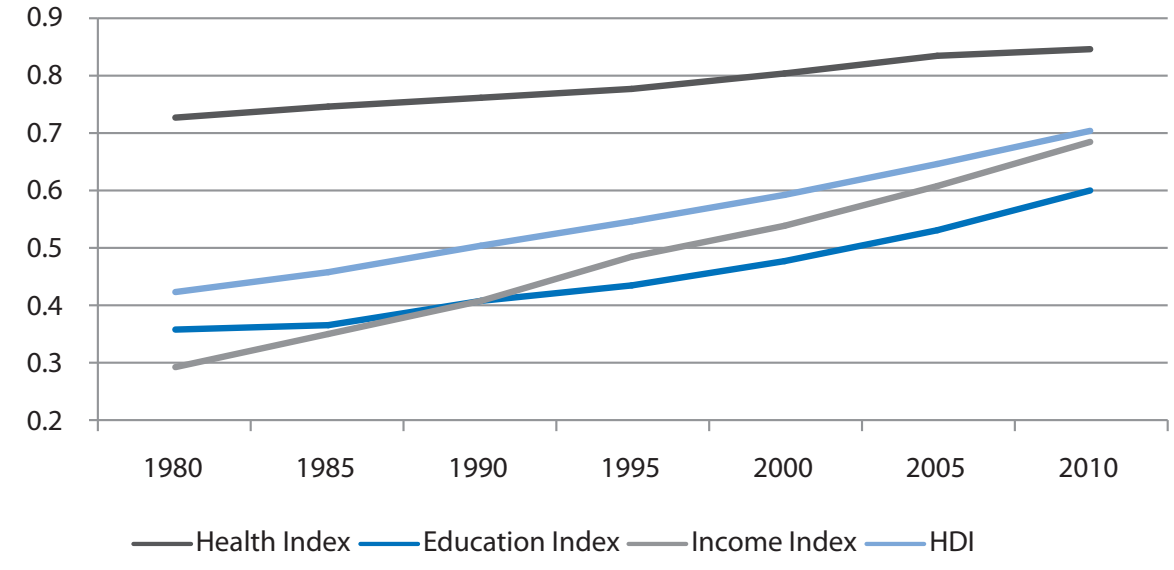
See the background report made for this NHDR: Zhang Xiulan (2015), Social Policy Innovation and Human Development: China Experience

Since the reform and opening up in 1978, fast economic growth has played a critical role in promoting human development. Economic reforms since the end of 1970s have eliminated constraints imposed by China's planned economy and have unfettered the country's economic growth potential. China has maintained economic growth at levels of nearly 10 percent for over 30 years. This has been vital for promoting its human development. Between 1980 and 2010, China's income index enjoyed larger increases than any other country in the world. As shown in Figure 2.2, over the past three decades, China's income index has increased at a

1 Minister of Education Zhou Ji, *China 60 Years: Education Shapes A Nation, a series of interviews with ministers of the PRC on Education* (People's Daily, August 27, 2009).

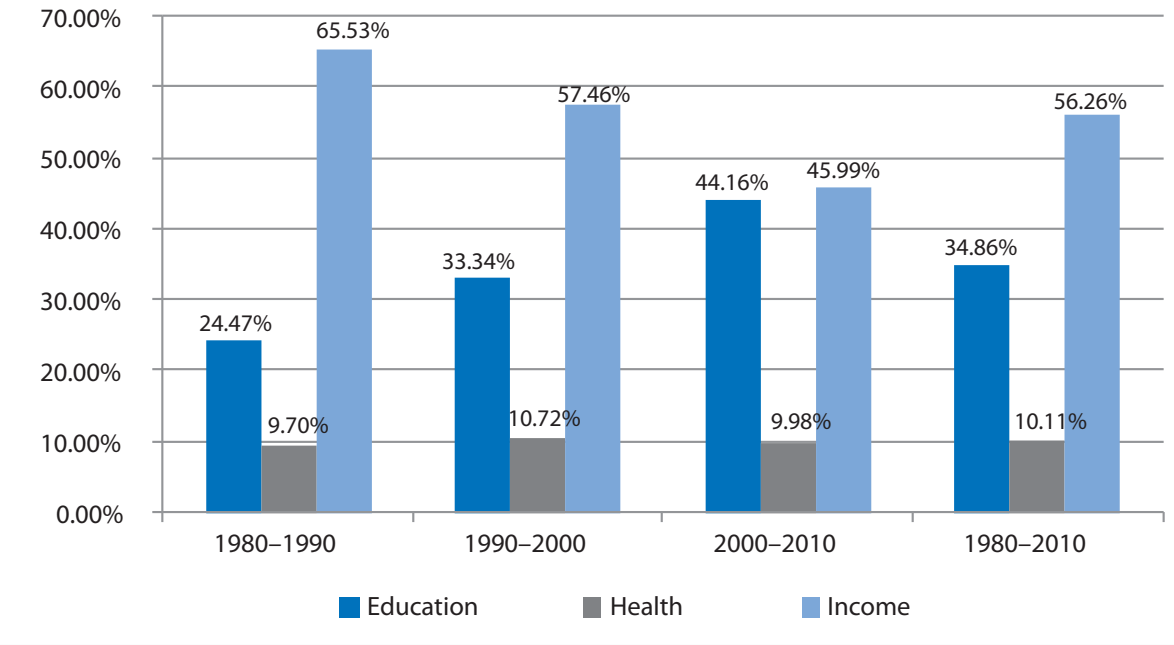
2 *National Bureau of Statistics of the People's Republic of China,* available here: http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0M0R&sj=2014

Figure 2.2 China's HDI and Its Components between 1980 and 2010



Source: UNDP website http://hdr.undp.org/en/content/human-development-index-hdi-table

Figure 2.3 Contribution of Each Component Index to HDI Growth between 1980 and 2010



Source: Calculated using data from the UNDP website (http://hdr.undp.org/en/content/human-development-index-hdi-table).

See the background report made for this NHDR: Zhang Xiulan (2015),Social Policy Innovation and Human Development: China Experience

Note: Due to technical reasons, data from the UNDP website (updated in 2014) are used in this figure and the following HDI comparative analysis of China and other countries. Data updated in December 2015 are slightly adjusted.

faster rate than any other measure in the human development index despite its low starting point. Figure 2.3 indicates that economic (income) growth over the 30 years contributed 56.26 percent to China's HDI growth and 65.53 percent between 1980 and 1990 (see Figure 2.3). Rapid income growth has lifted large numbers of China's citizens out of poverty, improving material standards of living and offering more choices and opportunities to millions of people.

Since China's reform and opening-up in 1978, social policieshave played a minor role in promoting human development. However, the contribution of social policies to human development has gradually increased in recent years. Economic development since 1978 was the major focus of China's national strategy. Prior to 2000, however, social policies on the whole were poorly adapted to China's economic conditions and were secondary to economic reforms. China failed to realize the importance of social policies until much later. This explains whyhealth and education did not contribute much to China's human development over this period. From 1980 to 2010, increases in China's education and health indices were much less significant than income growth (Figure 2.2); this has been corroborated by international comparisons. According to data from UNDP, among the 124 countries for which complete

Table 2.3 Simulation Results of China's Human Development (124 countries)[1]

UNDP reported HDI history					
Year	HDI	Education	Health	Income	HDI rank
1980	0.423	0.358	0.724	0.292	92
1985	0.457	0.366	0.744	0.350	92
1990	0.502	0.406	0.761	0.408	86
2000	0.591	0.478	0.802	0.540	79
2005	0.645	0.531	0.832	0.606	72
2010	0.701	0.599	0.844	0.683	68
Simulation 1: Hold Income index value in 1980 as constant					
Year	HDI	Education	Health	Income	HDI rank
1980	0.423	0.358	0.724	0.292	92
1985	0.430	0.366	0.744	0.292	94
1990	0.449	0.406	0.761	0.292	94
2000	0.482	0.478	0.802	0.292	92
2005	0.505	0.531	0.832	0.292	94
2010	0.529	0.599	0.844	0.292	95
Simulation 2: Use world weighted average rate of change in Income index value					
Year	HDI	Education	Health	Income	HDI rank
1980	0.423	0.358	0.724	0.292	92
1985	0.439	0.366	0.744	0.311	93
1990	0.467	0.406	0.761	0.330	93
2000	0.522	0.478	0.802	0.372	88
2005	0.559	0.531	0.832	0.395	88
2010	0.597	0.599	0.844	0.422	88

Source: Calculations using data from the UNDP website (http://hdr.undp.org/en/content/human-development-index-hdi-table).

See the background report made for this NHDR: Zhang Xiulan (2015), Social Policy Innovation and Human Development: China Experience

1 *This rank is China's position among 124 countries. In comparison, China ranks 90th (out of 188) in terms of HDI, as described at the beginning of the article.*

HDI data from 1980 to 2010 are available, China moved up development rankings by 24 places between 1980 and 2010. However, with a fixed income index, results would have been quite different. Two different HDI simulations that control China's income index both show that between 1980 and 2010, China's HDI rankings would essentially have remained unchanged (see Table 2.3). That is, improvements in health and education failed to catch up with economic growth. As such, income growth was predominantly to thank for China's improved position in international rankings during this period.

Since the start of the millennium, however, the Chinese government has paid increasing attention to social policies, constantly enhancing inputs to education, healthcare and social insurance; improved access to social services and launching a number of reforms to promote equality. This new activism is arguably reflected in changes to China's HDI. Examining China's education index in Figure 2.3, for instance, indicates that education contributed to significant HDI growth in China– from 24.47 percent between 1980 and 1990 to 44.16 percent between 2000 and 2010 (almost as high as income prior to 1980). As shown in Table 2.2, China's education index has made significant progress since 2005, as has China's health index since 2000. It is therefore reasonable to expect that social policies will further contribute to human development in China in the coming decades.

2.3 INCLUSIVENESS IMPROVED BUT INEQUALITY IS STILL PROMINENT

The 2014 human development regional indicescalculated by our research team in China (Table 2.4) show that disparities among different regions with regard to human development remain large. Beijing has the highest HDI (0.869), 44.8 percent higher than the region with the lowest HDI — Tibet. The average HDI among eastern regions is much higher than the average for western regions. Beijing and Shanghai have reached high levels of human development, on a par with Spain, while Tibet's human development is on a par with Bhutan. Since there is no longitudinal HDI data for Chinese regions, it is difficult to compare changes over time in order to assess whether disparities vary. However, the table below (Table 2.4) does show scores for education, health and income. This demonstrates that inclusiveness is higher where inequality is lowest.

EDUCATION: EQUALITY OF COMPULSORY EDUCATION HAS BEEN GREATLY ENHANCED WHILE EQUALITY AT OTHER EDUCATION LEVELS REQUIRES IMPROVEMENT

In China, primary and secondary school education is mandatory and free across the country, enabling every child to attend school. Gender inequality in compulsory education has almost been eliminated. However, there remains a large disparity between urban and rural areas and between different regions. Urban-rural gaps have narrowed in terms of facilities and expenditure but still remain large in terms of quality; this is because it is difficult to recruit and retain high-quality teachers in rural areas, especially areas that are poverty-stricken. In addition, although the government has pledged to ensure that the school-age children of migrant workers[1] can receive compulsory education in cities where their parents work, barriers still face these children when they attempt to attend public schools. This is because local authorities are obliged to collect funds for compulsory education and because schools are

1 Still registered in rural areas, these workers have worked in non-agricultural sectors in their hometown for six or more months, or have worked in other places for the same period of time.

Table2.4 HDI among Regions in China				
Regions	Health Index	Education Index	Income Index	Human Development Index
China	0.868	0.709	0.697	0.754
Beijing	0.952	0.854	0.806	0.869
Tianjin	0.932	0.791	0.814	0.843
Hebei	0.870	0.677	0.675	0.735
Shanxi	0.869	0.704	0.656	0.738
Inner Mongolia	0.861	0.689	0.758	0.766
Liaoning	0.892	0.764	0.745	0.798
Jilin	0.889	0.721	0.708	0.768
Heilongjiang	0.886	0.723	0.672	0.755
Shanghai	0.953	0.807	0.803	0.852
Jiangsu	0.896	0.730	0.778	0.798
Zhejiang	0.913	0.732	0.761	0.798
Anhui	0.871	0.656	0.654	0.720
Fujian	0.882	0.666	0.741	0.758
Jiangxi	0.860	0.681	0.655	0.726
Shandong	0.893	0.693	0.735	0.769
Henan	0.864	0.671	0.664	0.727
Hubei	0.868	0.706	0.699	0.754
Hunan	0.866	0.679	0.676	0.735
Guangdong	0.894	0.694	0.741	0.772
Guangxi	0.872	0.641	0.648	0.713
Hainan	0.891	0.671	0.671	0.738
Chongqing	0.881	0.676	0.701	0.747
Sichuan	0.866	0.656	0.657	0.720
Guizhou	0.809	0.613	0.616	0.673
Yunnan	0.784	0.613	0.620	0.668
Tibet	0.762	0.451	0.630	0.600
Shaanxi	0.865	0.700	0.698	0.751
Gansu	0.826	0.642	0.616	0.689
Qinghai	0.791	0.627	0.674	0.694
Ningxia	0.845	0.668	0.682	0.727
Xinjiang	0.828	0.660	0.677	0.718

Source: calculations by the research team. See data sources and calculation methods in appendix.

often hugely oversubscribed. Parents are also required to provide a variety of supporting documents that they often do not possess. This large gap in educational quality and school facilities does not only exist between urban and rural areas, and between different regions, but also between different districts in the same city due to a variety of historical factors. This has created a phenomenon of "school picking" among parents, causing the quality of schools attended by urban children and poor migrant workers' children to differ significantly. [1]

In addition, pre-school education (nursery schools) and senior high school education (colleges) is not mandatory or paid for by the state. Thus the urban-rural divide is largerfor preschool education and senior high school education. In 2013 for example, the senior high school gross enrollment rate was 79.0 percent in Xinjiang [2], 72.2 percent in Tibet, [3] 78.0 percent in Guangxi, [4] 74.0 percent in Qinghai, [5] 72.1 percent in Yunnan [6] and 68.0 percent in Guizhou; [7] all below the national average (86 percent).

Similarly, while China's higher education (university) enrollment has expanded rapidly since the end of the 1990s, making college education accessible for more and more young people, higher education is no longer free of charge. This means children from rural or impoverished families are disadvantaged with regard to college education and subsequent employment, which has adversely affected their families' education decisions. As a result, inequality of higher education access remained high.

HEALTH: BOTH REGIONAL AND URBAN-RURAL HEALTH GAPS HAVE DECLINED, BUT ABSOLUTE DISPARITIES REMAIN LARGE

With regard to health outcomes, regional gaps in life expectancy remain significant, but are gradually narrowing. In 1990, 2000 and 2010, citizens of Shanghai boasted the highest life expectancy while citizens in Tibet experienced the lowest. The gap between these two regions, however, narrowed from 15.26 years in 1990 to 13.77 years in 2000, and to 12.09 years in 2010 (see Table 2.4). Calculations showing the variance and the coefficient of variation regarding life expectancy at the provincial level also show narrowing regional gaps (see Table 2.5). The urban-rural health gap is also shrinking, but still remains large. Since 1990, the urban-rural gap regarding infant mortality rates, under-five mortality rates and maternal mortality rates narrowed. However, in 2014 infant mortality rates and under-five mortality rates in rural areas were still over twice as wide as those in urban areas (see Figure 2.4). Nonetheless, there is currently no significant urban-rural difference regarding maternal mortality rates – at20.5/100,000 and 22.2/100,000, respectively (see Figure 2.6).

The urban-rural health gap is also evident in terms of nutrition. While child obesity is a prominent issue in urban areas, many rural children suffer from malnutrition, especially in impoverished areas. According to the China Household Nutrition Survey (CHNS), the stunting rate of children under five in rural impoverished areas is over 20 percent; more than twice the national

1 Wang Rong and Kin Bing Wu, *Urban Service Delivery and Governance in Education in Five Chinese Cities,*(East Asia Pacific Department, World Bank, Washington DC, 2008)

2 *Statistical Bulletin on the Development of Education in the Xinjiang Uygur Autonomous Region (2013)* available here: http://www.xjedu.gov.cn/xjjyt/sytj/2014/78011.htm

3 Available here: http://epaper.chinatibetnews.com/xzrb/html/2014-02/10/content_512645.htm

4 *2013 Guangxi Education Overview*, available here: http://www.gxedu.gov.cn/Item/15626.aspx

5 *2013 Statistical Bulletin on the Development of Education in the Province,*available here: http://www.qhedu.cn/zwgk/jyfz/201404/t20140410_14127.html

6 *2013/2014 Statistical Bulletin on the Development of Education in Yunnan Province,*http://www.ynjy.cn/chn201401100927507/article.jsp?articleId=131075030

7 *2013 Work Summary and 40 Main Tasks in 2014 of Guizhou Provincial Education Department (Education Work Committee of Guizhou Provincial Party Committee),* available here: http://www.gzsjyt.gov.cn/Item/32940.aspx

Table 2.5 Regions with the Highest Life Expectancy and the Lowest Life Expectancy in 1990, 2000 and 2010			
	1990	2000	2010
Shanghai	74.9	78.14	80.26
Tibet	59.64	64.37	68.17

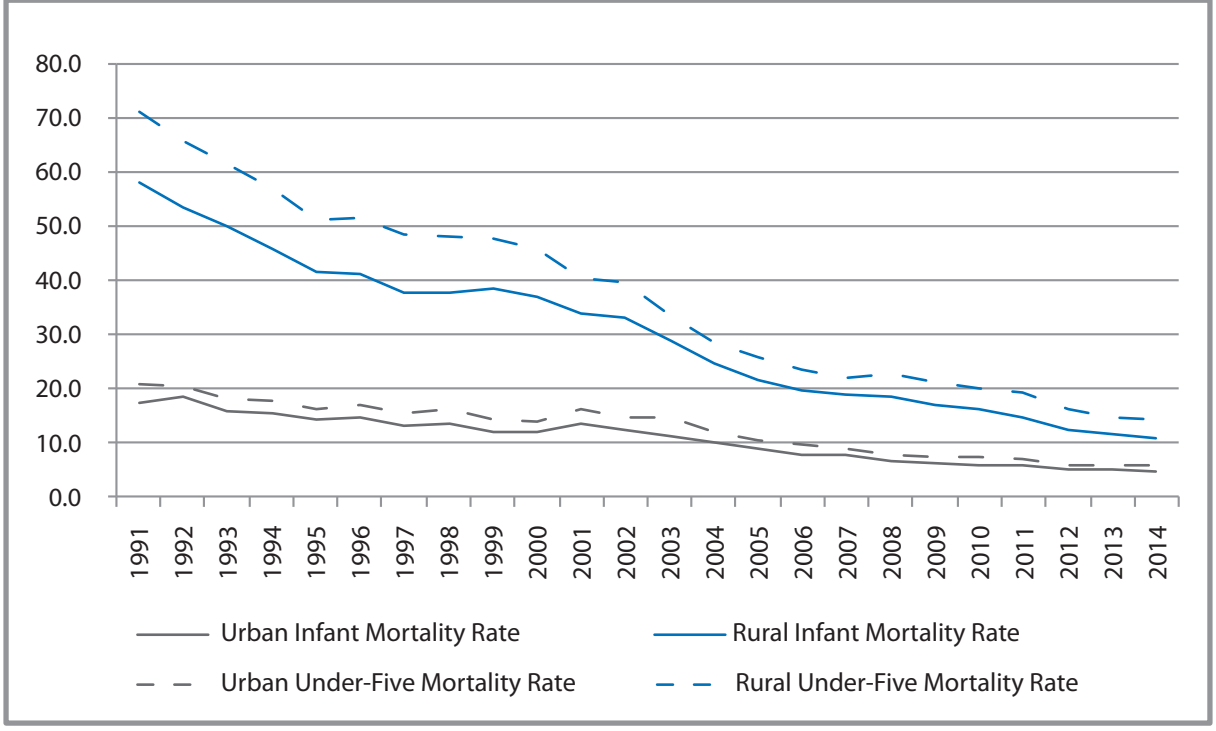
Source: 2014 China Health and Family Planning Statistical Yearbook

Table 2.6 Variance and Coefficient of Variation of Provincial Life Expectancy in 1990, 2000, and 2010			
	1990	2000	2010
Standard deviation	3.51	3.19	2.75
Average value	68.09	71.24	74.91
Coefficient of variation	0.052	0.045	0.037

Source: Calculated based on data from 2014 China Healt h and Family Planning Statistical Yearbook

Note: Coefficient of variation= Standard deviation/Average value

Figure 2.4 Urban and Rural Infant Mortality Rate and Under-Five Mortality Rate 1991-2014(‰)



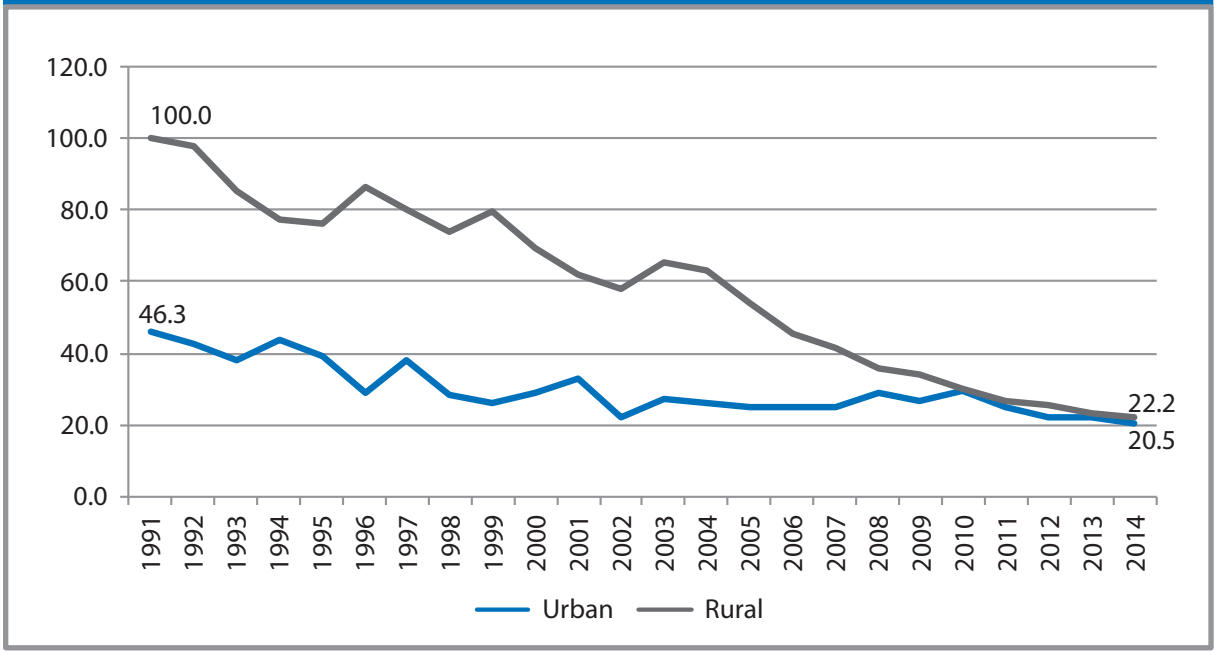
Source: 2015 China Statistical Yearbook

average in 2010 and nearly six times the average urban rate. [1]

Gaps in health outcomes, such as life expectancy, are caused by multiple synergic factors including living environment and income levels. Gaps in infant mortality rates, child mortality rates and other health outcomes are caused by unequal access to medical services. China faces two major problems regarding equal access to medical services. One is the huge urban-rural

1 *China 2030: Building a Modern, Harmonious and Creative Society. (The World Bank and Development Research Center of the State Council of P.R.C: China Financial and Economic Publishing House, 2012)*

Figure 2.5 Urban and Rural Maternal Mortality Rate 1991-2014 (1/100,000)



Source: 2015 China Statistical Yearbook

Note: In 2014, the maternal mortality rate in urban and rural areas was 20.5/100,000 and 22.2/100,000, respectively.

gap in medical facilities and service quality. Despite significant improvements to rural medical facilities in recent years, these are still relatively underdeveloped compared to urban facilities. Furthermore, rural areas suffer great difficulties retaining medical personnel; thus the qualityof healthcare individuals receive is variable. Despite a system of universal medical insurance recently implemented in China, medical insurance is generally organized at the county or municipal level; rural citizens have to buy insurance and claim reimbursements for medical expenses where they are registered as permanent residents. Claiming reimbursements is very difficult for medical expenses incurred outside an individual's registered place of domicile, such as in another province. This is particularly problematic for China's large population of informal and migrant workers. According to data provided by the National Bureau of Statistics of China, in 2014, migrant workers totaled 168 million[1] nationwide – approximately 12.3percent of China's population. It is this underprivileged group that faces significant institutional obstacles with regard to accessing medical services. This is discussed in more depth in Chapter 3.

INCOME DISTRIBUTION: THE INCOME GAP HAS BEEN CONTAINED, BUT STILL REMAINS LARGE

In the early days of the PRC from 1949 onwards, the Chinese government was faced with a relatively large income gap. However, due to the implementation of socialist reforms and a series of egalitarian policies, China's income gap has begun to narrow. According to the ALG database (Fall 2014 version) provided by Branko Milanovic, which includes the Gini coefficient of 166 countries during 1950 and 2012, China's Gini coefficient stood at 0.558 in 1953. However, thanks to various socialist reforms and a series of strongly egalitarian policies, this gap gradually narrowed – to 0.305 in 1964, 0.279 in 1970,

1 Migrant workers working in places other than towns where they are registered.

0.266 in 1975, 0.317 in 1978 and 0.320 in 1980[1].

However, since the 1980s, China's income gap has widened rapidly, with its Gini coefficient reaching 0.491 in 2008. China then became a country with one of the most unequal income distributions in the world. In 2007, the richest 10 percent of people in China earned more than 18 times as much as the poorest 10 percent, on average. [2] Despite a minor decline in inequality in recent years, the Gini coefficient still stood at 0.462 in 2015 (see figure 2.6).

There are also major income gaps between urban and rural areas. Although there was a minor decline in the urban-rural income gap in the early days of the reform and opening-up, the urban-rural income gap has largely widened since the 1980s. Although China's income gap has begun to shrink since 2009, the average income of urban residents is still three times higher than the average income of rural residents (see Figure 2.7). Regional gaps in per capita disposable income are also significant. In 2014, Shanghai's rural income gap was around four times as high as per capita disposable income in Guizhou, Gansu and Tibet, the bottom three regions in the ranking (see Figure 2. 8). According to the 2015 Human Development Report, the inequality-adjusted income index in China reduced China's HDI by around 29.5 percent.

Overall, income gaps in China remain large although the country has contained income disparities among its citizens in recent years by implementing a series of social and economic policies aimed to promote equality.

1 Available here:http://www.gc.cuny.edu/Page-Elements/Academics-Research-Centers-Initiatives/Centers-and-Institutes/Luxembourg-Income-Study-Center/Branko-Milanovic,-Senior-Scholar/Datasets

2 *China 2030: Building a Modern, Harmonious and Creative Society. (The World Bank and Development Research Center of the State Council of P.R.C: China Financial and Economic Publishing House, 2012)*

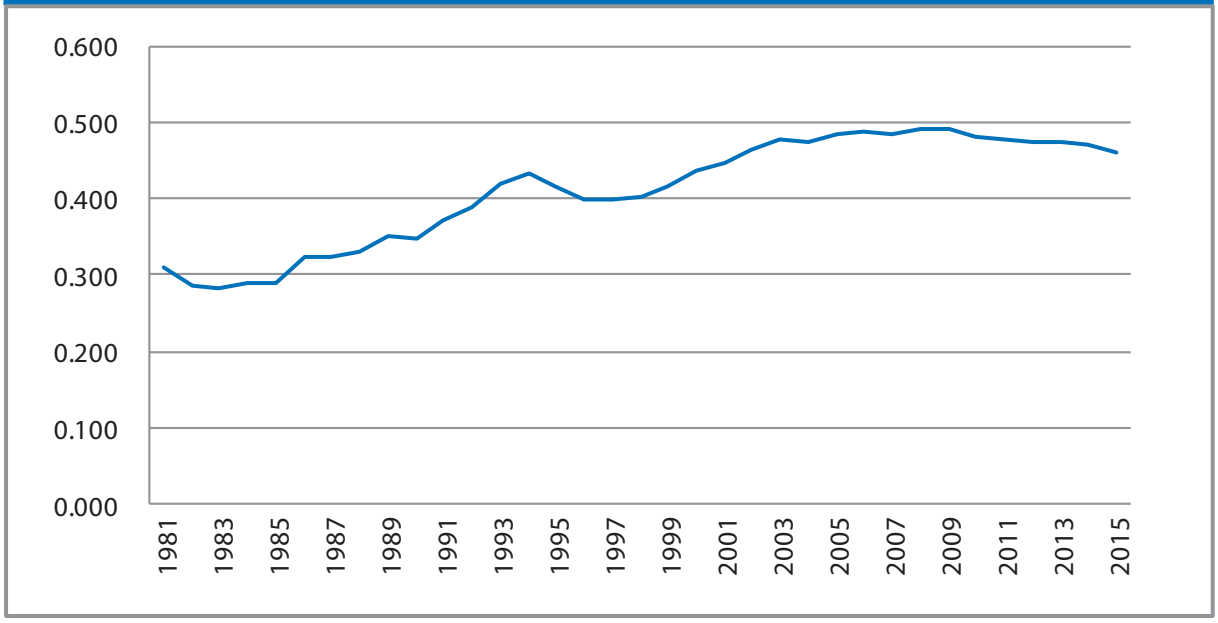
CIVIC PARTICIPATION: INSUFFICIENT CHANNELS AND INCOMPLETE MECHANISMS FOR PUBLIC PARTICIPATION

In recent years, China has reinforced and innovated its approach to social governance and has worked hard to encourage public participation. However, there are still too few channels and sound mechanisms for public participation overall; this is an important cause of social discontent and places great pressure on the government.

In particular, channels for public participation are limited. These channels, which include hearings and online opinion polls, have become a mere formality. Competent authorities neither take seriously opinions collected online, nor do they give adequate feedback. Secondly, channels for the public to participate in the management and supervision of social services such as education and healthcare are so limited that the public can hardly express their opinions at all e this has led to severe discontent among citizens and disputes with social service suppliers.Thirdly, mechanisms for social organizations to participate in public services and social governance are incomplete. Due to their limited ability to contribute to mechanism formulation, poor professionalism and insufficient personnel and government support, social organizations fail to play a significant role.

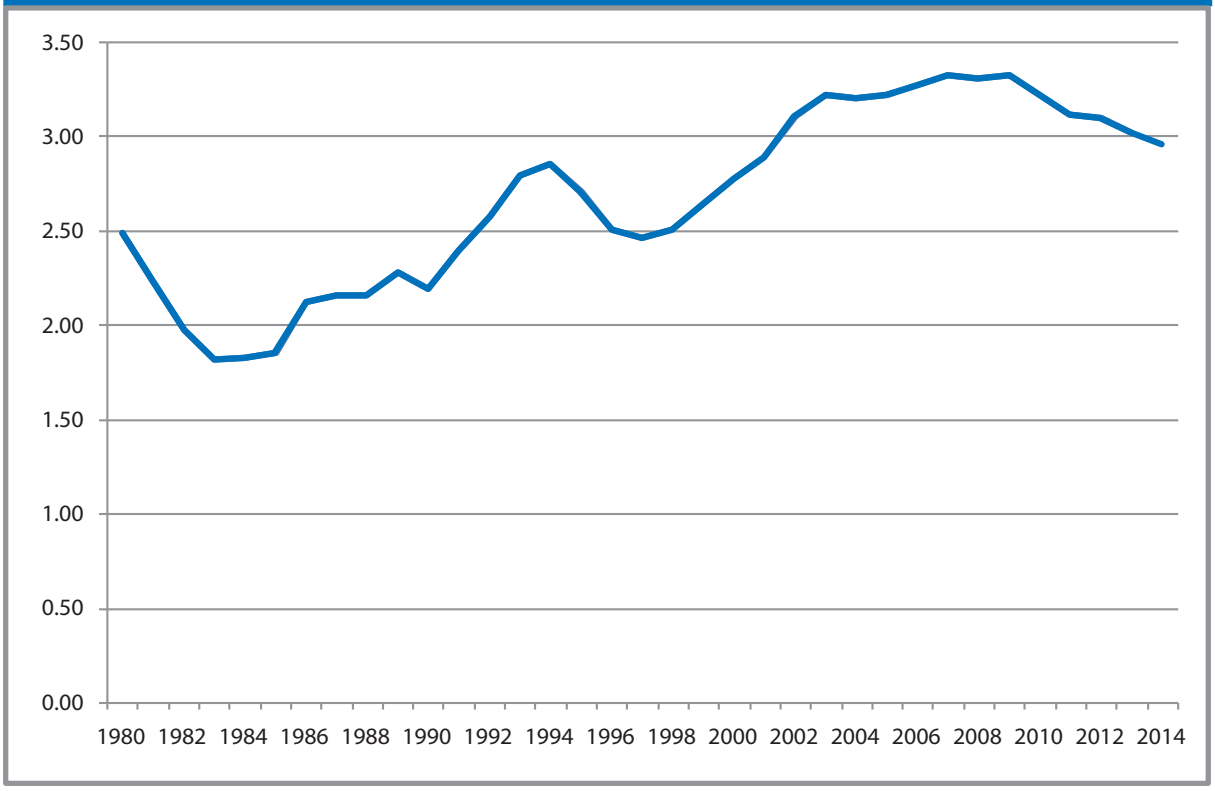
Since the 1980s, China's human development has remarkably improved. However, huge gaps in human development still remain between urban and rural areas and between different regions. China still also features high levels of economic inequality. In order to increase the inclusiveness of human development, China needs to improve and broaden its social policies at the same time as promoting economic growth.

Figure 2.6 China's Gini Coefficient 1981-2015[1]



1 *Note: Data for 1981 to 2002 was calculated by Martin Ravallion and Shaohua Chen from the World Bank in 2004 based on the household survey conducted by the National Bureau of Statistics of China; data for 2002 was derived from the ALG, a Gini coefficient database for 166 countries covering nearly 60 years built by Branko Milanovic, former chief economist of the World Bank; data from 2003 to 2014 was based on the Gini coefficient published by the National Bureau of Statistics of China over several years.*

Figure 2.7 China's Urban-Rural Income Ratio 1980-2013



Source: Calculated according to 2015 China Statistical Yearbook.

Box 2.2 A New Indicator for Measuring Income Inequality: the Palma Ratio

The Gini coefficient is the most commonly used indicator to measure income inequality, but it is complex to use and hard to explain. In 2013, Alex Cobham and Andy Sumner, researchers from the Center for Global Development, proposed a new indicator: The Palma ratio. The Palma ratio is based on research conducted by Gabriel Palma, an economist at the University of Cambridge. While studying income distribution in countries around the globe, Palma found that from 1990 to 2010, the combined income of medium-income earners accounting for 50 percentof the national population (Group 5 to Group 9 of the ten evenly divided groups that make up the national population in ascending order of income) accounted for around 50 percent of national income. The other half of national income was shared between low-income earners (40 percentof the national population) and the highest-earning 10 percent; but the share for both of these groups varied greatly from country to country. Studies show that the ratio of the combined income of the richest 10 percent to the income of the poorest 40 percent is extremely sensitive to any changes to the income distribution. In Cobham' and Sumner's article, they point out that the Palma Ratio is highly correlated to the Gini coefficient, but not in a linear way. The higher the percentage of income held by the richest 10 percent, the higher the Palma ratio – this better demonstrates changes to inequality levels than Gini, and is more relevant to decisions made by policymakers. They admit that the Gini Coefficient and the Palma Ratio both reflect the income distribution, but the latter is more direct and more easily understood by policymakers and the public than the former.

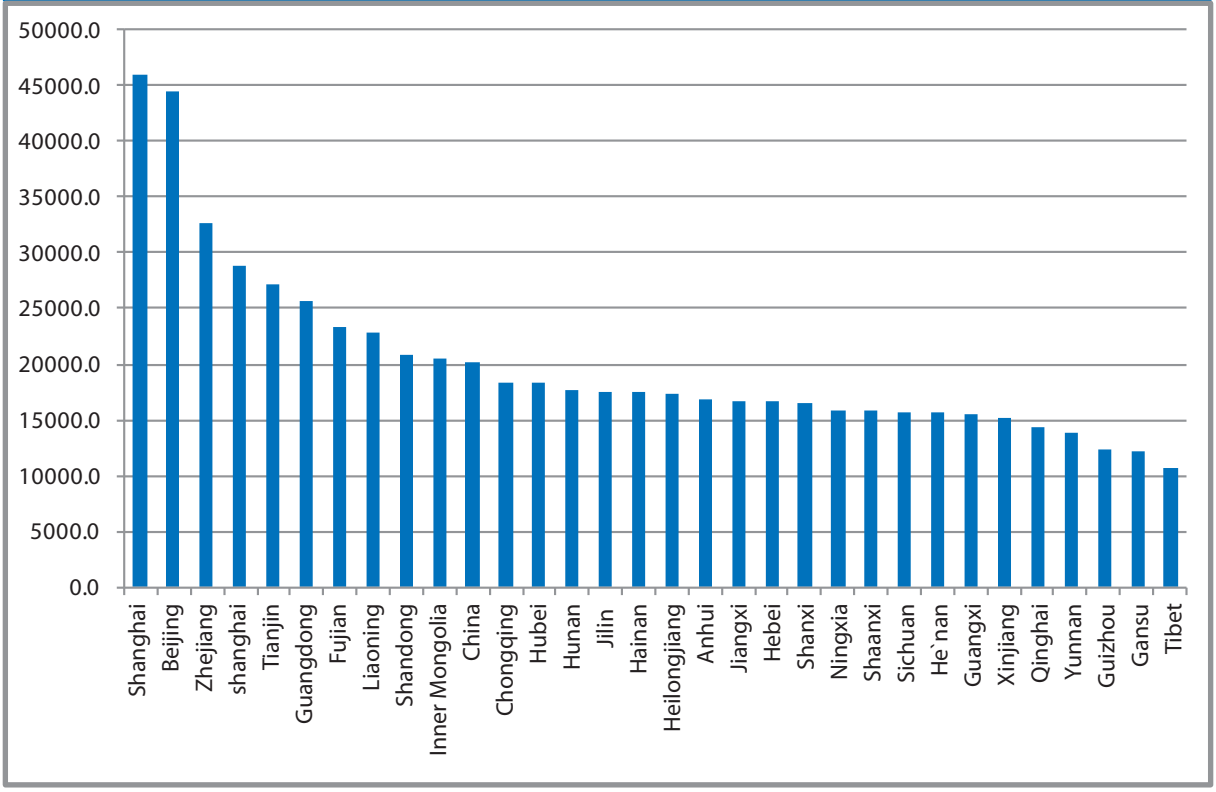
The Palma ratio for a number of countries is listed below. From a regional perspective, the world's Palma ratio was 1.8 in 2005, with Southern Africa possessing the highest ratio of 5.2, followed by Latin America with 4.0. Northern Europe's Palma Ratio in 2005 was 1.0. The Palma ratio in China was 1.25 in 1990 and 2.15 in 2005 (an increase of 72 percent). The Palma Ratio for the United States was 2.1 and Japan's was 0.9.

Global (and China's)Palma Ratio

	1990	2005
World		1.8
OECDcountries		1.5
European Union		1.3
Latin America		4.0
Southern Africa		5.2
North Europe		1.0
China	1.25	2.15
India	1.26(1987)	1.4
Russia	0.79(1988)	1.6
Brazil	6.45	4.30(2009)
South Africa	5.69(1993)	
United States	1.59(1991)	21
United Kingdom	1.33	1.4(2002)
Japan		0.9

Source: Alex Cobham and Andy Sumner, Is It All About the Tails? The Palma Measure of Income InequalityWorking Paper: http://www.cgdev.org/search/palma?f[0]=field_relate_experts%3A1424772;Hu Linlin, Gao Yuning. "A New Indicator to Measure Income Inequality: the Palma Ratio." Modern SOE Research. No.12, 2014. "The global upper class makes 32 times as much as the global lower class".

Figure 2.8 Per Capita Disposable Income by Region in 2014



Source: 2015 China Statistical Yearbook.

CHAPTER 3

REALIZATION OF INCLUSIVE HUMAN DEVELOPMENT THROUGH SOCIAL INNOVATION – THE CHINESE EXPERIENCE

Key Messages:

- **Since the reform and opening up, China has encouraged the joint development of multiple economic sectors; adopted proactive and flexible labour market policies; introduced controls over household registration; and facilitated labour migration. As a result, China's goal of full employment has been realized.**
- **Regarding education, given that levels of national education had been low since 1949, a wide range of policies helped to popularize basic education. Significant investments in education after China's reform and opening up substantially improved educational attainment nationwide.**
- **Regarding healthcare, China's efforts to meet residents' health demands were once recognized as a model by other low-income countries. Since the reform and opening up, some fluctuations occurred in the healthcare industry. In recent years, however, the development of China's healthcare industry has received great attention and remarkable achievements have been made.**
- **Concerning China's social governance reforms, the most outstanding achievement has been basic electoral autonomy, as well as the promotion of public participation in China's public administration.**
- **China's innovations in promoting inclusive development include: adhering to a problem-oriented approach, combining top-level design with local innovations, maintaining strong flexibility and adaptability in the decision-making system, making innovation based on international experience and national context, etc.**

In 1949, when the PRC was founded, China's human development was very low. Since then, China has made tremendous efforts to recover and stimulate economic growth. In the three decades following the founding of the PRC, despite numerous fluctuations and setbacks,[1] the average rate of economic growth fairly high. According to calculations by Madison, the real average growth rate of China's GDP between

1 For example, the Great Famine during 1959 and 1961, the Cultural Revolution during 1966 and 1976 and other phenomena that significantly impinged on China's human development.

1952 and 1978 was 4.7 percent.[1] At the same time, China began to pay greater attention to the development of healthcare and education. The country had been suffering with comparatively low levels of economic development combined with a basic but comprehensive social policy system that had been established for promoting human development in China. After the reform and opening up, China entered into transformative stage, implementing market-oriented reforms and making changes to its social policy system that had been designed under a planned economy. During the thirty years following the reform and opening up, China established a market economy and carried out a series of reforms to its social policy system, which was adapted to suit China's new market economy – these social policies have since grown to suit this new environment. Despite encountering challenges along the way (as well as valuable lessons learned), China has made significant reforms and innovations to its socio-economic system, and has made overarching improvements to its human development.

The following sections summarize China's experience with improving economic and income growth, enhancing education and healthcare, and expanding public participation.

3.1 CHINA'S EXPERIENCE: SOCIAL INNOVATIONS FOR BOOSTING ECONOMIC GROWTH AND RAISING INCLUSIVENESS

Economic income is a critical indicator for evaluating human development. This section focuses on the role of social innovations in boosting economic and income growth, especially employment-related social policies such as China's household registration system, labour market policies, and social security policies.

In the early stages of its foundation, China began implementing an economy based on state-owned and collective ownership enterprises and implemented an economic development strategy that prioritized the development of heavy industries. In order to cope with the need for capital to develop heavy industries and the overall lack of capital in every sector, China began to adopt a highly centralized system of resource planning.[2] Despite its aim to achieve fairness at the time the country's most important goal the pressure to industrialize caused China to adopt a strict urban-rural division policy. On one hand, China established household registration system that strictly prevented the migration of the rural population to cities; on the other hand, China began to accumulate capital for industrial development by using "price scissors" and restricting urban salary levels. Correspondingly, a dualistic policy system was established in both urban and rural areas, but with major differences. In urban areas, in addition to salary controls, China also established a comprehensive welfare system using the former Soviet Union as a model. This included education, healthcare, pensions, housing and protections for women and children. It also provided protections for public sector employees, including State-Owned Enterprises (SOEs) and collective enterprises. This system was based on a unified revenue-expenditure taxation system and corporate financial management, with specific organizations providing welfare for their employees on behalf of the government. In rural areas, education, healthcare and other basic public services were provided for peasants via the collective economy with limited support from the national treasury. However, overall coverage and levels of welfare and insurance were significantly lower than in urban areas.

1 Angus Madison, *Long-term Performance of Chinese Economy* (Shanghai People's Publishing House, 2008)

2 Lin Yifu, Cai Fang and Li Zhou, *Chinese Miracles: Development Strategy and Economic Reform* (Shanghai SDX and Shanghai People's Publishing House, 1994)

Due to low levels of economic development at the time, job opportunities were relatively limited in China. The government's main approach to creating jobs at the time was to encourage its citizens to involve themselves with the planned economy – either through industrial or agricultural production activities. Urban youths were also ordered to move to rural areas for "re-education of educated young people through living and working in the countryside." According to the government, there was no unemployment problem.

In the late 1970s, in order to improve China's low levels of economic development, the government began to implement reform policies, opening up and transforming its development strategy from "class warfare as the guiding principle" to "economic construction as the focus". As a result, China's economy gradually changed from a planned economy into a market-oriented economy. The role of the market to resource management in China became increasingly important; state ownership of companies was gradually diversified; China's household and work-based social management system – which had been centrally managed – began to unravel, and the flow of people and other resources between urban and rural areas, between different regions and between different ownership systems markedly increased. These reforms significantly accelerated economic growth in China. In rural areas, after the implementation of the household contract responsibility system, the peasants' incomes began to rapidly improve. And in urban areas, following the implementation of economic reforms in the 1980s, the incomes of urban residents also rose rapidly.

During this period, with rapid economic growth, China's traditional social policy system (based around the planned economy) collapsed. For example in rural areas, after the disintegration of the collective economy, China's traditional cooperative healthcare system based on the old method of "pre-deduction payment" began to fail. As a result, coverage declined significantly, and funding for other services like rural basic education and pension security deteriorated rapidly. In urban areas, the implementation of a self-funding system caused a number of enterprises to abdicate responsibility for providing pension and healthcare services. Furthermore, with the implementation of rural household contracts and the enactment of corporate reforms, China's "hidden" unemployment problem began to emerge. However, at the same time, individual and private businesses began to evolve and absorb many of the unemployed. Therefore, while, social policies significantly weakened over this period, the rapid growth of urban and rural incomes significantly compensated for these policy gaps.

In the 1990s, China established its unique socialist market economy. While the economy grew rapidly, income gaps also expanded due to delayed reforms to social policies. As a result, the Chinese government began utilizing an integrated social approach to pension and healthcare system reform. However, there was a tendency towards social policy instrumentalization, with more attention paid to the construction of social policies in urban areas than rural areas. At the same time, some reforms met with resistance due to the limitations of China's financial system, as well as a number of other factors.

At the beginning of the 21st century, levels of economic development improved, as did public demand for social services. Chinese imperfect social policies also began to have a negative impact on economic growth. As a result, the Chinese government further strengthened its social policy system, attaching more importance to fairness than in the past. In 2007, the 17th CPC Congress proposed that "more at-

tention should be paid to social construction based on economic development, with the focus on the protection and improvement of people's livelihood, and efforts should be made to push forward the construction of a harmonious society by providing education, payment, healthcare, pension and housing to all people." The 18th CPC Congress further emphasized "the protection and improvement of people's livelihood and the promotion of social fairness and justice". In 2015, the 5th Plenary Session of the CPC Congress further proposed the concepts of "coordinated development" and "shared development".

According to these new development priorities, the Chinese government increased its investment in people's livelihoods and carried out a series of major reforms and innovations to its social security system, including education, healthcare and housing. In light of these rapid social transformations, the Chinese government also began to actively push forward reforms and innovations to its social governance system.

Following this brief review and summary of China's economic and social reforms, this chapter will continue to introduce China's experience of promoting economic growth through innovative social policies. In particular, it will elaborate on the following three areas: China's population and migration policies; China's labour market system; and employment support and social protection in China. In addition, this chapter will discuss the progress China has made to its education and healthcare systems.

ADAPTING TO THE DEMANDS OF ECONOMIC REFORM AND DEVELOPMENT, CARRYING OUT HOUSEHOLD REGISTRATION REFORMS AND PROMOTING LABOUR MIGRATION

China's household registration system was established in the 1950s. After the establishment of modern China, large population flows from rural to urban areas not only placed pressure on urban food supplies, but it also caused employment challenges in cities. Once the government had established its development strategy for heavy industry, it was necessary to build a strong agricultural sector to support industrial development. This was especially important because job opportunities created by heavy industries were limited. Against this background, the Chinese government publicized the "Regulations of People's Republic of China on Household Registration" in 1958, where it was made clear that rural and urban residents would have different registration statuses – i.e. the "agricultural *hukou*" and the "non-agricultural *hukou*". This policy ensured that the migration of labourers was strictly controlled. Most peasants had to stay in the countryside to engage with agricultural production – only a very small fraction of these workers would be able to become urban residents with limited migration channels, including employment, college education and military enrollment. This restriction of migration from rural to urban areas continued for many years, until the mid-1980s.[1]

After the reform and opening up, China's strict household registration system began to relax. On one hand, thanks to the implementation of the household contract system, rural households were able to access more food and other services, with formerly inflexible restrictions on their migration becoming less stringent. Furthermore, reforms to China's economic system and the emergence of labour-intensive heavy

1 Wang Liejun, *"Household Registration Reform – Lessons Learned and Prospect for Future"*, Jiangsu Social Sciences, Vol. 2 (2010)

industries caused the economy to thrive. As a result, many job opportunities were created. Under these circumstances, allowing peasants to work in cities was practical and widely encouraged. This meant that while the household registration system no longer prevented rural labourers from migrating to urban areas for work, the provision of education, healthcare, pension and other welfare was still linked to people's residential status. As such, rural migrants could not obtain the same welfare provision or benefits as local, urban residents.

With the continuation of China's dualistic social system (divided along rural/urban lines), another type of dualistic structure evolved in urban areas, causing problems such as incomplete urbanization and complex inter-group conflicts. To address these problems, some small and medium-sized cities under the guidance of national authorities made significant household registration reforms from the 1990s onwards, which aimed to give qualified migrants local residence as well as equal rights to public and social security services. After two decades of reform and experimentation, entry thresholds for urban household registration have been lowered and barriers to residence have been removed in most small and medium-sized cities, especially in small townships. However, due to wide-ranging factors, reforms to household registration systems in large cities, especially in super cities like Beijing and Shanghai, as well as provincial capitals and regional centers, have been slow and inconsistent. These cities have begun to implement systems of credit-based urban household registration – where a person has to earn enough credits in order to obtain an urban household registration – with much higher entry thresholds. In addition, most cities have begun to implement a "residence permit" system as a transition measure,[1] which affords migrants certain social protections, but still bars them from most of the benefits received by urban residents.

In the past two years, the Chinese authorities have been paying more attention to the problems caused by the *hukou* system. In 2014, the government decided to further reform its household migration policy and to establish a new household registration system by 2020, helping around 0.1 billion rural residents (and other permanent residents) to achieve urban residentialization. In October 2015, the 5th Plenary Session of the 18th CPC Congress proposed to deepen reforms to the household registration system, so as to facilitate this process, and so that rural migrants with stable jobs and lives in cities can register (and receive the same rights) as urban residents (see in Box 3.1).

1 The residence permit system is an innovative social management system that takes charge of non-local registered population management and provides relevant services. After China's reform and opening up, with a large number of migrants flowing into urban areas to live and work, the Chinese government was forced to implement a unique urban social management system. In 1984, Shenzhen began to implement a temporary residence permit system, requiring the non-local registered population to register at a local police station within a specific time after their arrival. Gradually, this system was implemented widely in many big cities and the permit was used as proof of a migrant's legal status. At the beginning of the 21st century, as migrants were allowed to access local public services, some cities began to reform the temporary residence permit system and explore the implementation of a new residence permit system. According to the "*Residence Management Measures (draft for opinions)*" published in December 2014, citizens away from their permanent residence who have lived in a municipal city (with districts) for over six months with a stable job and/or a stable residence (or is attending a school), may apply for a residence permit. Residence permit holders have equal rights as local residents with a hukou certificate, including free access to compulsory education and equal employment opportunities. He/she may gradually obtain the same rights for to receive secondary vocational education aid or employment support, housing, old-age services, social welfare and/or social assistance, and his/her children may participate in local examinations for high school/college entrance. Currently, Beijing, Tianjin, Shanghai, Shenzhen, Qingdao, Xi'an and other cities have already established these regional work-residence permit systems, with different qualification requirements and associated benefits. In October 2015, the State Council's executive meeting adopted the "*Residence Permit Provisional Regulations (draft)*", and a national, standardized residence permit management system will be adopted in the near future.

Reforms to the household registration system in China have been fraught with complications. On one hand, reforms rely on breaking the urban-rural binary structure in order to eliminate urban-rural differences and ensure equal rights. On the other hand, it is important to ensure that urbanization is conducted in an orderly fashion in order to prevent discontent. Over the past several years, China has relaxed the management of its household registration system, and has worked progressively to carry out a number of reforms to this system. Working according to the premise that urban residents' job opportunities and benefits should not be significantly impacted, reforms have provided a system that allows peasants to work in cities. This has absorbed surplus rural labourers and provided sufficient resources for economic development, especially urban economic development. However, these reforms have also caused problems, such as the issue of inclusiveness in urban cities and the 'left-behind women and children' in the countryside.

During China's reforms to its household registration system, the country learned several unique and valuable lessons. When surplus rural labourers migrated to urban cities, their farmland and houses were reserved for them upon their return – this acted as a special form of insurance that safeguarded against economic fluctuations and large-scale unemployment. The Chinese economy was hit hard by the financial crisis in 2008; the economic downturn caused job losses for significant numbers of migrant workers. However, laid-off farmers were able to return to the countryside where they still had basic livelihoods (land and homes), without causing serious problems for the Chinese social order. This emphasized the importance of security measures for low-income migrant workers.

IMPLEMENTING A FLEXIBLE LABOUR MARKET SYSTEM, CREATING JOB OPPORTUNITIES AND HELPING FAMILIES ESCAPE POVERTY

At the beginning of the reform and opening up, China's overall level of economic development and living standards were both very low. In terms of the size of China's overall economy, China's GDP was RMB 364.52 billion in 1978, and its per capita GDP was only US$224.9 (according to current exchange rates); the second lowest of all countries, and two-thirds of India's per capita GDP.[1] At the time, around 250 million people lived in absolute poverty, urban youth unemployment stood at 20 million,[2] and 'hidden' unemployment was extremely serious in rural areas where labour productivity was extremely low.

During the years of the planned economy, one of the reasons for low labour productivity was the strict control of the Chinese labour market, especially in publicly owned (state-owned and collectively owned) economic sectors. Since the mid-1980s, this situation began to change dramatically. The development of private businesses grew rapidly due to the encouragement of multiple sectors. Regarding labour protection, there were no existing labour policies or regulations for private companies, so only loose rules were adopted. However, traditional publicly owned companies began to implement new employment policies, agreeing to hire independent contractors and temporary workers with just some of the employment rights and benefits that they were formally entitled to as state employees.

Low levels of labour protection for informal employees in both private and publicly owned industries affected the rights of labourers, espe-

1 He Li, *History of people's Republic of China,* (China Archives Press, 1989)

2 Zhou Tianyong, *Why We Chose to Reform and Open Up Thirty Years Ago,* (Dangjian Wenhui Monthly, October 2008)

Box 3.1 Household Registration Reform, Relevant Events and Policies

In October 1984, the "Notice of the State Council Concerning the Farmers' Township Household Registration" was announced; this relaxed the controls on China's household registration system. According to the Notice, farmers would be given township residential status on the condition that they brought their own food rations, after which they would be given the same rights and would be required to fulfill the same obligations as local residents.

In July 1985, the "Provisional Regulations of the Ministry of Public Security Concerning the Administration of Urban Temporary Residents" signified the establishment of a complete system for the administration of urban temporary residents, and in September of the same year, China began to implement an ID certificate system, which formed the basis of the modern administrative system.

In June 1997, with the promulgation of the "Notice of the State Council Concerning the Approval and Announcement of the Ministry of Public Security's Pilot Plan for Small Township Household Registration Reform and the Ministry's Opinion on Improving the Rural Household Registration System", rural migrants that have been living and working in small townships for certain time and with certain qualifications would be qualified to apply for permanent residence.

In July 1998, the "Notice of the State Council Concerning the Approval and Announcement of the Ministry of Public Security's Opinion on Addressing A Few Outstanding Issues in Current Household Registration Work" gave even more space for relaxed household registration controls. According to this Notice, citizens and their co-habiting relatives would be qualified to apply for permanent residence, as long as they had been living in the city for over a year, where they had legal and stable housing and/or jobs and where they met the local government's requirements: new born babies had to live with their fathers; married couples had to live separately; grandparents had to live with their families; and applicants had to be 'investing' in the city (i.e. had started a business or purchased a commercial residence).

In March 2001, the "Notice of the State Council Concerning the Approval and Announcement of the Ministry of Public Security' Opinion on Pushing Forward the Small Township Household Registration Reform" signified the overall implementation of small township household registration reforms. According to the Notice, the government would not have quota controls over applications for permanent residence in small townships.

In February 2012, the "Notice of the General Office of the State Council Concerning Actively and Steadily Pushing Forward the Household Registration Reform" was circulated, pointing out that the migration of non-agricultural businesses and rural residents to small and medium-sized cities and municipal townships should be conducted in an orderly fashion under official guidance, so as to meet the demands of qualified rural residents and achieve the provision of basic public services in urban and rural areas.

In July 2014, according to "Opinions of the State Council Concerning Further Implementation of Household Registration Reform", in order to further adjust the migration household registration policy and unify the urban-rural household registration system, the residence permit system was to be implemented nationwide; the construction of a national population database was to be accelerated; and the provision of basic public services such as compulsory education, social protection, basic pensions, basic healthcare and housing was to be steadily improved to fully cover all permanent residents. By 2020, a new household registration system will be established, including urban citizenship registration for 100 million rural migrants as well as other permanent residents living in cities.

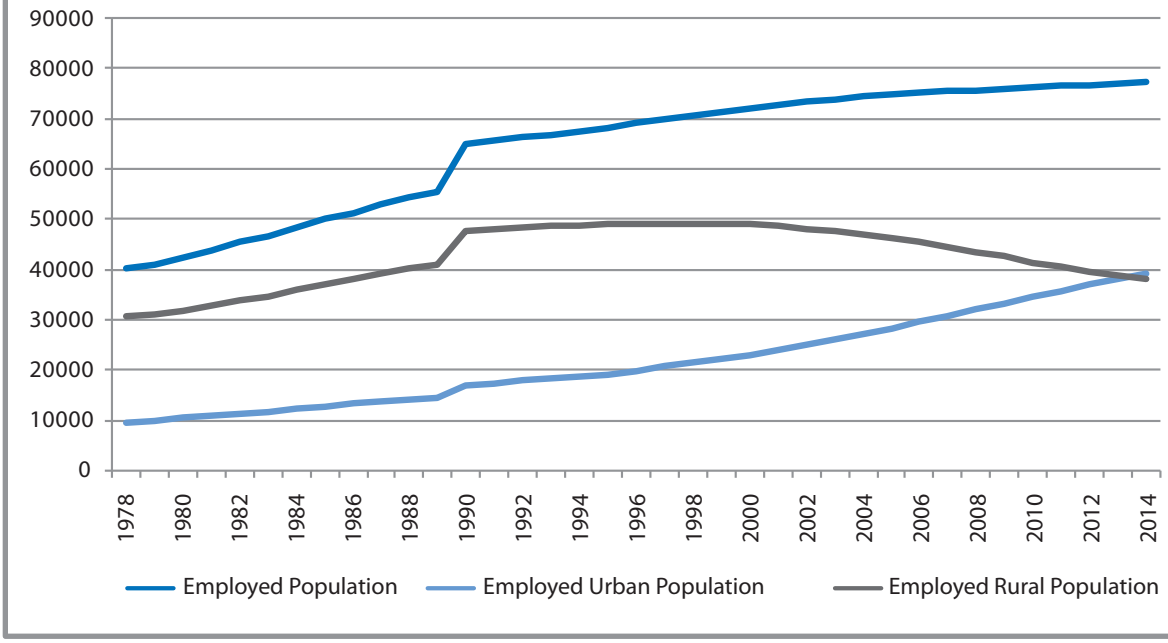
In October 2015, the "Advice of the Central Committee of the Communist Party of China Concerning Formulating the '13th Five-Year Plan of National Economic and Social Development'" proposed that household registration reforms should be deepened to facilitate urban citizenship registration for rural migrants (and their families) with stable living and working conditions. These migrants will have the same rights and obligations as local residents and full social security coverage will be extended to all permanent residents. A joint system of financial transfers will be enhanced, and a system will be established to maintain a balance between urban expansion and the number of new rural migrant residents in cities.

cially rural migrants, who were rewarded with low salaries, insufficient welfare and poor working environments. However, objectively speaking, these basic policies had several positive results, not to mention high levels of economic output, the rapid development of private businesses, and the remarkable growth of job opportunities in primary and secondary industries across the country. Taking urban employment statistics as an example, urban employment stood at around 95.14 million in 1978; this increased to 39.31 million by 2014 (see in Fig. 3.1). During this period, large numbers of rural labourers travelled to work in cities; this contributed to poverty relief by creating new sources of income for this group in addition to rural land revenues. The growth of rural residents' incomes and consumption added greater momentum to national economic growth. It was during this period that China became the 'world's factory', where industrialization was accelerated by the formation of economic clusters in the Yangtze and Pearl River Delta regions.

For developing countries, achieving a good balance between employment expansion and labour rights/protections has been a considerable challenge. If labour rights are too stringent during the start of a country's economic takeoff, this can hamper economic growth. It is often thought that social protection slows motivation, and thus diminishes employment opportunities. Alternatively, if the labour market is sufficiently flexible and salaries and benefits are kept at low levels, market conditions are more likely to be favorable to the realization of economic growth and employment expansion. This in turn will provide a stronger foundation for future labour rights and social protections. However, the protection of labour rights and benefits, especially of the rural migrants, must take into account the connection between rural land rights, rural salaries and relevant social security policies.

In recent years, with the decline of China's demographic dividend following its transition to

Figure 3.1 Urban-Rural Employment After the Reform and Opening Up (unit: 10,000)



Source: NBS website

upper-middle-income country status, labour supply and demand in China has changed, and insufficient job opportunities is no longer China's main challenge. Both the government and employers have begun to pay more attention to workers' rights and the quality, rather than the quantity, of employment.

IMPROVING EMPLOYMENT SUPPORT AND SOCIAL PROTECTION, AND PROMOTING INCLUSIVENESS GROWTH

Employment is fundamental to individuals' livelihoods. Employment support and social protections provided by the government and employers for vulnerable groups directly impact on economic and social stability, which has been one of the Chinese government's key concerns in recent years. Since the reform and opening up, with the transition from planned to market economy, the progress of SOE reform and the impact of economic fluctuations, China has faced a number of employment challenges. To address these problems, the Chinese government has taken active measures to improve its employment support and social protection system, in order to maintain overall social stability.

VIGOROUSLY SUPPORTING THE RE-EMPLOYMENT OF LAID-OFF SOE WORKERS

In the mid-1990s, SOE reform and the establishment of modern corporations were integral to China's economic transformation. The reforms, which involved asset reorganization, property right reconfiguration and efficiency improvements, played a key role in improving the performance of SOEs. However, large numbers of SOE workers were laid off. According to data provided by China's labour market monitoring center, between 1998-2000, 21.37 million SOE workers were unemployed.[1] SOE workers are a 'special' group, according to the Chinese government. On one hand, they made important contributions to China's economic development, and on the other hand they enjoyed better labour protections and higher social status than other employees in China. High levels of unemployment among SOE workers has had a significant impact on Chinese society. In order to ensure the successful implementation of relevant reforms, while reducing surplus staff to improve performance, the Chinese government has adopted a number of active measures to help unemployed workers find new employment. The Chinese government's "Notice Concerning Practically Carrying Out the Work of Providing Basic Living Insurance and Re-employment for Laid-off SOE Workers" (June 1998), which developed a series of detailed and practical methods to help support the re-employment of former SOE workers. First, the government pledged to boost economic growth by increasing the number of jobs in public infrastructure construction. Secondly, the government committed to enhance urban management and improve the provision of public services. Thirdly, the government promised to provide loan support and other financial policies to help the unemployed start their own businesses. Finally, the government committed to providing paid training in order to increase the re-employment chances of the laid-off. All of these policies would be targeted at the most needy, such as unemployed people in their 40s and 50s – this was to ensure that there would be no 'zero-employment' families.

Despite high levels of unemployment in certain industries and regions, the timely adoption of appropriate policies and the rapid increase of private businesses, a large number of new jobs

1 Available here: http://news.xinhuanet.com/employment/2003-01/24/content_702257.htm

were created[1] and a large number of unemployment SOE workers have successfully found new jobs. This has effectively alleviated potential shocks to families and society more broadly.

ENHANCING EMPLOYMENT SUPPORT FOR COLLEGE GRADUATES AND PROMOTING ECONOMIC TRANSITION

In recent years the Chinese government has changed the focus of higher education from just providing education for a small elite minority, to providing higher education for all. As a result, the size of higher education institutions has rapidly grown and the number of college graduates in China has significantly increased (see Fig. 3.2). According to NBS statistics, the number of students who graduated from regular higher education institutions was around 830,000 in 1998; this increased to 5,120,000 in 2008 and 6,590,000 in 2014. While this is generally a positive development, it has also created several problems. On one hand, due to incomplete labour market policies, however, despite large numbers of jobs being created annually the labour market has not met the expectations of new college graduates. This is because jobs are still relatively unstable, and a lack of labour regulations means that salaries remain low in many sectors. On the other hand, mismatches between market supply and demand and the low quality of jobs remains a problem for graduates leaving higher education with high employment expectations. In many cases this has led to issues for graduates that are unable to find suitable jobs. In addition, international experience tells us that the popularization of higher education is certain to lower returns on investment in education. While this is natural, the uniqueness of China's higher education problem is that this phenomenon is likely to happen much more quickly than elsewhere; this means that graduates' expectations will not be able to adapt rapidly enough to this phenomenon.

Under these circumstances, college graduates are under increasing pressure to find employment, and their employment prospects have become the primary concern of the government. The Chinese government has published a number of policy documents specifically requiring that "the issue of college graduates' employment must be given foremost priority in current work regarding employment". At the same time, a series of policies have been developed to encourage enterprises to employ college graduates, to encourage college graduates to work in urban and rural grass-roots units, to encourage and support self-employment, to provide internship opportunities and professional training and to strengthen the provision of employment support and guidance.[2]

Generally speaking, by implementing comprehensive employment measures, the issue of graduate employment has been partly alleviated; but some conflicts still exist. Recently, the Chinese government has further strengthened its labour market policies. On one hand, labour market regulations has been strengthened to improve the quality of employment; on the other hand, by adjusting economic and industrial structures the government has enhanced reforms to the higher education environment, in order to cultivate skills and talent. As a result of these policies, college graduates are expected to face fewer employment pressures than they did in the past.

1 Between 1995-2005, urban employment increased by 43.5 percent, even without the additional employment of rural migrants. Such an increase was mainly due to the promotion of non-public businesses and informal institutions that have been created since the reform and opening up. Cai Fang, *China's Employment System Reform – Reflections and Speculations, Vol. 11* (Theory Front, 2008)

2 In 2009, *the "Notice of the General Office of the State Council Concerning Strengthening the Work of Facilitating Employment for Graduates from Regular Institutions of Higher Education"* was published and in 2011, *the "Notice Concerning Further Carrying Out the Work of Facilitating Employment for Graduates from Regular Institutions of Higher Education"* was published.

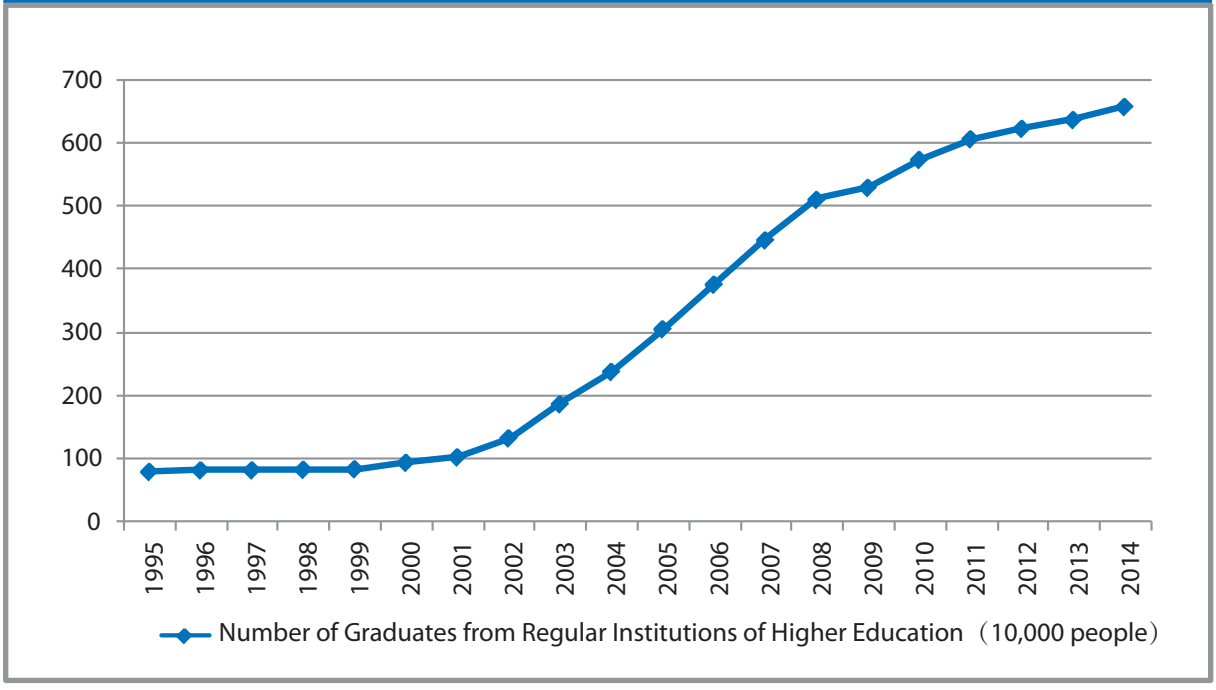
The popularization of higher education has been positive for facilitating economic development and for improving human capital, as well as for enhancing social justice and adjusting China's income distribution. However, China's experience has shown that it is important to popularize higher education at a moderate speed, at the same time as improving talent structures and coordinating labour market reforms.

IMPROVING THE SOCIAL SECURITY SYSTEM AND PROTECTING VULNERABLE GROUPS

Since the start of China's economic reforms in the mid-1980s, China's traditional social security system has faced substantial challenges. On one hand, it has experienced serious shocks to its security system; on the other hand, China's newly formed non-public sectors have not established effective employee protection systems. To address such problems, the Chinese government began adopting a series of measures in the 1990s to push the issue of social planning, facilitate the transition from SOE-provided security to a comprehensive national social security programme, and to expand the coverage of various types of social insurance. As a result, the proportion of urban employees now covered by various types of social insurance has increased. At the same time, supplementary medical and pension insurance systems have emerged to protect urban and rural residents that are not covered by the urban employee insurance system. At present, these key types of insurance cover most target groups.

In addition, the Chinese government has also begun to pay attention to the construction of an overarching social security system. Before China's reform and opening up, the country had formed a social assistance system 'with Chinese characteristics', which covered the rural "Five Guarantees" — a variety of disaster relief and temporary assistance provided for urban and rural poverty-stricken groups. Since the

Figure. 3.2 Graduates from Regular Higher Education Institutions



Source: NBS website

1990s, China has begun to explore the feasibility of establishing a wider, standardized system of social assistance. In September 1997, the State Council published the "Notice Concerning Establishing a Nation-wide Urban System of Citizen Subsistence". By the end of 1999, all county-level cities and townships where county-level governments are located had established a 'subsistence' social security system. By 2007, these subsistence systems had been established in all rural areas too. These social assistance systems have been steadily broadening to include educational assistance, medical assistance and housing assistance. The establishment of these social assistance systems has played a critical role in helping citizens to avoid economic risks and eliminate poverty as well as securing social stability.

During China's economic transition, many social challenges were effectively handled. For example, China's subsistence system, established in the mid-to-late 1990s for laid-off SOE workers, was established to ensure that a certain social group would not fall into poverty. In June 1998, the Chinese government published the "Notice Concerning Practically Carrying Out the Work of Providing Basic Living Insurance and Re-employment for Laid-off SOE Workers", and the "Notice Concerning Further Carrying Out the Work of Providing Subsistence for Laid-off SOE Workers and the Payment of Pensions for Retired SOE Workers". In the latter Notice, specific policy measures were proposed to ensure laid-off workers' basic livelihoods were not threatened. This included financial assistance and the establishment of specific social security standards, with strict performance mechanisms. Such policies were important to ensure the protection of laid-off workers' rights and to push forward relevant reforms. China's experience can be used as an example for other developing countries: during periods characterized by reform and development, it is important to implement security systems for certain groups, such as social insurance, to mitigate against risk. These arrangements can become necessary in the event of economic shocks.

3.2 CHINA'S EXPERIENCE WITH IMPROVING EDUCATIONAL ATTAINMENT AND INCLUSIVENESS

Since 1949, China has made outstanding progress in the field of education. In 1982, China's literacy rate among male and female youths (15-19 years old) reached 96 percent and 85 percent respectively, while in India (whose starting point was similar to China's in 1949), literacy rates were 66 percent and 43 percent respectively.[1] In 1980s China, the average number of years individuals were in education among those aged 15+ surpassed the world average. Data recorded in 2010 estimates that individuals were in education for around 9.1 years – 1.33 years longer than the world average and 2 years longer than the average in developing countries (see in Table 3.1).

China's achievements lie in its long history of education prioritization, and the attention the government has paid to formulating national education and social sector strategies. During the three decades after China's reform and opening up, aside for some specific interruptions, China's formal education system realized stable development at all levels. In the early years following the founding of China, the country introduced an illiteracy-elimination movement to help tackle adult illiteracy. After China's reform and opening up, education, and its contribution to national economic and social development, was given higher priority. At the beginning of the reform and opening up,

1 Amartya Sen and Jean Dreze, *"India: Economic Development and Social Opportunities"*, Social Sciences Academic Press (2006)

Table 3.1 Educational Attainment of the Population Aged 15+ – China and the World[1] (unit: year)

	China's Average	World's Average (146)	Developed Countries' Average (24)	Developing Countries' Average (122)
1950	—	3.17	6.22	2.05
1960	3.42*	3.65	6.81	2.55
1970	—	4.45	7.74	3.39
1980	5.33**	5.29	8.82	4.28
1990	6.40	6.09	9.56	5.22
2000	7.79	6.98	10.65	6.15
2010	9.09	7.76	11.03	7.09

*Note: *1964 data; ** 1982 data.*

Source: Robert J. Barro and Jong-Wha Lee, "A New Data Set of Educational Attainment In The World", 1950-2010, Http://ideas.repec.org/p/nbr/nberwo/15902.html.

1 *Gao Shuguo, Chinese Population's Educational attainment – From Strategic Disparity Reduction To Fractional Transcendence (Chinese Government, 2012)*

Deng Xiaoping explicitly proposed that education should be "oriented toward modernization, toward the world and toward the future" and "science and education for prosperity" became a national policy. In addition, a series of laws, regulations and important policy documents were implemented in order to facilitate the development of China's education sector.

China has since formulated many other relevant policies that have been critical to improving Chinese citizens' educational attainment and inclusiveness.

THE ILLITERACY-ELIMINATION MOVEMENT IN THE PRC CHINA

After the foundation of the PRC, 400 out of 550 million people were illiterate, with an average illiteracy rates of 80 percent,[1,2] and illiteracy rates of up to 95 percent[3] in rural areas. Eliminating illiteracy and improving levels of educational attainment became one of China's most important national strategies. The elimination of illiteracy began to be treated as an "urgent and prominent political mission", as was stressed during the 1st National Industrial and Agricultural Education Conference in 1950, in the "Notice Concerning Carrying Out the Experimental Teaching Work of 'Accelerated Literacy Method' Across China" published by the Ministry of Education in 1952, and in the "Decisions Concerning the Elimination of Illiteracy" jointly published by the CPC Central Committee and the Government Administration Council on March 29,1956.

The movement for illiteracy elimination was encouraged by the state and aimed to facilitate nationwide participation. For a period, "illiteracy elimination classes" were offered in factories, in the countryside, among military groups, in streets and in other public areas. This encouraged illiteracy elimination among all Chinese adults and aimed to ameliorate China's national educational standards. For example, during the low farming season in winter, rural residents organized a range of classes including "night schools", "lunch classes", "newspaper reading

1 Illiteracy rate: the ratio of illiterate people (above 15 years old, unable to read or write) in a corresponding population.

2 "Minister of Education Zhou Ji, *China 60 Years: Education Shapes A Nation, a series of interviews with ministers of the PRC on Education* (People's Daily, August 27, 2009)

3 ChinaNet, *"New China's Illiteracy Elimination Movement"*, available here:http://www.china.com.cn/aboutchina/zhuanti/zg365/2009-11/24/content_18936237.htm

classes" and "character teaching classes". During the busy farming period in the summer, workers were urged to make use of any usable time, by utilizing "small blackboards on farmland", learning by "walking and singing", "learning characters with a burden on [workers'] shoulders", and "learning characters while herding animals".[1]

As a result of large-scale flexible illiteracy elimination campaigns from 1949 to 1964, nearly 100 million grown-ups escaped illiteracy. Such large-scale and effective illiteracy elimination campaigns were a landmark in Chinese history.[2] After the reform and opening up, a number of small-scale illiteracy elimination campaigns were organized. Due to these campaigns, in addition to the continuous development of Chinese formal education, China's illiteracy rate significantly decreased.

Table 3.2 Illiteracy in China According to China's National Census

Year	Illiteracy Rate
1964	33.61
1982	22.82
1990	15.88
2000	6.72
2010	4.08

Source: Nationwide census data

THE GRADUAL EQUALIZATION OF COMPULSORY EDUCATION NATIONWIDE

Since the foundation of the PRC, the Chinese government has vigorously promoted elementary education. According to NBS statistics, the national average rate of net enrollment for school-age children was only 9.2 percent in 1952, a figure that had rapidly increased to 84.7 percent by 1960.[3] During the "Cultural Revolution" education was impacted greatly, but after the reform and opening up, the development of elementary education continued along its previous course. In 1986, China released the "Law on Compulsory Education", where 9-years of education was made compulsory for all Chinese citizens. The implementation of this Law has improved the level of elementary education development, especially in underdeveloped regions where poverty-stricken groups have benefited significantly. In provinces with lower levels of education prior to the "Law on Compulsory Education", per capita years of education (years of education received by people under the age of 15, calculated in 1986 when the Law was put into effect) has increased by around 1.5 years; while in provinces with higher levels of education, estimated per capita years of education has increased by 0.8 years. Regarding gender and household registration status, female students and rural students' levels of education have improved even more rapidly. The "Law on Compulsory Education" has not only improved China's overall levels of educational attainment, but it has also narrowed disparities in educational attainment between different genders and social groups.[4]

At the same time as it promoted a nation-wide compulsory education, the Chinese government continued its work of illiteracy elimination for young adults. It also introduced the "Two Basics" program in 1993. By the end of 2000, China had "basically realize[d] the popularization of 9-year compulsory education, and basically eliminate[d] the existence illiteracy among young adults". By 2000, the population with 9-years of compulsory education had reached around 85 percent, and the illiteracy

1 Chen Peng, *"China's Fundamental Experience and Revelation in Literacy Education During Early Days of New China"*, Journal of Shaanxi Normal University Adult Education College (June 1999).

2 ChinaNet, *"Illiteracy Elimination Campaign in New China"*, available here: http://www.china.com.cn/aboutchina/zhuanti/zg365/2009-11/24/content_18936237.htm

3 NBS, *"Net Rate of School-Age Children's Enrollment"*, available here: http://data.stats.gov.cn/easyquery.htm?cn=C01 Note: prior to 1991, enrollment rate was calculated for children in the age 7-11; since 1991, enrollment rate has been calculated based on different ages and elementary education years in different regions.

4 Wei Huang, *"Understanding the Effects of Education on Health: Evidence from China"*, Working Paper (2015).

Box 3.2: Illiteracy Elimination in Yao County, Shaanxi Province

More than 90 percent peasants living in Yao – a county in a mountainous region in Shaanxi Province – were illiterate before China's illiteracy elimination movement. In the winter of 1955, the County's CPC Party Committee called for all cadres to turn their attention to illiteracy elimination. More than 1,500 elementary school teachers and students were motivated to use their winter holidays and work with government officials to organize a large-scale, cultural publicity campaign. Eight teams were organized to publicize the benefits of education. They achieved this by making use of blackboards, speakers and newspapers, and holding seminars for young people, women and seniors. This motivated over 34,000 youths and grown-ups, illiterate and semi-illiterate, who enrolled themselves onto classes to receive an education. New enrolments accounted for at least 90 percent of all students.

The peasants in Yao County learned in a variety of different ways – including via character learning groups organized at work, in villages, on the streets and by families. Teaching tours and literacy support teams were also set up. For example in Liulin Elementary School, a special "teaching team" was organized. This team went to the fields with a blackboard to teaching Chinese characters to the peasants whilst they were at work. As a result, the peasants learned a huge amount of material without taking time off work.

This illiteracy elimination campaign greatly changed the character of Yao County. By the end of 1957, each young peasant in 65 villages was able to read and write at least 1,500-3,000 characters.

Source: Hu Yutian, "Culture Came to Mountains – A Biography of Illiteracy Elimination in Yao County", People's Daily, December 20, 1957.

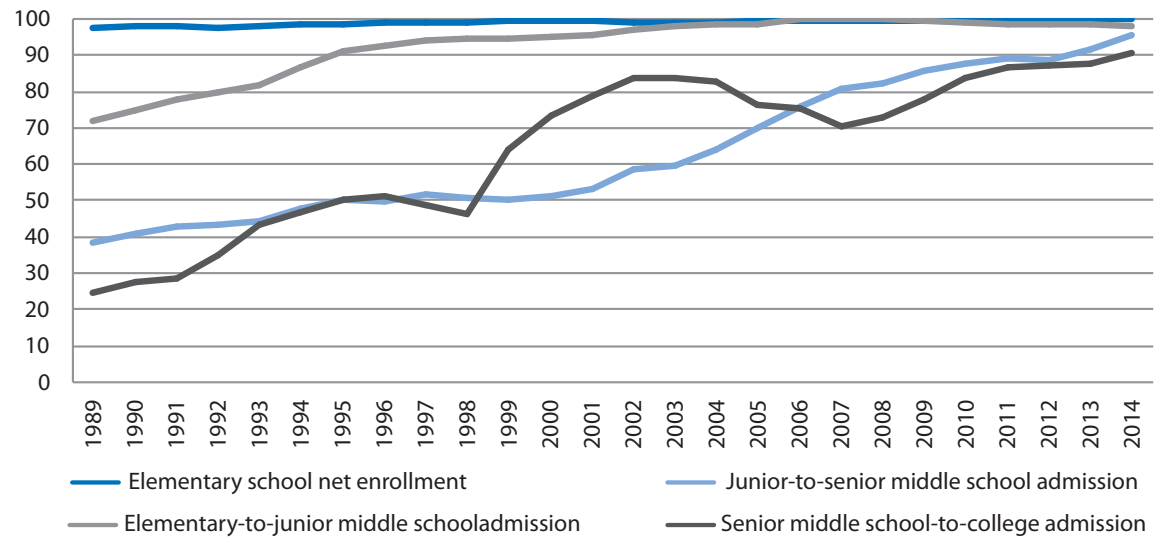
rate of young adults had dropped to below 5 percent. As a result of these achievements, China began to further increase its support for elementary education. In 2006, a revised "Law on Compulsory Education" was published, in which the government stipulated that the "the State should integrate compulsory education into the scope of financial insurance". Between 2006 and 2008, by increasing financial investments in education throughout rural and urban areas, students in both urban and rural areas were able to receive a compulsory education without paying tuition or other fees; students in some regions were given free books and some boarding students were awarded living allowances. By end of 2011, China's 9-year compulsory education had been popularized in all 31 provinces (autonomous regions, municipalities directly under the Central Government) and the illiteracy rate of young adults had dropped to 1.08 percent.[1] This signified an important milestone in China's education history, as this goal had been achieved four years ahead of China's "Dakar Framework for Action" schedule – a UNESCO programme. In essence, by this time, China had achieved its goal of providing free and high-quality elementary education to all children by 2015.

PROTECTING THE RIGHTS OF RURAL MIGRANTS' CHILDREN'S TO COMPULSORY EDUCATION

After China's reform and opening up, with the large migration of rural labourers to urban cities, the education of rural migrants' children gradually became the key challenge facing the compulsory education sector. In 2001, the "Decisions of the State Council Concerning the Reform and Development of Elementary Education" was announced, which proposed that "Enough attention must be paid to the provision of compulsory education for migrants' children, and based on the local government's management and mainly in the form of full-time public primary and middle schools, multi forms shall be used to legally ensure the migrants' children's right to compulsory education." In 2003, the State Council published the "Opinions Concerning Further Carrying Out the

1 Yuan Guiren, *100-Year Plan for Education – A Review of the Reform and Development of Education Since the 16th Plenary Session of CPC Congress* (People's Publishing House, 2012)

Figure. 3.3 1989-2014 School Enrollment and Graduation Rates (%)



Source: NBS website

Work of Providing Compulsory Education for the Children of Rural Migrant Workers in Urban Cities", which further stated that migrant families could "mainly rely on the local government of the inflow areas and public schools". This was translated into legislation under the "Law on Compulsory Education" – revised and promulgated in 2006. Given the growing numbers of migrant children in schools in recent years, the implementation of this law appears to have been effective. Most regions have integrated the children of rural migrant workers into their regional educational development plans, their financial insurance systems and their district enrollment plans, offering these children the same education and early life chances as urban children. According to a report released in 2014 by the Office of the State Council's Steering Committee on Education, the number of students from rural migrant families that received an education in 2014 was 12.947 million, of whom 79.5 percent attend public schools.[1]

THE "SPRING BUD PLAN" FOR GIRLS

Due to China's traditional preference for males over females, in regions where economic and social conditions were poor, girls had no right to an education for a long time. In the late 1980s, over 70 percent of China's 180 million illiterate citizens were female. Each year at least 1 million children were deprived of an education, of which over 70 percent were girls. In remote regions such as the Southwest and Northwest, especially in poor mountainous areas and regions where minority nationalities lived, the number of female school drop-outs was astounding.[2]

In order to stop girls from dropping out of school, the All-China Women's Federation (ACWF), in collaboration with the Ministry of Agriculture, the State Ethnic Affairs Commission and the China Children and Teenagers' Fund, established the "Girls' Education Grant" in 1989. This was renamed the "Spring Bud Plan" by ACWF and China Children and Teenager's

1 Office of the State Council's Steering Committee on Education, *"National Report on Education Supervision – 2004 National Evaluation of Balanced Development and Supervision of Compulsory Education"*, available here:http://www.moe.edu.cn/publicfiles/business/htmlfiles/moe/s8663/201504/185527.html

2 Zheng Chenying, *For the Future Mothers – A Report from the 'Spring Bud Plan*' (Chinese Women's Movement, 1995).

Fund (CCTF) in August 1992. The fundamental objective of this plan was "to help the future mothers of China, to let tens of thousands of girls return to the classroom, and to improve the overall quality and competitiveness of the whole nation".

By end of 2014, the "Spring Bud Plan" had been running for 25 years, with 1.458 billion yuan raised through social contributions, which has been used for helping 2,517,000 adolescent girls receive an education. The money was also used to build 1,154 Spring Bud Schools, to provide skills training for 523,000 girls and to compile and distribute 1 million safety brochures for children, girls in particular. With the popularization of compulsory education, the objectives and contents of the Spring Bud Plan have been adjusted and gradually disaggregated into multiple sub-plans, including the "Student Action" plan, the "Talent Action" plan, the "Employment Action" plan, the "Special Actions for Children Left Behind" plan, and the "Bud-Protection Action" plan. The beneficiaries have expanded from the girls receiving a 9-year compulsory education to high school-age and college girls; from the children of rural poverty-stricken families to all children that have been left behind in rural areas; from skills training for adolescent girls to the training of "Spring Bud" teachers. With this expanded remit, the Spring Bud Plan is now a welfare system in itself, which provides education and health and safety training to children across China, and especially to girls.[1]

THE RAPID POPULARIZATION OF HIGHER EDUCATION

Immediately after the establishment of the PRC, while taking control of China's existing higher education institutions, the Chinese government also started building a number of new higher education institutions. China used the former Soviet Union's higher education system as a model, training thousands of industrial construction cadres and teaching staff, developing specialized institutes and schools, and strengthening and integrating comprehensive universities. By 1956, the number of higher education institutions in China had reached 200, and the number of students had increased from 117,100 to 408,000.[2] Higher education played an important role in China's national economic and social development. However, during the "Cultural Revolution", higher education faced chaos and declines, and in 1966, China's traditional college entrance examinations were cancelled.

In 1977, China's college entrance examination system was reintroduced, but overall enrollment remained small, around 1.4 percent in 1978. During the following two decades, enrollment rates steadily increased, to a gross enrollment rate of 9.8 percent in 1998.[3] During this period, higher education was targeted at the elite. In 1999, the Ministry of Education published the "21st century Action Plan for Education Revitalization", which planned to enlarge the scale of enrollment at all higher education institutions. Since this point onwards, higher education enrollment has grown rapidly, reaching 37.5 percent in 2014. The number of students in regular higher education institutions increased from 4,086,000 in 1999 to 25,477,000 in 2014. Within just a few years, China's higher education made a historical transition from elite to mass education.

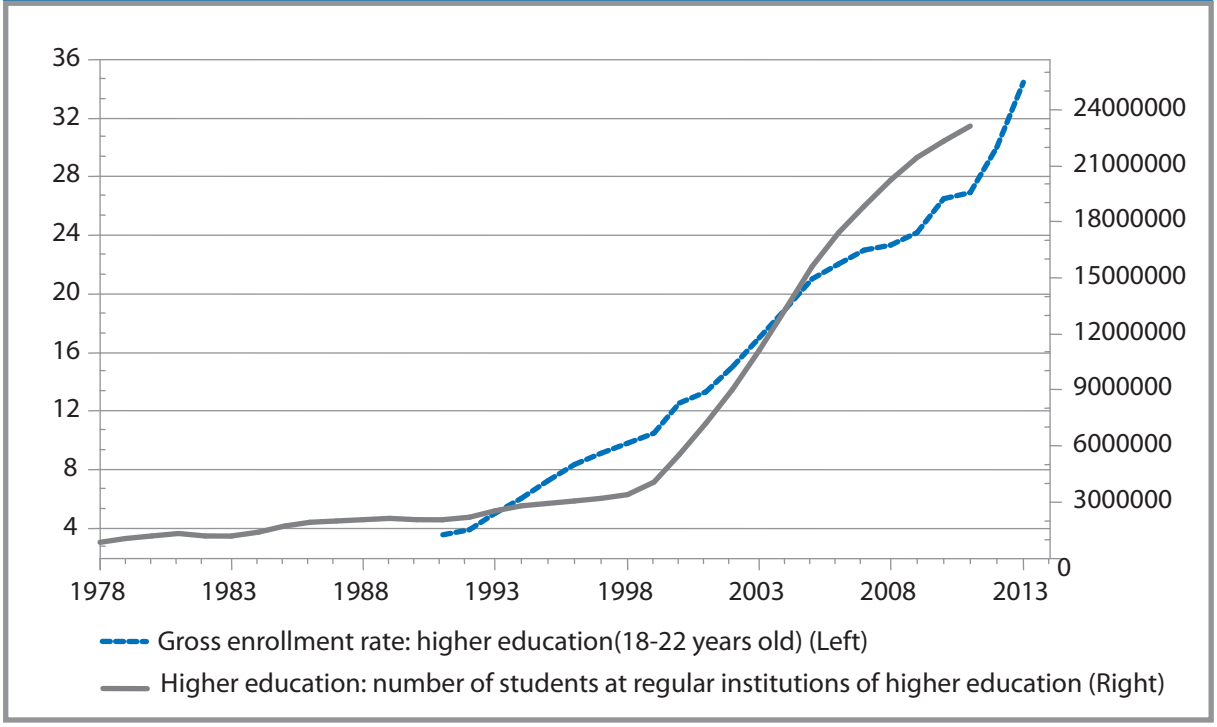
Higher education institutions have diversified; now, in addition to public higher education institutions, non-public institutions have also developed quickly. The providers of higher education have also diversified, with comprehensive universities, specialized institutes, and profes-

1 Spring Bud Plan, *available here:* http://www.cctf.org.cn/cljh/

2 Chen Wuyuan and Hong Zhencai, *Higher Education in 17 Years after the Founding of new China – Evaluation and Revelation, Vol. 3* (Southeast Academic, 2007).

3 The gross rate of higher education enrollment means the ratio between the number of higher education students and the corresponding population of higher education age (18-22).

Figure. 3.4 Gross Rates of Higher Education Enrollment (%) and Number of Students in Regular Higher Education Institutions



Source: NBS website, "Educational Statistics Yearbook of China (2013)", "2014 Statistical Bulletin of the National Education Development"

sional institutions developing at an incredible rate.

During the process of its expansion, China's higher education system encountered some notable problems. For example, Chinese higher education institutions have struggled to deliver quality as well as quantity. There has also been a conflict between the courses offered and the demands of the labour market (i.e. there have been market mismatches between degrees offered and market requirements). There have also been issues with returns on investment in education. Nevertheless, the popularization of higher education in China is significant and has brought countless opportunities to Chinese citizens. Chinese citizens' education levels have improved greatly, and more human capital is now available for economic and social development.

China has developed significant experience in developing its education environment since the foundation of the PRC. Education occupies an important position in China's economic and social development and China's experience (its national plans, major programmes and 'special actions') should be evaluated when designing new education policies. China's experience shows that different educational developments should be prioritized at different historical stages. Regarding the supply of services, the government should increase its investments in education and should use social contributions to pay for schools. As education systems develop, the features of each stage of development become increasingly clear. Compulsory education should be provided to all Chinese citizens as a public commodity; high school education, higher education, and vocational education are public goods and should be gradually improved. During the establishment of China's education system, China experienced several setbacks and learned a number of lessons. In

the early stages of China's reform and opening up, the development of China's education system was largely driven by a political agenda. However, during the later stages of China's educational development, government intervention was less important and public welfare was less of a concern. Due to the slow-down of China's economic development and various financial setbacks, educational disparities between urban and rural areas in China have been extremely obvious. In addition, the rapid development of higher education has historically lacked supporting policies and a coordination.

3.3 CHINA'S EXPERIENCE IN IMPROVING PUBLIC HEALTH AND INCLUSIVENESS

When the PRC China was founded, the health conditions of Chinese citizens were among the worst in the world. This was a result of long-term wars, low economic development and poor healthcare services. In rural areas where more than 80 percent of the Chinese population lived, the lack of doctors and medical supplies was extremely serious and epidemics and endemics were prevalent.[1] To change this situation, the Chinese government began to pay greater attention to the development of its healthcare sector and to public health. In early 1950s, four healthcare policies were introduced. There would be a greater focus on industrial workers, peasants and the military; the government would prioritize preventative measures; the government would procure a combination of western and eastern medicines; and healthcare would improve driven by popular healthcare campaigns. These campaigns would focus on: strengthening public health, enhancing the prevention and control of infectious diseases, steadily improving the health of women and children, and overall improvements to the nation's health; paying attention to the establishment of grass-roots services capacity building, prioritizing the cause of rural public health; using appropriate technologies and actively developing the medical insurance system. As a result, a rural cooperative medical insurance system was established based on the prior establishment of a workers healthcare system and a collective economy-based rural cooperative healthcare system. China also established a national public healthcare system as well as a drug production and procurement supply system similar to the system developed during its planned economy. This series of policy measures rapidly improved health outcomes in China. In addition to economic development after the foundation of the PRC, public health also improved significantly. By the end of the 1970s, China's average life expectancy, infant mortality rates and other indicators had reached the levels of middle-income countries. At the Alma-Ata Conference in 1978, the World Health Organization commended China's public health developments to the world as a model for how to improve primary healthcare.

For a time after China's reform and opening up, China's healthcare system encountered a number of problems. First, changes to China's economic system greatly impacted on its traditional healthcare system, and especially on its medical insurance system. Since the implementation of China's rural household contract system, its traditional rural cooperative medical system (developed under China's collective economy) was largely scaled-back. After China's economic reforms, enterprises were made responsible for their own profits and losses and employees began to find it hard to access corporate health insurance and medical services. In addition, after changes to the government's financial institutions, public healthcare systems in some regions began to face significant financial difficulties. These changes resulted in declining national medical insurance coverage. For most citizens, public health services are now

1 Ge Yanfeng et al., *China's Medical Reform: Problems, Reasons and Solutions* (China Development Press, 2007)

consumables that they have to pay for. Secondly, as a result of urban economic reforms, the tightening of financial systems, changes to public health services, a lack of government investment in healthcare, medical institutions began selling their services to make profit. Increasingly, hospitals and other treatment centers provided excessively expensive treatments causing the price of healthcare services to skyrocket. Meanwhile, the design of China's medical system became distorted and grassroots and rural medical systems weakened, and in some cases disappeared. Not only did this restrict access to public healthcare provision, the public also began to complain that it was too "expensive and difficult to see doctors". Overall, these developments meant that medical provision in China was incredibly unfair and inaccessible to people below a certain income bracket. As a result, the performance of medical institutions in China declined significantly.

The above-mentioned issues have drawn the attention of the Chinese government. The outbreak of SARS in 2003 became an important opportunity for China to further reform its healthcare system. Since 2003, the government has begun to focus on the construction of robust public health and medical insurance systems. Based on its experiences of reform, the CPC Central Committee and the State Council jointly published the "Opinions on Deepening of Medical and Healthcare System Reform" in 2009, signifying the start of a new round of medical and healthcare system reforms. The Opinions vigorously argued for the welfare element of China's medical system to be strengthened; the goal of providing basic healthcare to everyone has been reinforced; grassroots medical institutions have been enhanced and various healthcare mechanisms have been developed. Furthermore, five specific goals were proposed: to improve China's public healthcare system; to improve China's medical insurance system; to improve China's grassroots medical service system; to establish a basic medical system; and to push forward pilot public hospital reforms. In order to realize these basic reforms, in recent years the Chinese government has announced a series of more specific policies that aim to reform China's public healthcare system. Given the great number of challenges China's complicated medical system faces (and various conflicts of interest), these reforms are still ongoing.

China has accumulated substantial experience in public health in recent years. The reconstruction of China's public health and medical insurance system has had significant positive effects on public health, and have improved inclusiveness across China.

FOCUSING ON MAJOR PUBLIC HEALTH ISSUES: STRENGTHENING THE PREVENTION AND CONTROL OF INFECTIOUS DISEASES AND IMPROVING THE HEALTH OF WOMEN AND CHILDREN

National public health movements and epidemic control

In the early days of the PRC, China's public health situation was extremely poor. Its public health system was also incredibly weak, and national mortality rate stood at over 30 percent. A variety of highly infectious diseases, acute and chronic, as well as parasitic diseases and endemics, were prevalent throughout the country. These included plague, cholera, smallpox, tuberculosis, malaria, schistosomiasis, Keshan disease and Kashin-Beck disease.[1] Epidemics had a severe impact on the health of Chinese citizens. For example, over 10 million people were infected by schistosomiasis in 12 provinc-

1 Jin Yuanyuan, *Patriotic Health Movement in Early Days of New China (1949-1959)* (Masters Degree thesis at Anhui University, 2010)

es, autonomous regions and municipalities, accounting for 10 percent of the total population of these regions. Around 40 percent of infected people showed little or no clinical symptoms and the diminishment of labour capacity varied across the country.[1] Meanwhile, the capacity of national healthcare services was extremely low. According to statistics, the number of healthcare professionals per thousand people in 1949 was only 0.92, and the number of beds per thousand people was only 0.15.[2] In addition, requisite drugs were in short supply and even the simplest medical devices were imported.

In order to change the extreme deficiencies of the Chinese healthcare system as soon as possible, the new government of China implemented a national health campaign called "health work combined with mass mobilization". Chairman Mao called on all people to "get mobilized and pay attention to health, reduce disease and improve health." The nation launched a nationwide health campaign to prevent smallpox, plague, cholera and other deadly infectious diseases. From 1949 to 1951, more than 45 percent of the total population received a specific vaccination, which prevented other infectious diseases, such as malaria and leishmaniasis, from spreading.[3]

After 1955, China's health campaign entered a stage where its focus shifted to issues such as hygiene and the elimination of "four pests"[4] and diseases. In 1960, the National People's Congress adopted the "1956-1967 National Programme for Agricultural Development", which prioritized these issues. In the "Instructions on the Hygiene Work", a famous slogan was proposed: "Hygiene is honour and insanitation is shame". The elimination of "four pests" played a positive and effective role in preventing infectious diseases and endemics.

China's patriotic health campaign received general support across China. It greatly enhanced China's health situation and reduced the prevalence of diseases. In addition, people's living standards, their perceptions of hygiene, their household conditions and attitudes all improved. Thus the national campaign succeeded in "changing the national habit and improving the nation".[5]

China's national health campaign, combined with state intervention and public participation, was effective at constructing China's modern healthcare system and helping people to adopt good habits and improve their own physical health. The notion of "combining health work with public health campaign" became an important guiding principle for China's healthcare improvements, the influence of which can still be felt today. Likewise, China's popular campaign "Creating National Hygienic Cities" helped to eliminate filth and disorder from urban areas.

Improving public health services, eliminating SARS and enhancing both urban and rural public health

For a certain period after the reform and opening up, due to changing economic and social conditions (i.e. to China's financial system and its public health institutions), local communities became less interested in public health and the focus of the Chinese healthcare system transferred from public health to medical services. As a result, public healthcare institutions received insufficient funding and the system weakened rapidly. In 2003, the outbreak of

1 Chen Haifeng, *China's History of Healthcare* (Shanghai Science and Technology Press, 1993)

2 Huang Yongchang, *China's National Situation of Public Health* (Shanghai Medical University Press, 1994)

3 Jin Yuanyuan, *Patriotic Health Movement in the Early Days of New China (1949-1959)* (Masters Degree thesis at Anhui University, 2010)

4 "Four pests" included flies, mosquitoes, rats and sparrows at first. For example, in February 1958, the CPC Central Committee and the State Council jointly promulgated the "Instructions on the Elimination of Four Pests and the Stress on Hygiene", in which it was required that, these pests be eliminated within ten years. Later, "sparrows" was replaced by "cockroaches".

5 National health campaign, available here: http://www.nhfpc.gov.cn/jnr/agwsrzsxx/201404/185fef4d1cde420a847740533546a65f.shtml

SARS exposed the weaknesses in China's public health system.

After SARS, the Chinese government strengthened its public healthcare system by greatly increasing investment in the construction of relevant healthcare institutions as well as improving capacity building. China's four-level (national, provincial, municipal and county-level) disease control network was enhanced, its public health emergency response mechanisms were established, and the capacity to handle the outbreak of serious infectious diseases was greatly improved.

The number of public health services and their coverage expanded continuously. On one hand, the government began to provide free, basic public health services for all citizens, which included 43 independent services under 11 categories, such as vaccinations, the health management of target groups, chronic disease management and health education, with fund allocated according to the number of permanent residents in each geographical region.

Meanwhile, the State further extended China's major public health projects. Since 2009, in addition to existing projects for the prevention and control of major diseases (such as tuberculosis and AIDS) and several national immunization programmes targeted at specific diseases, focus groups and special regions, a number of major public health projects were initiated. These included the provision of subsidies for rural pregnant women (who received childbirth assistance), the provision of hepatitis B vaccines for individuals under the age of 15, the provision of folic acid for rural women before and during early pregnancy, the provision of free operations for cataract patients, the provision of free cervical and breast cancer screening for rural women of a specific age, and the reconstruction of water supplies and sanitation facilities in rural areas.

Focusing on the hygiene and health of women and children

The health of women and children is an important indicator to measure levels of economic and social development (and human development). The "Healthy China 2020 Strategy Research" showed that during 1990-2005, Chinese citizens' average life expectancy increased from 68.6 to 73 years, 48 percent of which was due to declines in child mortality (deaths of children under the age of 5).[1]

The Chinese government has always paid great attention to healthcare for women and children. Regarding pre-natal and maternity healthcare, China began to promote the adoption of new infant delivery methods in 1949, after which maternal mortality and neonatal mortality rates began to decline significantly. In 1978, China adopted a more comprehensive prenatal and maternity healthcare strategy. As a result, a system of prenatal and maternity healthcare services was formed, including prenatal tests, prenatal screening and diagnosis, the screening and management of high-risk pregnancies, child delivery services in hospitals, and newborn and post-natal home visits. As a result, neonatal and maternity healthcare services have improved significantly. Since 2000, the Ministry of Public Health, the Ministry of Finance and other Ministries have worked together to implement the "pregnancy and maternity mortality reduction and neonatal tetanus elimination" project, providing subsidies for rural poverty-stricken women to access hospital services when giving birth. At the same time, by strengthening capacity building for neonatal and maternity emergency rescue services and by improving the pediatric technicians' technical skills, the healthcare services for women and children in central and western China have greatly improved. By 2011, the "re-

1 Research Report Committee, *Healthy China 2020 Strategy* (People's Medical Publishing House, 2012)

duction + elimination" project covered 22 provinces in central and western China and at least 20,000 pregnant women avoided maternal and neonatal deaths. Since 2008, the Chinese government has continually increased investment in this area, implementing "subsidies for rural pregnant women's hospitalization and childbirth in contral and western China". In 2009, the "rural pregnant women's hospitalization and childbirth service" project was launched as one of China's major public health projects, further expanding coverage to all rural pregnant women in China.[1,2] In 2009, the Chinese government expanded this project to one of China's basic public health services. All of China's pregnant women were given access to free pre-natal tests and post-natal visits. As a result of these efforts, China's rural rate of hospitalized child delivery reached 99.6 percent in 2014, and urban and rural maternal mortality rates stood at 20.5/100,000 and 22.2/100,000 respectively.[3]

In the field of children's healthcare, the key challenge since 1949 has been to carry out a children's immunization programme across China. In the 1960s, China eliminated smallpox and polio and controlled the prevalence of diphtheria, tetanus and other diseases. Since the 1980s, China has begun to provide neonatal healthcare services in all hospitals in China, mainly neonatal visiting services. In the 1990s, China introduced neonatal resuscitation technologies and implemented the screening of neonatal diseases and neonatal death analysis. In 2011, the maximun age limit for free physical examinations and growth monitoring services for children has been lifted from three years old to six years old. To prevent and treat birth defects, China began to provide birth defect monitoring services in the 1990s, and in 2008 China started its six-province birth defect prevention and control project in western China to provide free folic acid supplements for pre-pregnancy and early-pregnancy mothers, which was lauded as one of China's greatest public health successes and extended to all rural areas in China. Furthermore, to control the increase of AIDS, syphilis and hepatitis B infection in women, China actively took measures to block the maternal-to-neonatal dissemination of these three infectious diseases. In 2007, China implemented an extended programme of immunizations (EPIs), and the scope of EPIs was expanded to "14 vaccines for the prevention of 15 types of diseases".[4] To ease the economic burdens of children's disease treatment, in 2010 China began to conduct pilot work to provide medical insurance services for rural children with major diseases; this has greatly improved the levels of reimbursement families receive and the levels of medical assistance to treat children's acute leukemia and congenital heart diseases. This alleviated the financial burden on families and ensured that sick children could receive timely and effective treatment.

Through each of these efforts, China has made remarkable achievements in improving women and children's health. According to national monitoring data, China's maternal mortality rate dropped to 21.7/100,000 in 2014, a decrease of 75.6 percent compared to 88.8/100,000 in 1990, which ment China achieved relevant UN Millennium Development Goal one year ahead of time. The average infant mortality rate dropped to 8.9 percent, and the average mortality rate of children under 5 dropped to 11.7 percent,[5]

1 The Ministry of Public Health of the People's Republic of China, *China's Women and Children's Healthcare Development Report* (2011)

2 Department of Women and Children Healthcare and Community Health of the Ministry of Public Health, *National Report on Women and Children's Health Information Analysis* (2011)

3 National Health and Family Planning Commission, *Statistical Bulletin of the National Health and Family Planning Development* (2014)

4 "14 vaccines for the prevention of 15 types of diseases": included hepatitis B vaccine, BCG, polio vaccine, DPT vaccine, DPT vaccine, measles vaccine, Japanese encephalitis vaccine, meningitis vaccine, hepatitis A vaccine, MMR vaccine, leprosy vaccine, bleeding fever vaccine, anthrax vaccine and leptospirosis vaccine; for prevention of hepatitis B, tuberculosis, polio, whooping cough, diphtheria, tetanus, measles, encephalitis, meningitis, hepatitis, mumps, rubella, hemorrhagic fever, anthrax and leptospirosis.

5 National Health and Family Planning Commission, *Statistical Bulletin of the National Health and Family Planning Development* (2014)

an achievement of the UN Millennium Development Goal eight years ahead of the schedule. Thanks to developments in women and children's health and China's important contributions to realizing several MDGs, China was nominated by WHO as an "Outstanding Nation in Women and Children's Healthcare".[1]

RAPIDLY PROVIDING ALL CITIZENS WITH HEALTH INSURANCE IN A POPULOUS COUNTRY OF 1.3 BILLION PEOPLE

In 2003, the urban and rural household coverage rates of basic medical insurance were 55 percent and 21 percent respectively; these figures increased to 89 percent and 97 percent respectively in 2011, with overall coverage exceeding 95 percent.[2] Within just ten years, in a populous country where rural population makes up the majority of the national population, medical services improved significantly – indeed, medical insurance soon covered the whole population. Such a remarkable achievement relied on the successful transformation of China's medical insurance system towards a market economy. This was, of course, inseparable from the huge investments provided by, along with the tremendous mobilizaing and implementing power of, the Chinese government.

Transition from a labour health insurance system to an urban basic medical insurance system

During China's planned economy period, the nation's urban medical insurance system was composed of two parts: a labour health insurance system (LIS) for SOE workers and their families, and a public health system for staff working for public agencies and institutions and their families. Both systems were mandatory employer liability systems; the only difference between them was their sources of funding. The former system by enterprises as a production cost, and the latter system was funded by individual allocations from each region by the state. LIS was implemented mainly in SOEs, which were not independent business entities at the time; so both systems were essentially state-funded. Such a system played an important role in protecting the urban population's health and raising morale.

Since the reform and opening up, with the "decentralization of power" and the implementation of market-oriented reforms, SOEs gradually became independent business entities and the government stopped funding LIS health insurance. Due to different age structures within different enterprises (i.e. some employed more elder workers), they were unevenly burdened with medical costs and as a result, some were unable to adapt to the market economy. Meanwhile, due to the "generosity" of the LIS and government-provided public health services, pressure for cost control was high. Reform became imperative for China's medical insurance system. In the early 1990s, some regions began to conduct social pooling trials, and in 1998, China's basic medical insurance system was established for urban employees, combining social pooling and individual accounts. With the successful implementation of a regionally administered system and a centrally managed medical fund, China's medical insurance system was successfully transformed. With the continual expansion of basic medical insurance coverage for urban employees, the population covered by this scheme increased from 37 million in 2000 to 280 million in 2014.[3]

1 *China Realized Low Rate of Pregnancy Mortality and Maternity Mortality – The UN Millennium Development Goals Achieved One Year Ahead",* available here:http://www.nhfpc.gov.cn/fys/s7901/201503/ce86faa05e7e4d6f86bb0cc8451afac3.shtml

2 ChinaNet, *The Ministry of Public Health Introducing China's Medical Healthcare Development in the Past Decade,* available here: http://www.chinanews.com/jk/2012/08-17/4116288.shtml

3 Ministry of Human Resources and Social Security, *Statistical Bulletin of Human Resources and Social Security Development* (2014)

Establishing and expanding China's new rural cooperative medical and urban basic medical insurance system

In the 1950s and 1960s, China's cooperative medical system was introduced in rural areas. This was a system based on the collective economy and supplemented by individual payments with "everyone paying and helping each other". It covered more than 90 percent of administrative villages in the late 1970s. Such a cooperative medical system, combined with a rural three-level primary healthcare network that prioritized prevention, effectively protected basic healthcare rights for most Chinese farmers, at a time when economic development was comparatively slow in china – this has been recognized and applauded by the WHO.

However, after China's reform and opening up, with the disintegration of the rural collective economy, China's cooperative medical system quickly collapsed, and medical coverage in administrative villages dropped to 5 percent by 1985. Since the mid- and late 1980s, all Chinese regions have made efforts to restore and rebuild China's cooperative medical system, and in the early 1990s, the central government also expressed its intention to develop a cooperative medical system once again. It piloted a medical system in cooperation with international organizations, but with unsatisfactory results. According to the 2nd National Health Services Survey conducted in 1998, only 12.6 percent of rural residents had access to some form of medical insurance, and only 6.5 percent of then participated in China's national cooperative medical system.[1]

The idea of rebuilding a cooperative medical system underwent drastic change in 2002-2003, when the government decided to establish a new rural cooperative medical system in China, with funding from individual payments with both collective and government support. This was the first time the government had committed to directly providing support for the cooperative medical system. In 2003, "Opinions on the Establishment of New Rural Cooperative Medical System" proposed that financial support provided by local governments should not fall short of RMB 10 per capita, that the central government should provide a financial support of RMB 10 per capita on average and that each farmer should also pay RMB 10 (at minimum); government support essentially accounted for two-thirds of total funding. In 2015, government support was increased to RMB 380 per capita, accounting for nearly 80 percent of the total funding. This government funding mechanism became the major driving force for the rapid expansion of China's new rural cooperative medical system. Using this as a model, the Chinese government decided to establish a basic medical insurance system for children, students, senior citizens (not participating in other medical insurance schemes) and unemployed residents living in urban areas in 2007. In just ten years, China's new rural cooperative medical system and urban resident basic medical insurance system covered over 1 billion people. Furthermore, China's social medical insurance system for urban employees now covers over 1.3 billion people, or 95 percent of the population – close to complete national coverage.

The full coverage of China's medical insurance has improved medical services across China. Regarding health improvements, the positive impacts of this system are likely to take a longer period of time to evaluate.[2]

1 Available here: http://www.moh.gov.cn/mohwsbwstjxxzx/s8211/201009/49160.shtml

2 Li Xiangjun et al, *Impact of New Rural Cooperative Medical Insurance on Farmers' Health and Their Pattern of Getting Medical Services – An Analysis Based on Income Levels,* Vol. 3 (World Economic Papers, 2012)

3.4 EXPANDING POLITICAL AND SOCIAL PARTICIPATION AND ENHANCING CITIZENS' RIGHTS

The meaning of human development is much broader than the three aspects of human development measured by human development indices. Political freedom and social participation, although not directly measured in human development indices, are important aspects of human development.

Before the reform and opening up, China's social governance system was largely characterized by systems and practices inherited from the revolutionary period, when political power was highly concentrated and society was highly organized. Social control was achieved through institutions and organizations (in urban areas) as well as through communes and production teams (in rural areas). Policy implementation was also realized by mobilizing this network, which used ideology as a governance tool. After the foundation of the PRC, these governance patterns played an important role in eliminating 'unhealthy' social conventions and restoring social order. However, this highly centralized governance model suppressed other models and severely limited individual freedoms.

After the reform and opening up, China's social structure was profoundly transformed. Its social governance system also underwent gradual but significant changes. The process of social governance change involved a transition from a unified governance system to a diversified governance system; from centralization to decentralization; from the rule of man to the rule of law; and from government regulation to government services.[1] Regarding the concept of social governance, the idea of diversified governance in China has been increasingly recognized and the relationships between government and market, government and society, and market and society have become clearer following continuous adjustments and explorations. With regard to its main body of social governance, China's government still occupies a prominent place in its governance system. In fact, the government remains the most important governance body in China, and is integral to not only social governance, but also for achieving economic and social development. On the other hand, China's social governance system has also encountered challenges. It has been characterized by too much power and is responsibie for overly centralizing government departments, for orchestrating the imperfect development of market mechanisms, and for keeping social sectors relatively weak and powerless.

China has conducted some useful explorations in recent years and has accumulated some useful experience in social governance innovation. It has expanded social participation and made some improvements to the freedoms and rights of its citizens. Nonetheless, China has also come across some challenges, and will continue to do so for years to come (see in Chapter IV). This chapter will now turn its focus to village autonomy, the development of social organization and government transparency issues.

VILLAGE AUTONOMY: THE INNOVATION OF GRASS ROOTS GOVERNANCE MECHANISMS

As has always been the case, China's rural population remains the largest in the country. According to NBS statistics, the number of permanent residents in rural areas reached 618 million in 2014, not including other rural citizens eligible to rural services such as rural-urban migrants, who retain their rural registration status and continue to hold land rights all year round. China has 585,500 Village Committees, autonomous organizations managed by rural

1 Yu Keping, *On the Modernization of Governance* (Social Sciences Academic Press, 2014)

residents.[1] This type of rural grassroots governance plays an important role in facilitating political stability, economic development and social harmony in China.

In ancient Chinese society, the concept of "keeping imperial power out of the county territory" was adopted in governance models. Rural governance was autonomous, managed by social forces such as local squires and clans, and subject to indirect management and control by the central state. After the Revolution of 1911, state power was extended to grassroots bodies. After 1949, rural governance experienced several years of self-exploration before the government adopted a people's commune system in 1958. This commune system combined political power and social forces, making it an organization comprised of grassroots political and collective power. As a result of this system, State power was able to infiltrate rural communities and replace traditional forms of governance.

In the late 1970s, China began carrying out comprehensive reforms of its rural economic systems, transforming the traditional collective management system into a new household contract responsibility system. As a result, the people's commune system gradually disintegrated and townships were establishment. This type of rural organization was defined in the "Constitution of the People's Republic of China" adopted by the 5th National People's Congress in December 1982, after the total abolition of the people's commune system. Under this new model of rural governance, townships were adopted as China's rural grassroots political organizations, and legally endowed with administrative power. Villagers Committees in particular were the autonomous organizations legally endowed with autonomous powers. In November 1987, the NPC Standing Committee adopted the "Organic Law of the Villagers` Committee of the People's Republic of China " (provisional), in which comprehensive rules were established regarding the nature, status, responsibilities, establishment, structure and management of Villagers` Committee meetings, signifying the legal establishment of village autonomy – a new form of people's self-governance and a new political system of direct democratic in China.[2] In October 1998, the 3rd Plenary Session of the 15th CPC Congress legislated to expand rural grassroots democracy and adopted a model of village autonomy. In November 1998, the 5th Session of the 9th NPC Standing Committee reviewed and approved the revised "Organic Law for the Villagees` Committees", in which the relevant contents of village autonomy were further clarified. At both the 17th and the 18th CPC Congress, the grassroots mass autonomy system was defined as central to China's basic political system, alongside other features such as multiparty cooperation, political consultation under the leadership of the CPC, and regional ethnic autonomy.

Under the people's commune system, almost all rural matters, including major economic and social decision-making and the appointment of cadres were implemented top-down. Villagers (commune members) passively accepted the leadership and management of the CPC. After the implementation of the household contract system, the former collective control of various resources was assigned to each household, making households the most basic economic unit. This unit-level decision-making power intensified self-interest as households decided how to carry out their own production and management activities. Under these circumstances, it was harder for social decision-making and management to be conducted through administrative means; this is how Villagees` Committee came in useful. The core of village autonomy was to rebuild credible and authoritative governance mechanisms. Firstly,

1 *See China Statistical Yearbook (2015)*

2 Shao Lili, *A Research of China's Rural Grassroots Political Power Construction – Historical Heritage and Status Quo,* available here: http://zqs.mca.gov.cn/article/jczqjs/llyj/201401/20140100581632.shtml

it was important for the Villagers` Committee to assist the government in fulfilling its family planning, tax collection and social security obligations. Secondly, the Committee was responsible for the management and financing of public affairs (required by the government but mainly undertaken by collective organizations in the past). This included the construction of schools, roads, farming and the provision of basic infrastructure including water, and that of assistance to "Five Guarantees" families. Thirdly, it was up to the Committee to decide how to handle their village's internal development affairs, including how to deal with environmental issues and conflicts, the development of collective economy and the division of assets.

The Villagers` Committee is the basic organization that governs Chinese villages. It is composed of director and members that are elected directly by villagers, and acts as the main body that assumes responsibility for the above-mentioned affairs. Even major issues require villagers' collective consent at the "General Assembly of Villagers". Village autonomy gives villagers the rights not only to elect and decide major issues, but also to supervise the Committee's daily activities and financial management. The purpose of village autonomy is to delegate rights to villagers.

After 30 years of exploration and practice, as well as continuous evolution and improvement, village autonomy now plays an important role in enhancing villagers' participation in local affairs, protecting their interests, facilitating rural economic and social development and improving rural grassroots community governance structures and practices.

In practice, however, village autonomy faces some problems. Firstly, the Villagers` Committee, an autonomous organization (by legal decree) undertakes many government assignments, which makes it look like an administrative body that fulfills government functions. Secondly, in addition to the Villagers` Committee, there is another important governing body at local level – the Communist Village Party Branch; frequent conflicts emerge between these two bodies as their rights and responsibilities often overlap. Thirdly, elections to the Villagers` Committee often face disturbances, including bribery, clan rivalry and local power struggles, all of which resultin a lack of credibility on the part of some Villagers` Committees. Finally, most major issues need to be decided at the General Assembly. However, due to a general lack of political awareness among villagers, plus large outflows of young adults from rural areas, the General Assembly is not very representative. Therefore, most major affairs are still decided by Villagers` Committees or a small number of village cadres.

Village autonomy is one of the most important reforms in recent Chinese history. In recent years (mainly during the economic and social transition), grassroots governance mechanisms facilitated local decision-making and encouraged democratic elections. Despite many challenges, China has essentially established a governance framework for grassroots democracy. In recent years, some regions, based on past experience, have started conducting more fruitful explorations of rural grassroots elections into the major issues facing local decision-makers, and the relationship between Villagers` Committees and Party Branches.

PROMOTING THE DEVELOPMENT OF SOCIAL ORGANIZATIONS

Social organizations, generally known as "NGOs", "non-profit organizations" or the "third sector", are organizations distinct from the government or enterprises, and mainly responsible for providing specific public welfare services, advocating group interests, providing social

support and raising relevant resources. In developed economies, social organizations are one of the most important bodies participating in social governance.

In traditional Chinese society, civil society organizations possessed certain characteristics. They were industry associations, chambers of commerce, federations, poetry clubs, literary societies or tea parties (among others) which, to a certain degree, fostered reciprocity and mutual friendship, both economically and culturally. In addition, many social organizations were made up of families and clans connected by blood, marriage or geography. These were not social organizations in the strict sense, but have played an important role in maintaining social relationships, promoting neighbourhood support and protecting the sick and the elderly. Therefore, these organizations were the important foundation of China's traditional social governance system.

After 1949, major changes faced China's social governance system, since which the "unit system" has become the most basic model of social governance. In rural areas, after the establishment of the people's commune system, every resident was integrated into a specific commune and production team. In urban areas, with the establishment of the public economy, every adult became a member of a specific unit or institution, or a state-owned or collective enterprise. All of these units and communes were responsible for economic activities and social governance, including the conveyance of messages to local and national government, the coordination of internal and external relations and supervision of personal behaviours. Meanwhile, the government and collective organizations undertook almost all public service functions such as the provision of education and healthcare services and the construction of public infrastructures. With the development of this new governance and service system, traditional civil societies became defunct. During this period, other social organizations were also established, including special interest groups such as Trade Unions, Women's Federations and the Communist Youth League, as well as professional groups such as the Literary Federation, the Writers Association and the Association of Science. However, these organizations were directly setup and administered by the government. Their staffs entirely consisted of public officials on government payroll, and their activities were decided or governed by the government. Essentially, the development and operation of social organizations in China was distinctively different from NGOs in western countries and China's traditional civil society organizations.

Since the reform and opening up, China's social governance structure has undergone profound changes, the core being the gradual collapse of the "unit system". In rural areas, since the establishment and implementation of the household contract system, the governing capability of rural collective organizations has significantly weakened. In urban areas, non-public economic sectors have never been integrated with social governance functions, and the social governance functions of public economic sectors have been severely weakened. Due to economic reforms and rapid economic growth, the economic activities of individuals and citizens' living styles have also become more complicated; citizens' interests have increasingly altered and their demands have diversified. In response, the government established a number of new social organizations, which were not able to represent all of the new interests of their citizens. Under these circumstances, the Chinese government established a new governance system that provided diversified public welfare services in order to satisfy a wide variety of requests. It was also designed to coordinate relationships between different stakeholders and to facilitate the regulated participation and representation

of citizens. This provided limited space for the development of new social organizations.

After the reform and opening up, especially after the establishment of the socialist market economic system in 1992, the Chinese government began to allow and encourage the development of social organizations. By reforming the public service system and considering the diverse range of public demands, the government started to encourage civil groups to establish various non-profit and public welfare organizations. In addition, with the rapid development of private businesses, mutual aidorganizations such as industry-based associations and chambers of commerce began to surge, mainly in coastal regions in eastern China. The development of these social organizations has played a positive role in providing public welfare services across the country, and has expanded social participation.

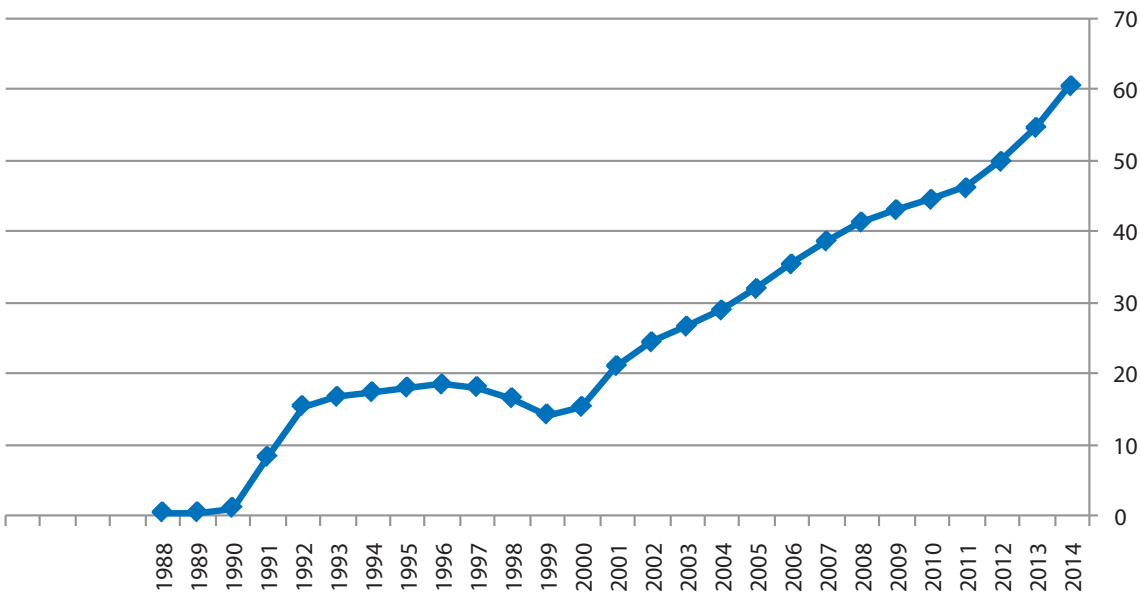
The significant development of social organizations has gradually become a central strategy for China's social governance system. In 2006, the 6th Plenary Session of the 16th CPC Congress adopted the "Decisions of the CPC Central Committee on A Number of Major Issues in Relation to the Establishment of a Harmonious Socialist Society", in which the role and status of social organizations was formalized. The Decisions prioritized the following tasks: "To improving social organizations and enhance their functions of serving society; to provide assistance for and conduct supervision on the development of social organizations, formulate policies for the support and legal management of social organizations, let social organizations play their role in providing services, reflecting appeals and standardizing behaviours; to develop and regulate the agencies of lawyers, notaries, accountants and asset appraisers; to encourage social forces to establish non-civil and non-business units in education, technology, culture, health, sports, social welfare and other fields; to utilize the social functions of industry associations, academic societies and chambers of commerce to serve economic and social development; to develop and regulate various types of foundations and promote the development of public welfare undertakings; to provide guidance for various social organizations in strengthening self-construction and improving self-discipline and integrity." And in the 17th CPC Congress report, it was further required that "social organizations should play a positive role in expanding public participation and reflecting public appeals, and enhance their function of social governance", and that the development of social organizations should be regarded as the important content in "developing grass-roots democracy and ensuring more practical and democratic rights for the people".

Motivated by the government's new attitude and practical need, China's social organizations have entered into a period of rapid development. The number of social organizations (mainly civil and non-business units), social groups and foundations in China, has grown fast (see in Fig. 3.5), and their roles have strengthened and diversified. Furthermore, some government-led social organizations have started to alter their management styles and service delivery models to emulate these civil organizations.

For many reasons, the development of China's social organizations still faces challenges. Independently-developed social organizations are still in the minority and remain small. Furthermore, government policies supporting and restricting social organizations are incomplete; some social organizations are function ineffectively due to incomplete governance mechanisms, poor self-management, and a lack of integrity, transparency and experience. In addition, most government-run social organizations have been slow to get running.

China has two main lessons to share regarding

Figure. 3.5 Changes to the Number of Social Organizations in China (unit: 100,000)



Changes of the number of social organizations registered at civil affairs departments during 1988-2014, Unit: 10,000

Source: 1988-2014 data: China's network of social organizations (www.chinanpo.gov.cn); 2014 data: 2014 Statistical Bulletin of Social Services Development

the development of social organizations: Firstly, due to previous inflexibility, the government has had to make adjustments to its central decision-making structures and to provide a basic infrastructure for the development of social organizations. As a result, the role of social organizations in China has gradually improved – they are now central to governance, rather than a supplementary body. Secondly, due to increased and diversified public demand for services, the government has had to give priority to social organizations with large capacity – i.e. those able to meet these demands.

PROMOTING GOVERNMENT TRANSPARENCY

Government transparency means that while conducting government activities and fulfilling government responsibilities, government agencies and the public sector should disclose their administrative rationales, administrative procedures and implementation results, so that the public can monitor and supervise their activities. Government transparency is an important instrument for promoting democracy and rule of law; it is also important for constructing an open, efficient and incorruptible government. Today, governments across the world regard government transparency as central to the construction of national governance systems.

After China's reform and opening up, based on a demand for enhanced democratization and the construction of rule of law, greater importance was attached to government transparency. In 1987, a 13th CPC Congress report urged that "the openness of government authorities be improved, major affairs be known to the public and major matters not be decided without public participation in the discussion". The 15th CPC Congress report, released in 1997, further stated that "urban and rural grassroots authorities and grassroots mass organizations must improve the democratic election system, separate government affairs from financial af-

fairs, let the public participate in discussions and decision-making process concerning the grassroots public affairs and welfare undertakings, and conduct democratic supervision on the cadres". In the 16th CPC Congress report, published in 2002, it was further stressed that "decision-making authorities at all levels must improve the rules and procedures for making major decisions establish the public opinion reflection system, the public announcement system and the social hearing system for deciding major affairs that are closely related to the public interests, and improve the expert consultation system", and that authorities should "seriously implement the government affairs disclosure system, strengthen organizational supervision and democratic supervision and play the role of public opinion supervisior". At the 18th CPC Congress, which took place in 2012, the government stated "we must protect the people's rights to know, to participate, to express and to supervise" and must "promote the openness and standardization of power operation, improve the disclosure of Party affairs, government affairs, judicial affairs and the affairs of each sector", "let[ting] the people supervise the power and let power operate under the sunshine".

Government transparency is increasingly being promulgated within specific ministries in China, and implementation measures are becoming increasingly diverse. In April 2007, the "Regulations on Government Information Disclosure" (hereinafter referred to as the "Regulations") was published, proposing basic requirements concerning the scope, method and procedure of government information disclosure as well as a mechanism that supervises this disclosure. As China's first regulation concerning government information disclosure, the promulgation of this Regulation signified that Chinese government affairs had entered into a stage where rule of law was the key. In August 2011, the General Office of the CPC Central Committee and the General Office of the State Council jointly printed and distributed the "Opinions on Deepening Government Openness and Strengthening Government Services", requiring that government transparency should be deepened in order to promote a service-oriented, responsible and incorruptible government subject to rule of law. The "Opinions" also proposed more specific requirements, including the promotion of transparency over decision-making, transparency regarding the operation of administrative power and over administrative examinations, the effective implementation of government information disclosure regulations, deepening of transparency relating to grassroots government affairs and strengthening the transparency of administrative bodies' internal affairs.

China's method of ensuring transparency was remarkably progressive and can be broken down into several stages. Early extensive attempts were mostly focused on the grassroots governance of village affairs; in line with village autonomy, many regions began to encourage transparency within village affairs, especially with regard to financial affairs. In the mid and late 1980s, alongside economic development, in order to attract greater investments and boost local economic growth, some local governments began to promote transparency within government affairs and explored the construction of "open" governments, For example in Jinhua City, Zhejiang Province – in as early as the mid to late 1980s – the local government implemented a policy of "two disclosures and one supervision"[1] in its economic development zone. After the 1990s, more regions and some national agencies began to conduct more active explorations into such practices, such as by introducing service commitment mechanisms, adopted by the government of Yantai (Shandong), a financial transparency system in Suzhou (Jiangsu), a "conglomarative

1 Li Ke, *Two Disclosures and One Supervision: Disclosing Taxation Procedures, Disclosing Taxation Results and Accepting Public Supervision*, Vol. 10 (China's Taxation, 1994)

one-step" service hall built in Shenyang (Liaoning), among others. Gradually, more sectors became involved, including police affairs and security services departments, Chinese inspection agencies, pre-inauguration announcements made by human resources departments, and financial departments.

At the beginning of the 21st century, with the rapid development of information technology, the use of the internet for information disclosure has become the most important way of ensuring government openness. In January 2006, the website of the Central People's Government (www.gov.cn) was officially opened. So far, all departments of the Central People's Government, as well as the governments of all provinces, municipalities directly under the central government, autonomous regions and prefectures, have built and opened their own websites, and most county-level governments have also opened their own sites. Through these government websites, the public may enquire about relevant laws, regulations and procedures, access services online, post their opinions and make suggestions, and conduct online surveys and make complaints. Websites are playing an increasingly important role in promoting government openness and are enhancing government-public interactions. The public is able to participate in local and national governance via ever-easier access to government websites. For instance, many major reform programmes carried out in education and healthcare sectors have been adopted based on online public opinion soliciting.

After thirty years of exploration and practice, the Chinese government's transparency has been greatly enhanced, and the public's right to know and participate in government affairs – as well as to eliminate corruption and improve administrative efficiency brtter protected. However, due to its recent emergence onto the national agenda, transparency remains in a developmental stage, and China's government openness still requires significant improvements. At present, it is incomplete, inaccurate and inefficient. As a result of their rapid development, many Chinese government websites still lack information and are updated infrequently. In addition, while information disclosure has generally advanced, there are still some shortcomings regarding public supervision, government accountability and public participation.

China's attention to government transparency has greatly increased. Its national government now pays great attention to transparency, adheres to explicit requirements, has implemented comparatively stringent laws and regulations, and has developed comparatively stringent accountability mechanisms. Due to China's large urban-rural gaps and inter-regional differences, the country encourages local governments to conduct explorations into local issues and summarize and disseminate their findings transparently on government websites. Furthermore, by making full use of information technology, the Chinese government has, in a short time, realized the remarkable usefulness of e-governance and information disclosure.

3.5 CHARACTERISTICS OF CHINA'S EXPERIENCE

Since the establishment of the PRC (especially after the reform and opening up), as the world's largest developing country, China has transformed from a low-income country into an upper-middle-income country. Hundreds of millions of Chinese people have escaped poverty, citizens' living standards have increased, the country's level of human development has been elevated significantly, and inclusiveness has been enhanced. These achievements are partially due to globalization, and largely due to the Chinese government's proactive approach

to reform and innovation. These reforms have greatly enriched human development practices worldwide.

China's experience of improving its inclusive human development over the past sixty years may be summarized in the following way:

SOLVE PROBLEMS AFFECTING HUMAN DEVELOPMENT AND INCLUSIVENESS USING A PROBLEM-ORIENTED APPROACH

Inclusive human development is complex – it involves solving many diverse problems quickly, and different stages of development regularly coincide with major conflicts that require prioritization. In order to achieve human development, China had to adopt problem-oriented principles and prioritized its human development goals.

In the early years of the PRC, after the political and economic situation had stabilized, the most vulnerable groups required attention as a matter of priority. During this phase, the Chinese government mobilized social organizations to push forward healthcare and education reforms. Therefore, while economic development levels were very low, China greatly increased the living standards of many of its citizens by enhancing human capital, which not only improved China's human development situation at the time, but also laid a foundation for rapid economic growth following in future.

Shortly after China's reform and opening up, China faced a major conflict between low levels of economic development and low levels of material wealth. Under these circumstances, China established its strategy for development "with economic construction as the center". At the heart of this strategy was a pursuit for efficiency through removing various institutional factors restricting improvements to labour productivity. By doing so, China has achieved over three decades' worth of continuous and rapid economic growth alongside universal increase of people's living standards. This has been a key contributing factor to improvements in China's human development since the reform and opening up.

At the start of the 21st century, in the face of ever expanding income gaps and disparities in public services and social insurance provision, as well as citizens' appeal for higher living standards, the Chinese government has strengthened its social policies and improved its education, healthcare, social security and other systems. The government has also put effort into providing greater assistance to vulnerable groups, underdeveloped regions and weak industries. The implementation of such policy measures has already helped to reverse the widening income gap between regions, and is still gradually improving public services, social security provision, and the inclusiveness of human development.

China's achievements are largely a result of its problem-oriented focus, which solved different economic and social issues at different stages. Such an approach can occasionally result in conflict, but it can also be an effective strategy for facilitating rapid improvements to human development inclusiveness.

STRIKE A BALANCE BETWEEN ECONOMIC GROWTH AND SOCIAL DEVELOPMENT

As the world's largest developing country, the promotion of economic growth has always been China's top priority. Social policies have been redesigned in line with the overall objective of facilitating economic development. Before the reform and opening up, when basic

social rights such as education and healthcare were well protected, China implemented a strategy of "developing heavy industries first" by designing a low-income, low-welfare system, which provided a low-level, basic social safety net, and the basis for rapid economic development in later years. After the reform and opening up, according to the general principle that prioritized "development with economic construction as the center", China began to adopt active and flexible labour market policies and household registration reform to facilitate labour flow and improve its employment rate. China also undertook social security reforms to ensure that it could adapt to its new market economy. This prioritized low levels of social security overall, and most social security and welfare-related services were available to professionals and enterprises. Wishing to make full use of its traditional social resources (including the household), public welfare, education and old-age insurance was provided. Such development-oriented social policies depended on the coordination between social policies and economic policies, which was useful for balancing the relationship between economic and social development. While this strategy had some negative consequences (such as deficiencies within the social security system and the long-term loss of labour rights), it has generally suited China's national situation.

MAINTAIN STRONG FLEXIBILITY AND ADAPTABILITY OF THE DECISION-MAKING SYSTEM AND INTRODUCE "TRIAL AND ERROR AND CORRECT" MECHANISMS

Over the past six decades, especially the three decades after the reform and opening up, China's economic and social systems have experienced significant overhaul. China has generally maintained a flexible and adaptable decision-making system, which has made adjustments easier and quicker to implement. For example, after urban economic reforms, China's original unit-based welfare system faced significant challenges, so the Chinese government rapidly pushed forward the construction of a social insurance system based on social pooling and successfully transitioned from a society based on unit-based security to social security. In addition, after the disintegration of the people's commune system, China's rural economic and social governance systems underwent major changes. Under these circumstances, China was able to alter its traditionally top-down administrative control in favour of village autonomy, while encouraging reforms within the grassroots public service system.

During the transformation process, and especially during the establishment of its new policy system, the emergence of conflicts in China was unavoidable. However, in general, China has been able to establish a more flexible "trial and error and correct" mechanism. When a policy decision goes and receives a strong public response, or when other conflicts emerge, China is now able to make timely corrections due to its centralized decision-making powers and a short chain in the decision-making process.

COMBINE TOP-LEVEL DESIGN WITH LOCAL INNOVATIONS

China's top decision-makers have paid great attention to the top-level design of its development processes. This top-level system was formed by considering economic and social development factors and soliciting opinions from a variety of sectors. During China's main development stages, economic and social development was achieved by taking into account ideas proposed by top decision-makers.

However, because China is such a vast country with a large population and big inter-regional

differences, it has been impossible to formulate unified and universally operable policies. Encouraging local governments to conduct explorations and make innovations has generally been the approach of the Central government. Most of China's national policies have been developed by taking into account local experiences. There are two basic ways that local innovations have become national policies. First, after local governments (or non-governmental bodies) implement new policy innovations, the national government often becomes aware of their value and shares this local experience with other regions in China. For example, the household contract method adopted in Xiaogang Village in Fengyang, Anhui Province, has been used as an example for other regions across China. Second, under China's central government, local pilots have taken place to test innovative practices and to assess the impact of policies, in order to decide whether they are worth disseminating. For example, relevant social security and healthcare reforms have been conducted since the 1990s.

At the macro level, it is clear that China insists on top-level decision making to design policy innovations, but local governments are often responsible for piloting these explorations and innovations. This approach is not only useful for steering the direction of China's overall strategy, but it also stimulates enthusiasm and creativity within local governments and social sectors. This way, the country is able to better adapt to uncertainties, especially economic and social transitions, and improve its self-adjustment capability. China's experience is of great value to other developing countries with large population and big inter-regional differences.

INNOVATION BASED ON INTERNATIONAL EXPERIENCE AND NATIONAL CONTEXT

As a latecomer, China has always been good at learning from international experiences, not by simply initating, but by continuously reforming and improving based on its national situation.

After 1949, during its economic development and social construction stage, China actively learned from relevant practices in the former Soviet Union. However, in many specific social policy areas, the Chinese government developed policies based on its actual experience, avoiding simple imitation. For example, regarding rural education and healthcare development, the central government did not rely on government investment exclusively, but made use of rural collective forces. This approach has been very useful for mobilizing collective and individual forces to make up the Chinese government's insufficient capacity and facilitate the rapid development of China's education and healthcare systems.

For a period after the reform and opening up, China made extensive use of other countries' experiences without simply imitating their privatization methods. On the contrary, China maintained its state-owned economy and developed a situation that encouraged the joint development of public and private economies, which has proved instrumental for achieving strong economic growth and mitigating risk.

Since the beginning of the century, China has made efforts to prevent market failure and has built a more equitable social security system. During this process, China absorbed important experience from developed economies, particularly with regard to welfare systems, including social insurance systems, social pooling, and actuarial balance. Regarding public services, the Chinese government further developed various services and accelerated the adjustment of its government-market and government-society relationships, as well as internal relationships between different levels of government. Nevertheless, China has attached great importance

to its own development, and has emphasized extensive coverage and basic and sustainable development, in order to avoid the economic risks attached to high-welfare commitments.

China's experience has shown that despite the rich experience of the international community, it is important that any country pays attention to its own national context and history. The best way to achieve human development is to conduct innovations based on a country's own situation to avoid simple imitation of other countries' systems and policies.

As a large developing country with a population that accounts for 1/5 of the world's people, China has experienced tremendous changes and adjustments to its economic and social systems, and has made great progress in realizing inclusive human development, with much experience worth sharing with the international community. China's experience is also the highlight of global human development. Past experience has not only been beneficial to China and its own development, but should and can be used as a reference by other countries.

CHAPTER 4

CHALLENGES AND RECENT EXPLORATIONS OF INCLUSIVE HUMAN DEVELOPMENT IN CHINA

Key Messages:

- **While much progress has been made in recent years in human development in China, there remain many problems. The main reason for this is that for a certain period of time, the government placed too much emphasis on growth and efficiency whilst paying little attention to equity. This can also be attributed to a number of other reasons, such as differences in resources, and starting levels of development between regions, as well as imperfect institutions.**
- **In future, China's main challenge to realizing inclusive human development will be demographic changes, aging population, economic downturn, urbanization and large-scale population movements, the growth of public expectation regarding public services, informatization and the digital divide.**
- **In response to current problems and future challenges, China has made many significant innovations in education, healthcare, poverty reduction, income distribution and social governance systems in recent years.**

China has a lot of successful experience in achieving inclusive human development through social innovations. However, as is noted in Chapter II, issues such as imbalanced development, inequality and a lack of inclusiveness are still prevalent in many areas in China. This chapter will analyze the main factors causing the lack of inclusiveness in China, and future trends and key challenges. It will also summarize explorations and innovations made in China with regard to inclusive development in recent years, especially after the establishment of China's new administration.

4.1 MAIN FACTORS CAUSING THE LACK OF INCLUSIVENESS IN CHINA

FOR SEVERAL YEARS, TOO

MUCH EMPHASIS WAS PLACED ON GROWTH WITH LITTLE ATTENTION PAID TO EQUITY

At the beginning of the reform and opening-up, China's level of economic development was low. The country was poor in material wealth, and the people generally suffered from low standards of living. Under these circumstances, the main priority for the whole country was economic and social development that would elevate productivity levels, increase social welfare and improve people's livelihoods – all were to be achieved rapidly, in a short space of time. Thus, the government's development strategy was to "tak[e] economic development as [its] central task" and "let part of the people get rich first". When it came to the relationship between equity and efficiency, China believed "efficiency is precedent with fairness taken into consideration". This was in line with the needs of the time and strongly promoted China's economic growth. The vast majority of urban and rural residents benefited from economic growth, and their living standards was significantly increased. With this rapid economic growth, the market played a decisive role in distributing wealth, and gaps between regions, groups, industries, and ownerships grew. Dealing with the relationship between fairness and efficiency became a hot topic in the whole society in the 1990s. However, there was no consensus regarding how to deal with these income gaps, or on how to achieve fairness, or the kind of fairness that could be achieved. Most people were overwhelmed by the harm caused by certain theories propagated during the planned economy period, such as "large in size and collective in nature" and "equalitarianism". However, few realized the potential harm that could come from ignoring China's widening income gap and from failing to tackle the unfairness of the market economy. In practice, decision-makers still over-emphasized efficiency while tolerating unfairness. They neglected social policies that would help to cope with market failures.

In the 21st century, with an ever-widening income gap and associated social conflicts, the whole of Chinese society has a more balanced understanding of the relationship between fairness and efficiency. Policy-makers are strategically putting forward development theories and comprehensive measures that attach more importance to fairness. However, due to vested interests, there are a number of obstacles to designing and implementing policies that promote fairness and inclusion.

DIFFERENCES IN RESOURCE ENDOWMENTS AND STARTING LEVELS OF DEVELOPMENT

China is a vast country with a large population. Due to differences in geographical conditions, resources, environment, financial situation and culture, levels of human development across China used to be significantly uneven. First, there were huge differences in natural and geographical conditions. Infrastructure is well developed in some areas, while under developed in other especially remote areas. Second, in terms of resources, some areas are very rich in resources, while others are fairly barren. Third, regarding cultural traditions and social conventions, some areas have an entrenched pro-business culture, while farming culture is very influential in other areas. After the reform and opening-up, as market factors became more influential across China, resource differences and starting levels of development caused levels of development to become even more imbalanced and there was greater differentiation between regions and groups.

After the mid 1980s, coastal areas with greater geographical advantages and a dominating merchantilist culture enjoyed larger policy dividends from the reform and opening-up period. The economy of these areas grew rapidly. There

was also rather high economic growth in the central and western inland regions. However, compared to growth in eastern regions, the growth in the west was relatively slow. Since this period, the economic gap between east and west has significantly widened.

RELATIVELY LAGGING INSTITUTIONAL REFORM AND CONSTRUCTION

After the reform and opening-up, China underwent a comprehensive transformation from a planned economy to a market economy. Experience shows that the market is by far the most effective means for allocating resources. However, the ability to effectively allocate resources via the market depends on "perfect" market rules being established as soon as possible. In addition, due to influential factor, such as resource endowments and contextual differences, resource allocation via the market is almost guaranteed to widen income gaps. In order to keep the economy and society stable, it is therefore essential to establish corresponding systems simultaneously in order to deal with market failures.

China's distribution system, based on factor inputs, became invigorated as its market economy grew. However, due to China's agricultural traditions, which has a long history (alongside over 30 years' of planned economy), the institutional and cultural foundations for developing a market economy in China were rather weak. It was therefore very difficult to establish market rules effectively in a short period of time. As a result, issues like market segmentation, regional protectionism and rent seeking were common, which intensified inequality among regions, groups and industries.

It is worth noting that for a considerable period of time, China lacked the effective experience and mechanisms to cope with market failures. Concerning primary distribution, fiscal and tax systems (like those around the world) had not been established effectively. Regarding income distribution policies – which are used to adjust differences between regions and include general or special income transfer policies – these failed to close income gaps created by economic growth and unbalanced development between regions. For a period of time, China's fiscal system with a revenue and expenditure system that was divided between central and local governments, and with contracts held at different levels of government, further imbalanced development between regions. With regard to policies that adjust income gaps between different groups, China's tax systems were not designed effectively. Firstly, individuals paying income tax were mainly from the working class, and secondly, neither tax structures nor tax rates were designed scientifically enough to make an impact.

Social policies are an important tool for correcting market failures and narrowing income gaps. During a short period after the reform and opening-up, reforms and adjustments to social policies lagged behind economic development. This was followed by the "one leg long (in economic construction), the other short (in social construction)" problem. On one hand, some social policy arrangements that originated from the planned economy period, such as pension and medical systems based around work units or village collectives, faced challenges to their funding, organizational design and management after the transition. This meant that many urban medical insurance schemes, as well as rural healthcare and education services could no longer be guaranteed. On the other hand, in the mid-1980s, due to the large scale of rural-urban migration, along with the rapid development of China's private economy, social insurance and public service systems in urban areas were not accessible to rural migrants, which caused economic and social inequality between regions and groups.

Furthermore, poor migration and revenue management meant that it was difficult to develop and implement inclusive fiscal tax and social policy systems. For example, the lack of reliable demographic information meant that some public services, including "capitation grants," could not be implemented. Similarly, China's "two-main"[1] education policy for the children of rural migrant workers was hard to camy out.

4.2 FUTURE TRENDS OF AND MAJOR CHALLENGES TO HUMAN DEVELOPMENT

China is experiencing profound social and economic transformations, alongside rapid domestic and international changes that are taking place today. While attempting to enhance and achieve its inclusive development, various complex external factors are significantly influencing the country. China is at a positive stage in its economic history, with abundant human resources and a favourable market. However, its inclusive development faces many new challenges, such as the sustainability of its economic growth, an increasingly worrying demographic structure, strains on basic public services, widening income gaps and relatively weak social governance mechanisms.

OUTLOOK FOR CHINA'S FUTURE DEVELOPMENT

It is generally predicted that the growth rate of China's economy is likely to remain as high as 6 percent to 7 percent for the next 5 to 10 years, on the condition that dividends are paid off, that urbanization develops moderately and steadily, and that human capital accumulates quickly and is appropriately harnessed. In 2030, China's economic growth rate is likely to remain at around 5 percent and per capita income levels and individuals' living standards will, by this point, have significantly increased. Furthermore, based on the philosophy of sharing, economic inclusiveness is likely to be further improved, especially with deepened fiscal, taxation and income distribution reforms.

Education, healthcare and other social services are likely to develop rapidly in the next 15 years. China's status as a new middle-to-high income country means that public demand for education and healthcare services (high quality services in particular) will increase. Simultaneously, moderate-to-high rates of economic growth, coupled with adjustments to China's public financial structure, will provide strong support for the development of social services such as education and healthcare. In addition, because China's education and healthcare systems have developed significantly with regard to scale and capacity over the last three decades, in the coming period the focus of China's development is likely to be on improving quality and inclusiveness, rather than on expanding the scale of these services. More attention will be paid to educational fairness and quality-oriented education. Regarding healthcare, disease prevention and health promotion are likely to be emphasized with a view to improving the macro-performance of China's health investments.

As far as social governance is concerned, China's rule of law is likely to be enhanced; the transformation of government functions will be further accelerated; social organizations for the public good and chambers of commerce, associations and other mutual aid social organizations will enjoy greater room for development; channels and space for social participation will be further expanded; scientific, democratic and transparent platforms for decision making will be further promoted; information, or informatization, will play a strengthened role in social governance; and state governance capacities

1 "Two-main": The children of rural migrant workers are the responsibility of the governments in the areas they migrate to. The schools they attended were mainly full-time public primary and secondary schools.

will be further improved. China's approach to social governance will transform from government-dominated decision-making to pluralistic governance that involves multiple participants including government, social organizations and citizens – all of whom will need to comply with rule of law. In addition, social governance and public services are expected to become more integrated.

From the above analysis, it is clear that China's human development will remain relatively high and its inclusiveness is likely to significantly improve the next fifteen years. Research predicts that China will probably enter into the group of countries with high human development by 2030. Predictions are presented in Figure 4.1 (see prediction methods in Annex Quantitative Report).

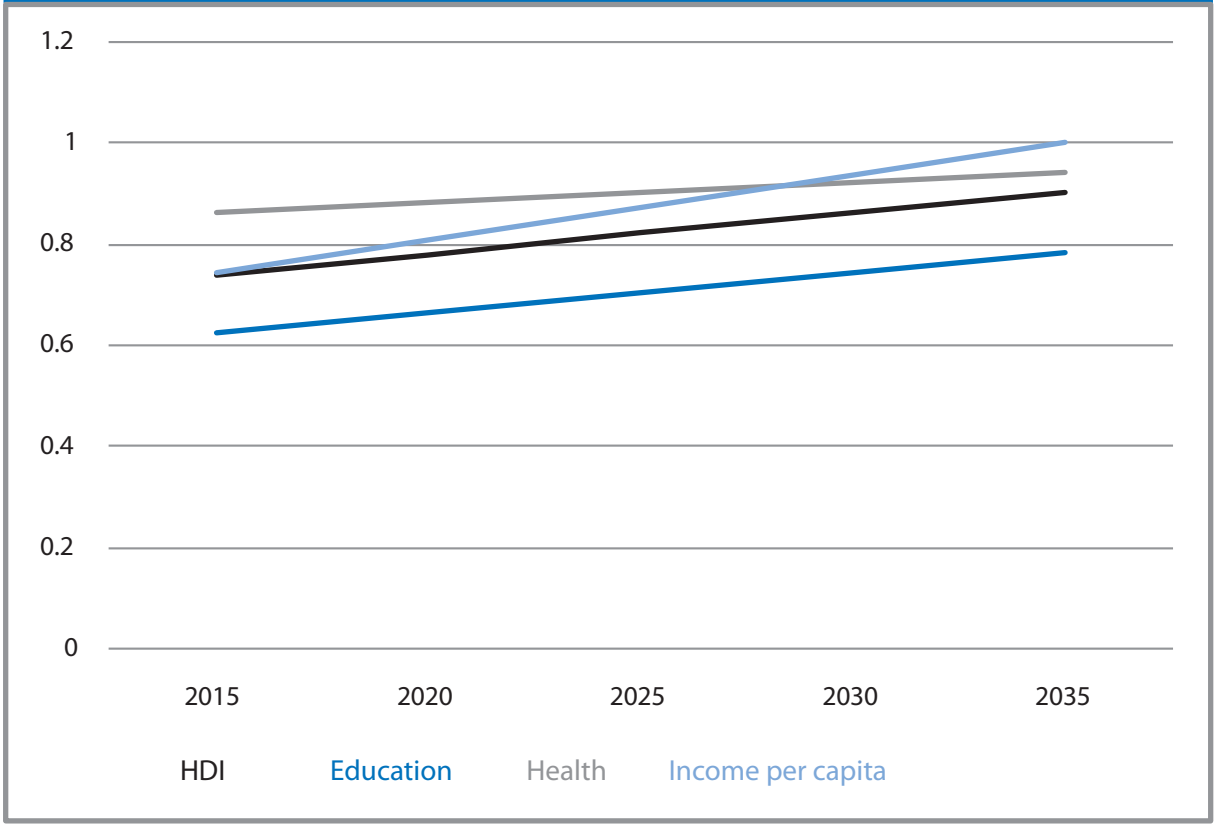
MAIN CHALLENGES FOR THE FUTURE

Although China has many advantages and opportunities relating to human development (i.e. a strong economy and a history of basic social provision), it also faces many challenges. It is therefore necessary that China has a clear understanding of potential risks and uncertainties that may impede its progress in future.

RAPID POPULATION AGING

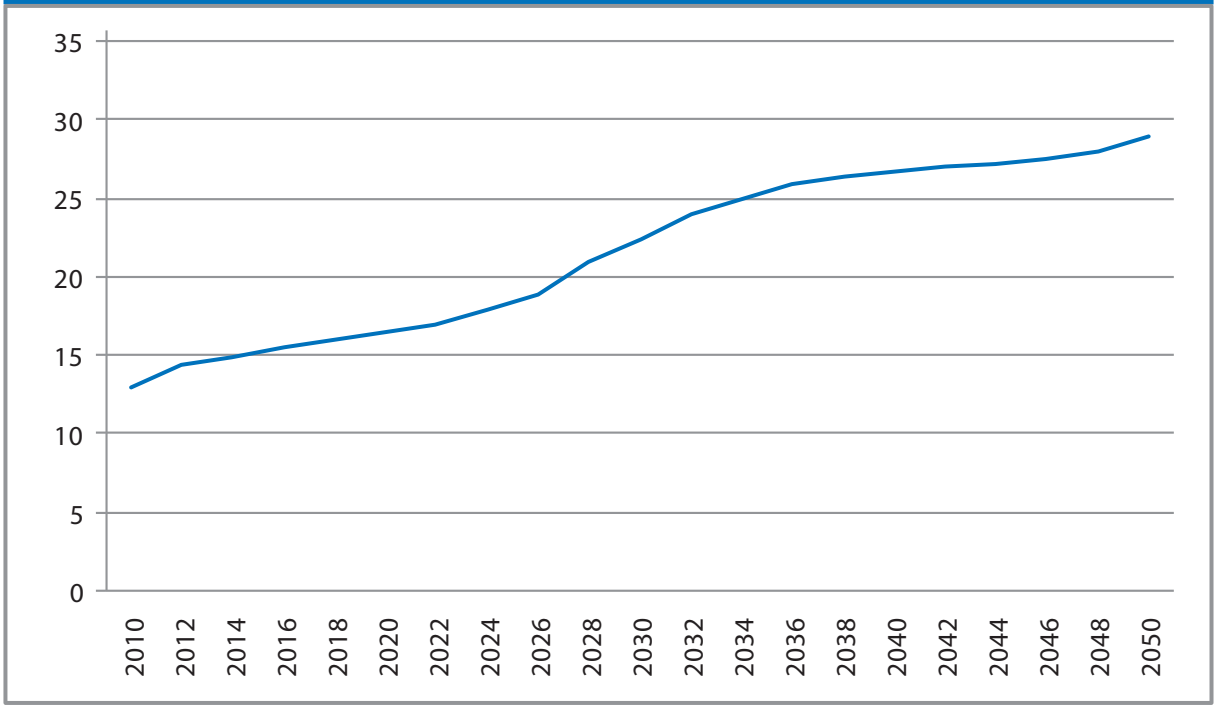
Of all the factors that will affect future human development in China, the most far-reaching are likely to be changes to its demographic struc-

Figure 4.1 Predicted Human Development in China – 2015 to 2035



Source: See background report to this NDHR: Zhang Xiulan (2015), Social Policy Innovation and Human Development: China Experience

Figure 4.2 Proportion of the Population Aged 60 and Above in China (%)



Source: Refer to China Development Research Foundation, the "China Development Report 2011/12: The Changes of Population Situation and the Adjustment of Population Policy", China Development Press, October 2012.

ture, especially the rapid development of population aging.

The One-Child policy, adopted in the late 1970s, substantially changed the trajectory of China's demographic development, causing the rapid development of an aging society. According to international standards, an aging society is a country with more than 7 percent of its total population aged 65 and above – China entered this stage in 2000. By the end of 2014, China had 212 million elderly people aged 60 and above, which accounted for 15.5 percent of its total population. Among this group, there were 138 million elderly people aged 65 and above, which accounted for 10.1 percent of China's total population. As the baby boomers that were born in the 1950s and 1960s enter old age, China's aging population will increase in coming decades.

According to the data from China's 2010 census, according to the current fertility rate of 1.5, and assuming China's citizens opt to have two children each by the end of 2015, Figure 4.2 predicts the proportion of China's population aged 60+ by 2050. The prediction shows that the proportion of the population aged 60+ is likely to reach 16.3 percent by 2020, 23.0 percent by 2030 and 28.9 percent by 2050.

China cannot afford to underestimate the impacts of population aging on its economic and social development. These impacts are outlined below.

Firstly, China's labour supply will alter dramatically, which will have a far-reaching impact on the stability of China's long-term economic growth. With regard to the total population, China's total working-age population had continued to decline since 2012, with a decrease from 940 million in 2011 to 916 million by 2014. Structurally, the median age of China's working-age population was under 30 years old in 1980. It rose to 37 in 2010 and will exceed 40 years

old in 2025, which means that half of China's labourers will be over 40 years old by 2025. For a long time, China's demographic dividend has been one of the most important driving forces for economic growth. As the population ages, the structure of labour demand and supply will change from a labour surplus to a labour deficit; the age structure of China's workforce will be aging gradually; and China's demographic dividend will disappear, which will have far-reaching consequences on the sustainable development of China's economy.

Secondly, the pressure to safeguard the economic security of China's ageing population is huge. Against a background of intense population aging, one of China's key challenges is to develop an effective old-age security system to ensure the economic security of the aged. After years of trial-and-error, China has established a pension system for urban employees (including for Party officials, government bodies and public institutions). A new rural pension system has also been developed, alongside a pension system for urban residents. As a result, China's state pension system has almost achieved full coverage; however there are still many problems facing China that cannot be ignored. Regarding pensions for urban employees, one of the most significant challenges involves China's rising dependency ratio, which is causing a financial imbalance. The most pressing issue facing China's new rural and urban pension schemes is that state contributions are low, meaning that the state pension can only play a supplementary role to private pensions. It will also be difficult for the Chinese government to substantially improve social security support in the near future. The aim of these pension schemes is to smooth the distribution of wealth across generations. As long as economic growth is no lower than population growth, there should not be a huge problem providing security for the aged. The key, however, will be to build a more efficient and sustainable pension system in order to further balance wealth distribution between generations, and to ensure that the burden of old age security it not wholly borne by the young.

Thirdly, China's ageing population is placing increasing pressure on medical and health provision and services. Furthermore, in addition to population ageing, the prevalence of different diseases in China is also changing. Cardiac-cerebral vascular diseases, cancers, hypertension, diabetes and other chronic non-communicable diseases have become more prevalent, and total or partial disabilities and mental health issues are also increasing. Consequently, China is facing enhanced pressure regarding health financing (as costs are increasing), and China's medical services are struggling to adapt to increased demand. At present, large hospitals are bearing the brunt of these changes, as the grassroots medical and health service system is weak. China's health system still focuses on the treatment of diseases and pays inadequate attention to disease prevention and health promotion. There is also insufficient health management and early intervention. As a result, China is finding it difficult to effectively prevent and control the rising chronic non-communicable diseases against the background of population ageing.

Fourthly, there is increasing pressure on health and care services for the aged. Along with intensified population aging, the number of elderly people living alone and/or with total or partial disabilities is predicted to increase rapidly. How to provide effective and timely services for these individuals will become another pressing issue that the Chinese government will need to urgently address. In recent years, the government has emphasized the importance of a well-established elderly care system. A number of government publications have been published on the issue, many important ideas have been put forward, and governments of all levels have increased relevant invest-

ments into this area. As a result, the quality and quantity of old-age services in China have improved. However, problems still remain. In the past several years, the development of nursing institutions for the aged has been positioned as a "pillar" of the old-age security system. Nevertheless a home-based and community-based security system for the aged has not been effectively established, and there is still no effective coordination between medical and rehabilitation services. In addition, there has been a recent deviation in the development and functions of elderly care institutions. Many nursing institutions for the aged have been designed for healthy old people who can afford to pay for care services. However, the future of public provision for the elderly, including nursing institutions established and maintained by the government or the not-for-profit sector, is less certain.

In addition, during the process of population aging, greater attention should be paid to weakening family structures and insufficient social participation.

As a result of the challenges above, it will be necessary for China to implement an active aging strategy, in order to protect the basic rights and interests of the aged; maintain inter-generational balances; and promote the development of inclusiveness through innovations to social policies and governance systems.

SLOWER ECONOMIC AND FINANCIAL GROWTH

In 2012, the rate of China's economic growth fell to 7.7 percent from 9.3 percent on the previous year. Subsequently, in 2013 and 2014, economic growth remained at 7.7 percent and 7.4 percent respectively. In 2015, China's economic growth rate dropped to 6.9 percent. In addition to continually deepening structural reforms to China's economy, it will be difficult for China to maintain growth rates as high as they have been over the past 30 years. According to the predictions of the "Medium and Long Term Growth" Task Force of the Development Research Center of the State Council, China's growth rate will continue transitioning until 2024, until which China's ten-year average growth rate will be 6.2 percent. By 2024, GDP per capita will rise from current levels (nearly RMB 50,000-120,000 or around US$7,500) to around US$22,000 (current US dollars) – an increase of approximately 10,000 Geary–Khamis[1] (GK) dollars at purchasing power parity (PPP) (1990 G-K dollars). By means of comparison, China's development levels will be equivalent to South Korea's at the beginning of this century and Japan's in the early 1990s.[2] Overall, China's economy has transitioned from high-speed growth to a medium/high-speed growth. This trend is likely to have a far-reaching impact on the future evolution of China's human development.

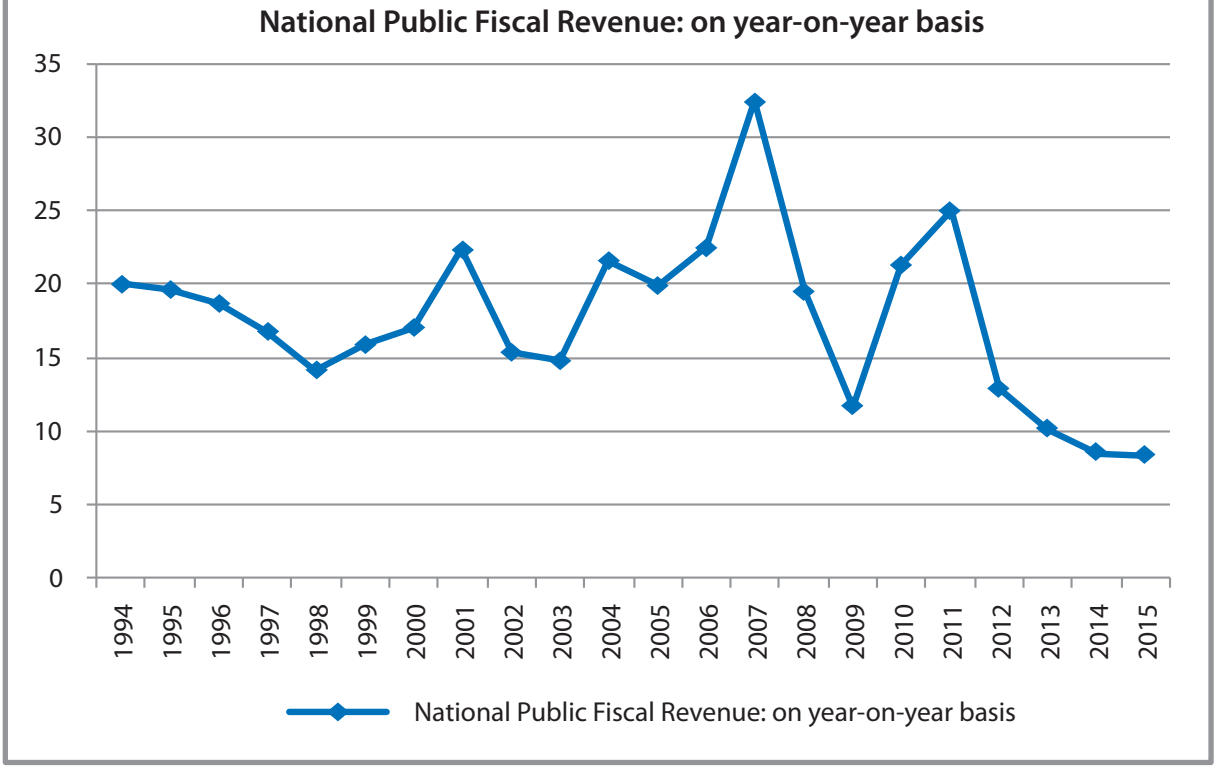
Although China's economic growth is expected to continue, and will facilitate social policy innovations for many years, the deceleration of China's economic growth rate is a long-term trend. This will also inevitably cause a slowdown in revenue growth, which means that in order to achieve human development inclusively, it will be necessary to reform and innovate China's social policy system. According to the National Bureau of Statistics and the Ministry of Finance, national general public fiscal revenue was RMB 15 trillion in 2015, with year-on-year growth of 8.4 percent – a decrease of 0.2 percent from 2014, its lowest level in the past 20 years.[3] In fact, several regions including Liaoning and Heilongjiang Province have suffered negative growth. Under these circumstances, it will be more and more difficult to continue increasing total public service supply through simple

1 A hypothetical unit of currency that has the same purchasing power parity that the US dollar had in the United States at a given point in time

2 Chen Changshengand He Jianwu, *Prospects for China's Economic Growth over the Next 10 Years* (Economic Daily, June 18, 2015)

3 *National Bureau of Statistics,* Ministry of Finance websites.

Figure 4.3 Growth of National Public Fiscal Revenue, 1994-2014



Source: Data from the National Public Fiscal Revenue

massive increases to financial investments. Going forward, social policy construction must be more encompassing, in order to promote fairness and remain efficient and sustainable. In order to achieve all of these goals, reform and innovation to social policies is needed.

SUSTAINABLE URBANIZATION AND LARGE-SCALE POPULATION MOVEMENT

At present, China is still experiencing rapid urbanization. In 2011, the proportion of China's urban permanent resident population exceeded the rural population for the first time, reaching 51.3 percent. By the end of 2014, the urban permanent resident population accounted for 54.8 percent of the total population.[1] In March 2014, "National Planning for New-Type Urbanization Development (2014-2020)" was released, predicting that the rate of urbanization among China's permanent resident population would reach around 60 percent by 2020. According to recent statistics, the urbanization ratio of the permanent resident population will likely be higher than predicted. According to research conducted by the Development Research Center of the State Council and the World Bank, China's urbanization rate is expected to reach about 70 percent by 2030, when around 1 billion people will live in cities.[2]

Urbanization is not only a driving force of development, but also a result of development. Under normal circumstances, rapid urbanization signifies improvements to human development levels in a country or a region. During the process of urbanization in China, a large share

1 *People.cn*, available here: http://politics.people.com.cn/n/2015/0120/c70731-26417968.html

2 Development Research Center of the State Council and the World Bank, *China Promotes Efficient, Inclusive and Sustainable Urbanization* (China Development Press, June 2014)

Table 4.1 China's Urbanization			
	2010	Baseline scenario in 2030	Reform scenario in 2030
Urbanization rate (%)	52	66	70
Proportion of agricultural labour force (%)	38	17.1	11.6
GDP (trillions, US dollars, 2013)	8.5(the year of 2013)		24.5
GDP (average growth over 5 years)	8.3	4.9	5.2
Urban and rural income ratio	3.8	3.3	2.6

Source: the Development Research Center of the State Council and the World Bank: "China Promotes Efficient, Inclusive and Sustainable Urbanization", China Development Press, June 2014.

of the population has moved from rural areas to urban areas, which has greatly changed their ways of life and improved living standards. As a result, the inclusiveness of China's human development has improved significantly. However, some noteworthy challenges have appeared simultaneously. Due to ineffective urban planning, urban malaises such as traffic congestion, environmental pollution, insufficient infrastructure, poor layout of public services have appeared in a number of big cities.

China's urbanization is still incomplete. At present, China's reported urbanization rate, according to the household registration system, is 17 percent lower than the actual urbanization level for the permanent resident population. There is a fairly large migrating population (primarily comprised of rural-urban migrant workers and their families) that cannot enjoy equal access to public services, like education, employment benefits, healthcare provision, care and pensions for the aged and housing because they are unable to register as residents in the cities they migrate to. This issue has had an adverse impact on economic growth, social development, social governance and stability. China's urbanization levels are predicted to rise, and large-scale population movements will continue. In order to achieve inclusive human development in future, it will be necessary for China to solve important problems, including how to make sure that the migrating population (especially rural migrant workers) enjoy the same basic public services as local residents. Solving this issue will promote equality and integration.

THE GROWTH OF PUBLIC'S EXPECTATIONS

Since China's reform and opening up, along with the rapid economic growth, rapid urbanization, opening-up to the outside world, and the gradual popularization of higher education, the public has continuously upgraded their requirements and expectations with regard to the economy, social security and governance. China's citizens are also increasingly conscious of equality issues, human rights, the rule of law and political participation. This trend will further intensify in future – both due to the above-mentioned factors and to the expansion of the internet. According to international experience, this is common after a country reaches China's stage of economic development. The primary concern and challenge will be to make sure that the constitution of China's social protection system does not lag too far behind the growth of public expectations, which would result in a variety of new problems.

For example, since the 1990s, the Chinese Government has increased its investments in the fields of education, health, housing, provision for the aged and social assistance and has imple-

mented a series of social security programmes at an unprecedented speed. This includes the implementation of several unemployment and medical insurance systems for the urban and the rural population, covering around 70 million people. At the same time, China has vigorously promoted education and healthcare reforms – which many middle-income countries have still not achieved. However, the results of various surveys and public opinion polls show that satisfaction among the Chinese population relating to living standards is still low, and some problems continually emerge and disappear. Regarding future trends, the speed of improvements to Chinese living standards is likely to slow due to China's economic downturn, which may lead to a larger gap between social provision and public expectations.

It will therefore become necessary to carefully guide the public's expectations and to make social organizations aware that they are also responsible for social service provision. At the same time, it will be necessary to proactively tackle difficult social issues, accelerate reforms, pay greater attention to fairness, promote equality, protect the fundamental rights of the public and promote social participation in order to enhance the inclusiveness of Chinese human development.

INFORMATIZATION AND ITS IMPACT ON LIFESTYLES

Since the start of the 21st century, the rapid development of information technology (including the internet) has profoundly changed methods of production, transaction modes and both public and private lifestyles. For example, e-commerce is now extremely popular, particularly in China, and internet-based businesses are being promoted around the world. In education, healthcare and other public services, the application and influence of information technology has also expanded quickly. As of December 2015, there were 688 million internet users in China, and the internet penetration rate was 50.3 percent. There were also 620 million mobile internet users, following an increase of 63.03 million users in December 2014, and the proportion of mobile internet users in China accounted for 88.9 percent of total internet users – up from 90.1 percent in December 2014.[1]

Informatization provides more opportunities for human development and social innovation, but it also creates new challenges. Since there is a gap between different groups in their abilities to acquire, master and utilize information resources, the development of the internet brings new problems with regard to inequality, termed the "digital divide". This gap manifests not only in areas such as employment, income and wealth distribution, but also in social participation. Better-educated young and mid-aged people can not only achieve self-development with the help of digital technology, but can also adequately express themselves online via the Internet, or social media such as "Weibo[2]", "WeChat[3]" and other popular media. In contrast, due to their limited access (and ability to use) internet technology, less educated and older groups tend not to enjoy the benefits brought about by technological advances. They are therefore not able to express their concerns using technological means, which not only affects relationships between groups, but also creates new challenges for public decision-makers.

There are many factors that affect human development in China. As for the challenges above, China, just like many other countries, still has a

1 China Internet Network Information Center (CNNIC), Statistical Report on Internet Development in China (Issue 37)
2 Weibo is a new media platform in China.
3 WeChat is a new media platform in China.

long way to go. To tackle these issues, it will be necessary for China to further explore and implement a number of reforms and innovations.

4.3 CHINA'S LATEST EXPLORATIONS AND INNOVATIONS

In recent years, especially since the new leadership took office in 2013, the Chinese Government has further improved the lives of its citizens and has paid greater attention to social fairness, justice and the enhancement of social wellbeing. Regarding the above-mentioned challenges, China has actively explored a number of innovative solutions by combining top-level policy design with local piloting and implementation, especially in the fields of poverty reduction, education, health and social governance.

PROMOTING MULTI-DIMENSIONAL POVERTY REDUCTION IN A MORE TARGETED MANNER

Building an affluent, inclusive society by 2020 is China's most important economic and social development goal during the "13th Five-Year Plan" period. According to the policy goals proposed by the fifth plenary session, during the "13th Five-Year Plan" period, China will implement crucial poverty alleviation projects, eliminate poverty from poverty-stricken counties, alleviate overall regional poverty, strengthen the role of the social assistance system, and lift the poverty-stricken rural population out of poverty. In recent years, China has made remarkable strides in poverty reduction. However, poverty reduction is becoming increasingly complex. Therefore, the government has adopted multiple policy initiatives, implemented differently according to local context, which has so far greatly improved the effects of poverty alleviation efforts. In recent years, poverty alleviation innovations mainly include targeted poverty alleviation programmes, industry-led poverty alleviation, conditional cash transfers (CCT) and rural microfinance initiatives.

TARGETED POVERTY ALLEVIATION – A NEW STRATEGY

In 2011, the Chinese Government formulated the "Outline for Development-Oriented Poverty Reduction for China's Rural Areas (2011-2020)" and launched a round of crucial poverty alleviation and development initiatives, which targeted areas with specific challenges as priority regions for poverty alleviation. The Chinese government has realized that mechanisms for poverty alleviation require innovation to achieve positive results under China's new economic and social circumstances. In early 2014, the Chinese government formulated the "Opinions on Steadily Advancing Rural Poverty Alleviation and Development Work by Innovating the Mechanism" and clearly put forward several goals for targeted poverty alleviation and elimination. This signified a major shift to China's traditional poverty alleviation and development practices. Targeted poverty alleviation is based on a number of criteria: targeted project management practices, targeted use of funds, targeted measures at the household level, targeted use of personnel, and targeted poverty elimination outcomes. In order to achieve targeted poverty elimination for China's poverty-stricken population, the Chinese government developed an action plan for poverty alleviation by classifying citizens into four groups. This grouping allowed the government to target its poverty alleviation methods appropriately. One group was helped via government employment support schemes; another was given assistance with immigration and relocation challenges; a third was offered assistance via targeted social

assistance; and the fourth group received medical assistance. In order to implement targeted poverty alleviation methods, the Chinese government has carried out a lot of initial scoping work. In 2014, a total of 128,000 poverty-stricken villages and more than 88 million poverty-stricken people nationwide were identified[1] and recorded. This was achieved via a new system of information-based and dynamic management methods, and lay the foundations for targeted poverty alleviation in years to come.

FROM "BLOOD TRANSFUSION" TO "BLOOD GENERATION": DEVELOPING KEY INDUSTRIES FOR SUPPORTING POVERTY ALLEVIATION AND INCLUSIVE DEVELOPMENT

According to the theories of Amartya Sen and others, poverty not only encompasses poor economic conditions and low income, but it also refers to a lack of opportunity for the impoverished population to participate in social and economic activities. As a large country with complex national conditions, relatively low levels of economic development, and a large poor population, China cannot solely rely on poverty alleviation that consists of transferring direct financial assistance and aid from one region of China to another – sometimes referred as the 'blood transfusion' poverty alleviation method.

Historically, China's success at poverty alleviation has instead greatly relied on an economic and industrial growth method – the 'blood generation' method – which uses various instruments to enlarge people's choices, improve people's capabilities, and has enabled people to increase their own incomes. Due to its success, it is likely that this latter poverty alleviation method is likely to continue in China long into the future. One of the most effective means of 'blood generation' poverty alleviation is to develop key industries which are of national importance and China's comparative advantages; this method is highlighted in the reports: "China Rural Poverty Alleviation and Development Strategy (2011-2020)" and "CPC Decision to Fight against Poverty" (November 2015). The main approaches for promoting featured industries include: fully utilizing local comparative advantages and natural resources; promoting advanced technologies to strengthen featured industries as pillars of local economies; capacity building for poor local farmers in order to absorb them into employment within leading companies in local featured sectors; guiding and supporting investment in local featured sectors in poor areas; and providing sector-driven coordinated support to local social services.

Under the guidance of national policies, various regions, especially poor regions in western China, have actively identified and supported the development of featured industries according to specific local resources and conditions. These efforts have not only achieved relatively good results in terms of economic development, but have also mobilized the enthusiasm, initiative and creativity of poor populations in these areas, thereby improving their capabilities. Many poor areas and their populations have achieved poverty reduction goals and improved income levels through their own efforts due to the opportunities afforded to them. As a result, their quality of life has been significantly improved (see Box 4.1).

PROMOTING OVERALL EDUCATIONAL EQUALITY

After many years of trying, China has managed to popularize compulsory education. It has also popularized higher education and promoted the development of vocational education. The main task now will be to promote overall educational equality and to further enhance the

1 Xinhuanet, available here: www.xinhuanet.com/politics/2014-12/24c_1113765796.htm

Box 4.1: The Inclusive Development Experience of Tibet: Aquaculture Takes the Lead

Tibet is located in southwestern China with an average altitude of over 4,000 metres and a population of around three million, among which over 90% are Tibetans. Due to its unique geographical conditions, natural environment and historical and cultural features, Tibet was reliant on its low productivity agro-pastoral economy for centuries and, as a result, experienced extremely low socio-economic development levels. Tibet, with low levels of human development, used to be ranked last of all the Chinese provinces according to the human development index. Following Tibet's revolution in the 1950s, the region's development relied heavily on financial support and assistance from the Chinese central government and other provinces in China. In the last 10 years, however, the local government of Tibet agreed objectives to increase local capabilities in order to improve its socio-economic development; Tibetan leaders prioritized the water industry as a leading sector. The goal was to promote inclusive development through advancing Tibet's aquaculture sector, and to coordinate social and environmental development in order to advance economic growth – this would be achieved without external assistance.

The result of such an industry-focused programme was the emergence of Tibet as the province with the most abundant water resources in China. Tibet's total water resources are now ranked top in China; it has the most water per capita, the largest reserves and the most expansive area of glaciers. Data from 'Evaluation Report of Natural Drinking Water Resources in Tibet' show that the region has an average of 439.4 billion cubic metres of total water reserves, which makes up 16.5% of China's national total. The purity levels of Tibet's water resources are also extremely high, on a par with other world-leading water resources.

Due to Tibet's global comparative advantage in this industry, the Tibetan local Government has highlighted the water sector as one of Tibet's leading sectors in its local Five Year Development Plan and has established an office within Government to coordinate water sector development. It was clearly stipulated that the water sector should not only bring about economic growth, but that it should also assist with local poverty alleviation efforts and stimulate inclusive development, in order to raise standards of living for local people.

A case from Dangxiong County shows how key industries can be harnessed to support local development. The county is located at altitude of almost 5,100 meters on the side of a glacier, and used to be fully reliant on an agro-pastoral sector that was characterized by low productivity. Before 2005, the average disposable income per household in Dangxiong was below RMB 2,000 per year (approx. US$300), and most of its villages and towns had no access to electricity or tarmac roads. After glacier mineral water production[1] was introduced to the county, local economic output increased by 80% and over RMB 100 million (approx. US$15.5 million) in tax revenue was generated for the local government. Furthermore, the local mineral water factory was able to hire 95% of its employees from among local Tibetan farmers and herdsmen, and in return provided them with relevant literacy education and on-the-job training. As a result, these local people attained average annual incomes of RMB 50,000 per capita, a dramatic increase from the prior baseline of RMB 2,000 per household. Other unemployed families also increased their incomes by providing logistics assistance and transporting shipments of mineral water. In terms of infrastructure, the factory built the first tarmac road for neighborhood villages and connected 18 villages with electricity, subsidizing more than RMB 500,000 worth of electricity costs for local households annually. The factory also provided support to local basic education and healthcare providers and assisted with poverty alleviation, such as through the 'Tibet 5100 Education Fund', which donates around RMB 1 million annually to local schools towards school meals and education facilities. [2]

In the economic development zone in the suburbs of Lhasa City, another water company[3] has contributed to poverty alleviation and education provision. The company achieved this by reserving 8% of the retail price of every bottle of water sold for corporate social responsibility purposes. This fund has been used to contribute to poverty alleviation, to develop primary schools in remote areas, and to provide scholarships for university students from poor Tibetan families. Similar to the case in Dangxiong, this company also recruited large numbers of local, poor and unemployed people and offered paid internships to university students from poor regions to help them integrate into modern society. [4]

By promoting opportunities and capabilities using a human development approach, companies in the Chinese water sector have been able to teach new industry skills to farmers in the countryside in Tibet, improving their access to knowledge and learning, and providing them with an opportunity to escape defunct industries. By introducing them to modern production methods and operations, local farmers

and herdsmen in rural areas of China gained not only knowledge and skills, but also enlarged their understanding of modern society. Their living standards have substantially improved, and their ways of life are rapidly changing.

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3. Zhuoma Spring Water

4. Data and information source of Lhasa case:
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inclusiveness of education. In recent years, two goals have been pursued; one has been the acceleration of compulsory education for all, and the other has been improving equal access to preschool and higher education.

VIGOROUSLY PROMOTING THE EQUALIZATION OF COMPULSORY EDUCATION

In recent years, one of China's primary goals has been to make compulsory education more inclusive. To improve the balance of students and teachers, it has carried out some interesting and innovative explorations.

Firstly, the Chinese government has introduced a policy of allocating enrollment quotas in high-quality junior and senior high. This has been actively promoted and has achieved positive preliminary results. In order to encourage enrolment at local schools and to counter the issue of families choosing 'preferred' schools for their children's primary and secondary education, many regions have implemented a policy that fairly allocates enrollment quotas for high-quality senior high schools to each junior high school within their own jurisdictions. This enables outstanding students at middle schools with weaker faculties and poorer facilities to access high quality senior high schools. In 2002, the Chinese Ministry of Education issued the "Notice on Actively Promoting the Reform of the Evaluation and Examination System in Primary and Secondary Schools" and proposed to "actively explore to establish the enrollment quota allocation system" for the first time. In July 2010, the "National Medium- and Long-Term Plan for Education Reform and Development (2010-2020)" clearly pointed out that the method of fairly allocating enrollment quotas for high-quality senior high schools to ordinary junior high schools within their own jurisdictions should be trialed in certain areas in order to discover whether this offered a solution to China's school choice issue. In 2014, the Ministry of Education released the "Suggestions on the Further Implementation of the Admission into the Nearest Secondary School without Examinations", which clearly stated that: no less than 50 percent of enrollment quotas in high-quality senior high schools should be allocated to junior high schools within their own jurisdictions, and that the operation of this policy required improvement. In line with national requirements, most Chinese regions have implemented these pilots. Many regions, except Beijing, Shanghai, Guangzhou and some other megalopolises, have made significant progress; and the proportion of enrollment quotas allocated by high-quality senior high schools to junior high schools has reached over 70 percent in provinces such as Liaoning and Anhui. These pilots in various regions across China demonstrate that policy can help

to curb educational inequality and to promote the balanced development of compulsory education.

Secondly, it is necessary to balance the quality of teaching personnel and to promote the mobility of teachers and principals. International experience shows that the implementation of exchange and rotation programmes for teachers is an important way to balance the quality of teaching personnel between schools and thus promote the balanced development of compulsory education. China began to explore this practice in recent years. For example, at the beginning of the century, Tongling in Anhui Province (and several other areas) carried out similar pilots and achieved notable successes. China's "National Medium- and Long-Term Plan for Education Reform and Development (2010-2020)" clearly encouraged the "system for the exchange of teachers and principals within pilot counties". The third plenary session of the 18th central committee of the CPC further stated that Chinese regions should "implement the standardization construction of public schools and the exchange and rotation of principals and teachers, do not set up key schools and key classes, as well as solve the difficult issue of students preferring to choose certain schools." According to a supervision report issued by the Education Steering Committee Office of the State Council, the number of teacher exchanges has increased gradually in recent years, and their coverage has also expanded. Statistics show that around 501,000 teachers participated in the exchanges throughout China in 2014, accounting for 6.2 percent of all compulsory education teachers. Implementation has varied and progressed differently in different regions, results have been diverse. However, rapid progress has been made in some areas. For example, almost all counties in Guizhou Province have implemented this policy, and 36,661 teachers have participated in exchange schemes in around 8,000 schools. Zhejiang Province has implemented the exchange of regular teachers, 9,037 principals and many teachers participated in exchanges in 2014 – 3,032 of which were support teachers and school leaders, accounting for 33.6 percent of all teaching staff in these regions. Based on the success of the rotational system for principals in Shanghai, the city subsequently promoted rotations for new special-grade principals in primary and secondary schools. Nine new special-grade principals in central Shanghai were selected to participate in a cross-regional flexible rotation programme in 2013; these principals worked successfully in suburban schools for two years.[1]

Speeding up the development of preschool education and promoting early childhood development in poverty-stricken areas. The experience of many countries shows that early childhood development and early education investments can bring high returns and is the most cost-effective way of breaking the intergenerational transfer of poverty. It can also improve future labour productivity and promote social cohesion[2]. After China's almost universal coverage of elementary education and the popularization of higher education, early education is the next weakest link in China's education system. In cities, the issue of children's "difficult and costly admission to kindergartens" is prominent; in the countryside, there is no established formal preschool education system in many areas.

In 2010, in line with the "National Medium-

1 The Education Steering Committee Office of the State Council, available here:http://www.moe.edu.cn/publicfiles/business/htmlfiles/moe/s8663/201504/185527.html

2 Researchin the United States shows that investment in children's early development and education delivers high rates of return. Studies conducted in developing countries reach similar conclusions – including studies conducted in Colombia (all children that used to participate in early childhood development and education projects have higher enrollment rates), Turkey (the enrollment rate of teenagers is 20 percent higher) and Bangladesh (the scores of standardized tests jump 58 percent). *See: World Bank and the Development Research Center of the State Council, China in 2030: Building a Modern, Harmonious and Creative Society* (China Financial and Economic Publishing House, 2013)

and Long-Term Plan for Education Reform and Development (2010-2020)", the State Council printed and distributed the "Opinions on the Current Development of Preschool Education", stipulating the reform and development of preschool education. It introduced a series of policies and measures that should be taken to achieve this. On one hand, the government ploughed significant investment into the development of public kindergartens. Simultaneously, via government subsidies, procurement and a number of other methods, social organizations were encouraged to establish and run kindergartens. As of 2014, 40,507 million children were enrolled at kindergartens throughout the country, and the gross enrollment rate of children in China's three-year preschool education was 70.5 percent.[1] At the same time, early education pilots for infants of 0-3 years old were launched in 14 regions, in order to evaluate the role of early childhood education to poverty reduction by integrating the resources of communities, parents and nursery institutions. In October 2012, the Ministry of Education promulgated the "Guidelines for Learning and Development of Children at 3-6 Years Old" in order to standardize and enhance early childhood education provision.[2]

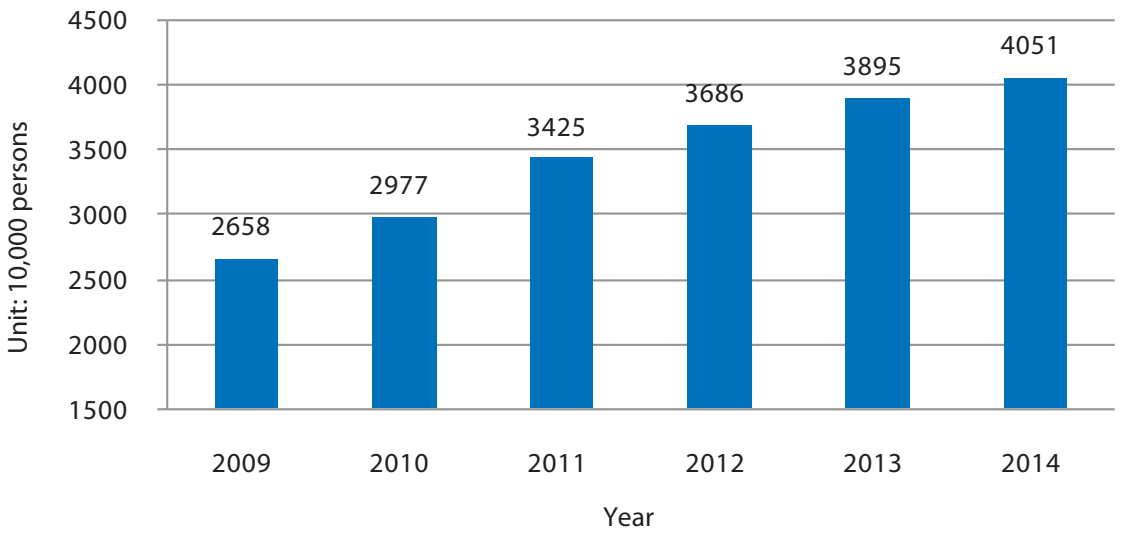
Based on the general premise that investment in early education yields high returns, and the reality of China's poor early years education in rural areas, many social organizations carried out targeted pilot projects independently of the government, with remarkable success (see Box 4.3). This propelled the early years education agenda and had a profound impact across the country.

In January 2015, the General Office of the State Council promulgated the "National Development Plan for Children in Poverty-Stricken Areas (2014-2020)", which proposed that overall educational development levels for children in China's 680 rural areas should reach national average levels by 2020. In terms of preschool education, the Plan proposed that the gross enrollment rate of China's three-year preschool education should reach 75 percent by the end of the decade. The Plan advanced specific measures to expand inclusive preschool education resources in poverty-stricken areas using a multiple-stakeholder approach, including the government, non-governmental (social) organizations and the general public, as well as other groups. It also specified that fiscal support from the government for major preschool education development projects and projects for promoting rural and provincial preschool education should be strengthened, concentrated and linked to particularly impoverished areas. In terms of its operation, the Plan proposed that pilots for preschool education should be expanded in remote central and western rural areas and in mountainous and pastoral areas with dispersed populations. Colleges and technical secondary school graduates should be recruited as volunteers for these pilots, and the pilots should be supported by government procurement and the mobilization of social organizations. The Plan also stipulates that the central government should provide appropriate subsidies for these pilots and that preschool bilingual education should be enhanced in regions inhabited by ethnic groups. At the same time, the Plan also required local governments to implement policies in line with relevant laws, to safeguard a high quality kindergarten faculty in poverty-stricken areas. It was also necessary to improve the preschool education funding sys-

1 The Ministry of Education, available here:http://www.moe.edu.cn/jyb_xwfb/xw_fbh/moe_2069/xwfbh_2015n/xwfb_151124/151124_sfcl/201511/t20151124_220650.html

2 She Yu, *For Children and Tomorrow: Research on Promoting the Healthy Development of Preschool Education* (China Development Press, 2015)

Figure 4.4 Children in Kindergartens, 2009-2014



Source: The overall evaluation report on the implementation of the "Plan for Education" (abstract), http://www.moe.edu.cn/jyb_xwfb/xw_fbh/moe_2069/xwfbh_2015n/xwfb_151210/151210_sfcl/201512/t20151210_224178.html

Box 4.3: Early Childhood Development Programmes in Impoverished Areas: Early Years Education for Children Aged 3 to 5

Taking into consideration China's widely distributed population, poor infrastructure and transport conditions, the low incomes of farmers and the high cost of running standard kindergartens in poor areas of Western China, the China Development Research Foundation launched a "Day School" pilot program in Qinghai and Yunnan to provide early education to children aged 3 to 5 that live in remote rural areas and have no access to standard kindergarten education. Early years education institutions were established in the unoccupied classrooms of village-level primary schools to attract students from nearby villages. Two to three activities were organized per week, each lasting three or more hours.

A follow-up test conducted by Peking University on 123 children aged 3 to 5 in Ledu County shows that early education intervention plays a positive role in improving children's cognition, enhancing motor skills, improving their ability to socially interact and their awareness of safety issues, and enhancing creativity. Children of all age groups that participate in early education activities have experienced obvious improvements in their problem solving skills. After participating in this kind of programme, many children cry less, and are less anxious when interacting with peers. The Day School program has also helped parents to develop encouragement-oriented child-rearing methods. After school, students are encouraged to show their parents what they have learned at early years schools, such as nursery rhymes and games. It is hoped that these activities will enhance parent-child relationships.

References:

1. China Development Research Foundation, available here:http://www.cdrf.org.cn/plus/view.php?aid=531

2. Research Report of the Development Research Center of the State Council, Pilot Cases of Early Development of Children in Impoverished Areas,No. 4 (2011)

tem, to help children in poverty-stricken families, and to assist orphans and disabled children with accessing an inclusive preschool education. It was hoped that the implementation of these measures would positively promote the improvement of the early childhood development in China's rural areas.

IMPLEMENTING CHINA'S SPECIAL ENROLLMENT PLAN IN POVERTY-STRICKEN AREAS AND PROMOTING FAIR ACCESS TO HIGHER EDUCATION

In recent years, various factors, such as the unequal development of elementary education, contributed to a most prominent issue, namely the development of unequal opportunities between those from urban and rural areas, between regions with different budgets for higher education and between groups of people. The worst affected regions were the poverty-stricken central and western rural areas. In order to solve this problem and promote fair access to higher education (and based on China's national strategy for poverty alleviation in the 21st century), the Ministry of Education, the National Development and Reform Commission, the Ministry of Finance, the Ministry of Human Resources and Social Security and the State Council Leading Group Office of Poverty Alleviation and Development jointly issued the "Special Plan for Implementing the Directional Enrollment in Poverty-Stricken Areas" in 2012. According to the Plan, an enrollment target for 10,000 additional undergraduates per year should be rolled into China's total annual increase in enrollments at ordinary universities and colleges nationwide from 2012 to 2015. These colleges and universities should be required to enroll students that have taken China's national college entrance exam, also known as the Gaokao, in hardship areas – around 680 poverty-stricken counties in 21 provinces (regions and cities) determined by the State Council. When implemented, due to extremely positive application rates, especially from poverty-stricken areas, the scale and scope of the government's enrollment plan required significantly adjusting. From 2012 to 2014, enrollments increased from 10,000 students to 50,000 students, and the scope of enrollments was expanded from 680 poverty-stricken counties to 832 poverty-stricken counties (including Henan Province, Gansu Province and eight other provinces and regions with relatively low admission rates at key universities). Schools these universities enrolled from covered all central colleges including local "Project 211" colleges, as well as other local key colleges. By implementing this Special Plan, the number of university enrollments from poverty-stricken rural areas increased from 10,000 in 2012 to 69,000 in 2014. Between 2012 and 2014, the number of rural students per 10,000 increased at Project 211[1] and Project 985[2] universities; in 2014, rural enrollments had increased by 200 students and 220 students[3] respectively at Project 211 and Project 985 universities on the previous year. This effectively improved access and narrowed the admission gap between wealthier and poorer students at China's higher education institutions.

IMPROVING ACCESS TO HEALTH SERVICES AND NON-PROFIT HEALTH PROVIDERS

1 Project 211 colleges and universities: A project implemented by the Chinese Government to development higher education during the Ninth Five-year Plan period. Project 211 covered about 100 higher education institutions and prioritized several key disciplines, in order to improve the overall development of higher education in China.

2 Project 985 colleges and universities: A project designed to create world-class universities. The name was derived from the day: May 4, 1998, on which Jiang Zemin, Chinese President at the time, delivered a speech about building world-class universities, on Peking University's 100th anniversary. Currently, there are 39 Project 985 colleges and universities nationwide.

3 Chinese Academy of Sciences, available here:http://www.moe.edu.cn/jyb_xwfb/xw_fbh/moe_2069/xwfbh_2015n/xwfb_151204/151204_sfcl/201512/t20151204_222893.html

At present, healthcare provision at the grassroots level is weak, and medical and health services have long pursued profit-making activities. To cope with these issues, the Chinese Government launched a series of reforms and innovations in recent years, among which, strengthening medical and healthcare capabilities at the grassroots level and promoting reforms to public hospitals have been key.

IMPROVING MEDICAL AND HEALTH SERVICES AT THE GRASSROOTS LEVEL

New medical reforms, launched in 2009, have focused on strengthening grassroots provision as a priority. This has mainly focused on advancing the construction of medical hardware and software, especially at the grassroots level. Between 2009 and 2013, China's central government financially invested nearly RMB 100 billion to support the construction of county-level hospitals and medical and healthcare institutions at the grassroots level, to promote the informatization of medical and health services, and to improve the efficiency and management of services at county-level medical and healthcare institutions.

In addition to strengthening technological capabilities at grassroots healthcare institutions, a series of reforms have also been made to incentive and restraint mechanisms at local hospitals. Drug prices have been fixed in public medical institutions, most regions have implemented a two-level financial management system, medical staff salaries are guaranteed due to increased government investment, and a salary system, with a combination of regular and performance pay, has been implemented to avoid corrupt practices. More recently, in order to better motivate medical staff, some regional hospitals have begun to explore more effective incentives for organizations and individuals at the grassroots level. For example, a medical insurance fund with rewards and punishments has been implemented in medical institutions in towns and townships across China, thus encouraging medical staff to do more to strengthen disease prevention, reduce the incidence of diseases and control referrals to big hospitals, so that money saved can be reallocated. Regarding public health services provided in communities and villages, the implementation of a fee-for-services system has been explored, along with various capitation payment arrangements, which may be implemented at a later date.

Furthermore, China has taken a number of measures to improve the practices of medical staff in local hospitals. In 2010, China launched a capacity building scheme to improve medical skills, especially those of general medical practitioners at the grassroots level. This covered 36,000 members of medical staff in regional health institutions, and offered training to general medical practitioners. In addition, China launched a tuition-free but occupation-fixed education scheme for medical students in response to problems in rural areas. Medical students entitled to free tuition were mainly from rural areas. They qualified for free tuition and accommodation and enjoyed subsidies for living expenses while studying at college, and their costs were borne by central and provincial governments. Following graduation, these students were required to serve in medical and health institutions at the grassroots level for six years. This project aimed to train more than 10,000 occupation-fixed students for jobs in rural areas and aimed to tackle the difficulties recruiting and retaining doctors in central and western China. Many regions also adopted targeted measures to encourage doctors in large hospitals to serve in medical and health institutions in rural areas, thus promoting high-quality services at the grass-root level. Recently, various regions have also actively explored the establishment of regional medical alliances, and integrating medical services in counties

Box 4.4 The Reform of Medical and Health Services and the Integration of Counties and Townships in Shanglin County, Guangxi Province

Before reforms, as elsewhere, health clinics in towns and townships in Shanglin County were of a very low standard. They offered poor quality equipment, low professional technical ability, low service capability and a poor medical environment. The most important contributing factor was a continuous brain drainfrom the area – technical healthcare personnel in clinics, especially doctors, continued to move from small, local hospitals to larger, county-level hospitals. Between 2010 and 2014, health clinics in towns and townships across the county lost around 189 medical professionals, who either moved to county-level hospitals, moved out of the county, or resigned. This made it increasingly difficult for residents of Shanglin County to see a doctor when required, and as a result, people flocked to county-level hospitals or other medical institutions outside the county for medical advice. This overwhelmed county hospitals and blocked county level hospital beds. However, county-level hospitals were expensive, offered low reimbursement ratios, and delays to treatment were common. Users were dissatisfied, and increased pressures were placed on public finances and medical insurance systems.

As a result of the abovementioned problems, the government developed a reform programme for the health sector, encouraging local governments to implement changes to regional medical and healthcare services. In particular, they were advised to integrate county- and township-level medical services in October 2014. The reforms consisted of the following:

Firstly, unifying the management of personnel. Shanglin's People's Hospital previously managed all county-level hospital staff and all of the health clinics in towns and townships in the county, according to need. After the establishment of new qualifications, all staff in the county could compete for employment, which enabled a flow of personnel between county-level hospitals and smaller township hospitals.

Secondly, unifying the management of services. Health clinics in towns and townships were renamed as branches of the county-level hospital, and their services were brought under the management of the county-level hospital. Unified management standards, service guidance, staff training, procurement (including for equipment and drugs) and performance appraisals were introduced. Initial diagnosis systems, two-way referral systems, multi-level diagnostics and treatments, medical resource sharing, medical personnel rotation systems and other systems were formulated at county-level. Shanglin's People's Hospital appointed nine experts to serve as vice presidents of specialist branches; these individuals were responsible for sharing guidance on a twice-weekly basis in to their branch staff. At the same time, each health clinic retained more than two resident clinicians from the county-level hospital who were responsible for "mentoring" services at their respective local clinics.

Thirdly, unifying the management of hospital finances. In accordance with national financial and accounting systems, county-level hospitals were responsible for managing the finances of county- and township level clinics in a unified manner and for conducting audits regularly. County-level hospitals were also made responsible for allocating capital to their entire region.

In addition, county-level governments also adopted several new practices, such as increasing investment in grassroots medical services and implementing reforms to personnel systems. The reforms (conducted over just one year) have had many positive impacts, including:

1. The relationship between county-level hospitals and health clinics in towns and townships hospitals has shifted from competitive to cooperative. The two-way referral system has had mutual benefits and has enhanced the continuity of regional medical services.

2. The management of health clinics in towns and townships has improved significantly. Long-underused general surgeries in towns and townships have seen a rise in patient levels, and medical services are increasingly managed at the grassroots level. As a result, medical services are now both more convenient and more efficient for residents, and pressure has been alleviated from county-level hospitals.

3. The integration of counties and townships has moved responsibility for diagnostics to the grassroots level, as have the delivery of medical examination results and two-way referrals for critically ill patients.

4. The volume of services offered at health clinics in towns and townships have increased significantly. As a result, income to local hospitals has increased markedly, and medical staff are now paid more fairly (with a monthly pay increase of around RMB 1,200 per capita). The brain drain from towns and townships to county-level hospitals has also been relieved.

Source: Shanglin County Government, Materials on Work Experience from the Reform of Medical and Health Services with the Integration of Counties and Townships in Shanglin County (DATE)

and townships so as to improve the services offered at grassroots medical and healthcare centers. A particular programme, the "Reform of Medical and Health Services via the Integration of Counties and Townships" is a good example of this type of initiative (see Box 4.4).

While strengthening capacity building at grassroots levels, various regions have encouraged strengthened public support for local medical and health institutions through a variety of measures – primarily through fee reimbursements. [1]Recently, the central government has prioritized comprehensive improvements to diagnosis and treatment services, and some regions have also started to utilize their budgets more effectively, so as to increase reimbursement ratios for initial diagnosis and to increase individual co-payment ratios for the use of services in large hospitals without initial diagnosis at regional hospitals.

DEEPEN REFORMS AT PUBLIC HOSPITALS

Public hospitals are the main institutions that provide medical and health services in China. Since new medical reforms were launched in 2009, public hospitals have been prioritized. The reform aims to control profit-seeking behavior in public hospitals and the consequent price increases and costs passed on to patients. The reforms have also addressed strained relations between doctors and patients and several other problems through new financing, distribution and regulating methods. In the early stages of the reform, seventeen cities were selected as pilots for hospital reforms. These pilots aimed to comprehensively reform county-level public hospitals by reforming grassroots medical service institutions. In 2012, the General Office of the State Council issued the "Opinions on the Pilots for the Comprehensive Reform of County-Level Public Hospitals", and a number of pilots for reforms to county-level public hospitals were widely promoted across the country.

The General Office of the State Council also promulgated the "Implementation Opinions on Promoting the Comprehensive Reform of County-Level Public Hospitals in an All-Round Way" in 2015, when reforms to county-level hospitals were comprehensively extended. Subsequently, the General Office of the State Council issued the "Guiding Opinions on the Pilots for the Comprehensive Reform of Urban Public Hospitals" and clearly advocating an expansion of the pilot scheme. The goals of the reform to public hospitals were to end profit-seeking behaviors in public hospitals, implement new leadership guidelines; ensure that the security, management and supervisory responsibilities of hospitals were controlled by the government; construct a clear, rational medical service system; coordinate and distribute responsibilities for diagnosis and treatment; and effectively alleviate the high costs of accessing treatment and seeing a doctor. The main policies set about to cancel the medical cost compensation system, steadily adjust the price of medical services, and to establish a stable financing mechanism by enhancing government investment, medical insurance and cost-sharing systems. At the same time, it was necessary to further reform the salary system within healthcare institutions and to improve incentive and constraint mechanisms. Furthermore, it was also necessary to strengthen the regional health planning and informatization systems, to improve clinical

1 A diagnosis and treatment system scheme launched by Hainan Province in 2015 is a good example. For farmers participating in a new rural cooperative medical system, hospital expenses are reimbursed within one year. Tertiary medical institutes can deduct RMB 800 for services, with a 60 percent reimbursement ratio. Provincial secondary medical institutions can deduct RMB 600, with a 65 percent reimbursement ratio. Secondary medical institutions in cities and counties can deduct RMB 300, with a 75 percent reimbursement ratio. Township-level medical institutions can deduct variable amounts, with 60 percent reimbursement ratios when expenses are less than or equal to RMB 200 and a 90 percent reimbursement ratio when expenses are over RMB 200 (see Implementation Opinions of the General Office of the People's Government of Hainan Province on Promoting the Construction of the Grading Diagnosis and Treatment System, (2015)).

Box 4.5 Comprehensive Reforms of Public Hospitals in Sanming City, Fujian Province

Sanming City, in Fujian Province, is a relatively old-fashioned prefecture-level city. Since 2012, Sanming City has made a significant effort to promote reforms in all 22 of its public hospitals at municipal and county level.Its remarkable achievements have aroused great attention.

Sanming City's reforms to public hospitals have been propelled by two competing pressures: a large number of corruption cases regarding the purchase and consumption of medicines;and a massive deficit in the urban employees' medical healthcare insurance fund.Sanming City has taken three core reform measures to address these: forbidding the mark-up of drug prices;centralizing the purchase of pharmaceuticals; and implementing an annual salary system.

Sanming City's reforms first began with the cancellation of drug price mark-ups. Since February 12013, all hospitals at or above county level have been required to implement a zero mark-up policy on drug sales. At the same time, hospitals are required to raise the price of 80 medical services, including clinic services, nursing services, various treatments and surgeries, and others. Among clinic services, charges for diagnosis and treatment by chief physicians, associate chief physicians, senior physicians and resident physicians have been raised by RMB 25, RMB 20, RMB 15 and RMB 10 respectively, and reimbursement rates have been set at RMB 8 across the board. Secondly,the procurement of pharmaceutical items was centralized throughout the province, with a strictly implemented "two-invoice system". Purchase prices were also further reduced. Thirdly, remuneration packages for different ranks of medical staff were amended. An annual salary system was implemented for the directors and doctors of relevant hospitals, and annual salaries fordirectors were to be paid for by central government finances. The basic annual salary of resident physicians, senior physicians, associate chief physicians and chief physicianswas raised to RMB 70,000 and RMB 120,000, RMB 180,000 and RMB 250,000 respectively, and performance-based annual salaries were linked to evaluation results. Furthermore, the government strengthened its supervision over hospitals and doctors, and emphasis was placed on supervising the application of 129 drugs. Some scholars named this a "one body with two wings": reform — "one body" referring to the eradication of covering hospital expenses with medical revenue, and "two wings" referring to the remuneration of medical staff and strengthening the government's management of and supervision over hospitals.

After one year, Sanming City's reforms to hospital and medical care have achieved positive results. From January to September 2013, the average cost of patients being discharged from hospitals dropped by 2.29 percent in 22 hospitals at or above county level. This is significantly lower than the average annual growth rate of 19.4 percent. Sanming's medical insurance fund experienced a shift from deficit to surplus (this deficit reached around RMB 80 million in 2011 and the surplus was RMB 110 million by September 2013). At the same time, Sanming's fiscal system made relatively few financial investments in public hospitals. Only through these reforms did, Sanming City realized a "triple-win" for hospitals, patients and the local fiscal system.

Source: Wang Liejun, Reform of Public Hospitals' Financing and Compensation Systems in China: Progress, Enlightenment and Challenges - Findings Based on Researches in Shaanxi, Anhui, Beijing, Fujian and Other Localities, No 64 (Development Research Center of the State Council, 2014)

management and supervision systems, and to reform performance evaluation mechanisms.

In line with national requirements to push forward reforms to public hospitals, some localities conducted investigatory explorations into these policies and achieved positive results. Among these achievements, reforms in Sanming City, Fujian Province, have attracted considerable attention (see Box 4.5).

COMPOSITE GOVERNANCE AND SOCIAL COORDINATION

In recent years, improving social governance has attracted a large amount of attention from the governments of all levels, from China's central government to local governments. The report to the 17th National Congress of the CPC clearly recommended a social management concept, promoting "the Party committee's leadership, government's responsibility, social coordination and public participation". Over-

all, the issue dominating government attention was that of insufficient levels of social participation. This is still a prominent issue. In response, the central government took the decision to "Comprehensively Deepen the Reforms". The third plenary session of the 18th central committee of CPC also deliberately replaced "social management" with "social governance", which considerably altered the basic concept of social governance. Thus, social governance has shifted China from mainly government-led governance to whole society participation; from mainly relying on administrative methods to a comprehensive alteration to a concept of governance that takes into account rule of law; from an emphasis on "management" to an organic combination of governance and services, and from an emphasis on temporary solutions to addressing both symptoms and root causes of social issues. At the local level, active explorations have examined the relationships between China's Party committee, the government and society, as well as social organizations' participation in grassroots governance.

EXPLORING COMPOSITE GOVERNANCE AND ESTABLISHING NEW RELATIONSHIPS BETWEEN PARTY ORGANIZATIONS, GOVERNMENT AND SOCIETY

Compared to China's traditional government-led governance model, composite governance emphasizes the participation and cooperation of multiple groups, including Party organizations, government agencies and various social organizations, in achieving social governance. At present, explorations into composite governance have mainly taken place in urban communities and rural villages. Taking composite governance at the rural grassroots level as an example, in addition to villager autonomy, it has been necessary to comprehensively exert the independence of various governance groups, such as local governments at the town and township level, village Party branches, rural social organizations, and villagers' representative groups, thus solidifying the concept of multi-party participation and cooperative co-governance. On one hand, it has been important to respect villagers' autonomy and to explore their opinions and improve their ability to self-organize, self-manage and self-service. On the other hand, it has been necessary to integrate the resources, capabilities and opinions of all relevant parties, in order to enhance the inclusive nature of governance, and to represent a wide set of interests and demands. These examinations into grassroots governance models also provide an important basis for responding to issues and for meeting the demands of communities. Chengdu City's village council is a notable example (see Box 4.6).

EXPLORING SOCIAL COORDINATION MECHANISMS AND IMPROVING THE ROLE OF SOCIAL ORGANIZATIONS

In recent years, in the face of complex social relations and diverse interests and demands, the Chinese Government has explored many reforms and has perfected its governance system proactively. It has done this by paying attention to the role of social organizations in China's governance system. At the third plenary session of the 18th central committee of CPC held in November 2013, great emphasis was placed on developing the vitality of social organizations. The meeting clearly stated that the government should improve its relationship with social groups; authorities should speed up separating government administrative functions from the management of communes; authorities should encourage social organizations to clearly define citizens' rights and responsibilities and should implement governance practices according to the rule of law. The meeting also

Box 4.6 Chengdu's Village Council: an Investigation into Cooperatively Pushing Forward Villager's Autonomy

Chengdu's village council was established by local farmers in 2008. Because the council has achieved notable success in recent years, it has been used by Chengdu's local government as an important example for other local rural jurisdictions. A Chengdu village council model has subsequently been emulated in urban areas, with pilots established in 35 communities in the region.

Chengdu village council was modeled on the concept of "one leader, two-level councils and three organizations". This is summarized as follows:

One leader: where a village council accepts the leadership of the village Party branch and the village Party secretary is responsible for convening meetings and determining topics for discussion. A secret ballot is adopted and decisions can be passed when more than half of total votes are received. The council convenes at least once a month, during which Party members that are not elected as council representatives can also attend.

Two-level council: when a villager council system includes two levels of organizations, namely the village council and the council for villagers' groups. The village council is the superior institution, and council representatives participate in the public collective decision-making of the village. They are also responsible for liaising with villagers within their villager groups. The council for villagers' groups is the subordinate institution of the villager council, within which members of the council for villagers' groups participate in the decision-making of internal affairs and are responsible for assisting the work of the representatives of the village council. Specific selection procedures specify that a two-stage selection process takes place –first, 4-6 members of the council for villagers' groups are elected and selected from each villagers' group. Then then 1-2 members are selected as representatives of the villager council. Five representatives are selected from among these representatives; these form an independent board of supervisors, which is responsible for the supervision of public expenditure.

Three organizations: where the village council system is responsible for establishing three organizations to ensure autonomy, namely: the village council, the village committee and the villagers' board of supervisors. The village council is responsible for public affairs authorized by the government; the village committee, which was once responsible for decision-making and public affairs, is now only responsible for the implementation of decisions made by the village council; and the villagers' board of supervisors is responsible for auditing and supervising public expenditure.

The village council, which is organized by a two-stage selection process, is responsible for village public affairs under the leadership of the village Party branch while the village committee is the executing agency of the village council.

Chengdu's village council system has been able to establish an open, transparent and fair democratic decision-making mechanism in its local area. It has achieved autonomy for villagers in terms of decision-making and supervisory functions, and has solved problems with its traditional villager autonomy system, such as weak Party leadership at the grassroots level, and strained relationships between cadres and the public. Villager autonomy has proven complimentary to Party leadership and Chengdu's new composite governance provides a positive example for deepening reforms to other villages' autonomy.

Source: Yu Dong: How to Truly Implement the Villager Autonomy? - The Beneficial Trial of Chengdu Villager Council, No. 107 (Development Research Center of the State Council, 2012)

stated that the government should not address public issues that could be addressed by social organizations; the government should support and develop voluntary organizations; authorities should decouple industry associations and chambers of commerce and should focus on developing new public welfare charities and urban and rural community services. Finally, these community and business organizations were directed to register with the government (in accordance with the law).

Meanwhile, various localities actively explored various methods for effectively empowering social organizations with governance powers. For example, through a bottom-up application system and a top-down project contracting system, the Dalian 365 work system built a collaborative mechanism that assisted the government, social organizations and the public to

Box 4.7 Innovation and Social Governance Experience: Xigang District, Dalian

Xigang's 365 work system has mobilized a number of social groups to jointly participate in social public services in order to establish a model of co-governance. By focusing on public welfare projects, Xigang's 365 work system has been able to guide social organizations to actively participate in public affairs in two ways: via a project application system and a project contracting system. The so-called project application system means that social service projects are applied for by social organizations using a bottom-up approach – i.e. after projects are jointly deliberated and approved by relevant departments and local resident representatives, the district's financial system provides funding (at levels applied for by social organizations) for investments in social services. At present, Xigang District Government allocates around RMB 5 million per year via this system. On the other hand, the so-called project contracting system involves a 365 service center which deals with demands from residents in their jurisdictions via non-profit social projects. These brochures are provided in a top-down manner, and are applied for and implemented by social organizations. For example, citizens call a hotline where they can voice their demands. These demands are catered for by administrators only once administrators have completed inspection tours. The 365 service center then incorporates some demands into the scope of social projects to completed by the government. Some small projects that address people's basic necessities are published in a brochure and contracted out to social organizations and enterprises.

Xigang's first 66 projects were contracted out to dozens of social organizations and charity institutions, including the Liaoning Provincial Association for Poverty Alleviation, the Liaoning Provincial Association of Private Enterprises, the Lions Club of Dalian City, the Huaxia Culture Promotion Association, the Industrial Bank and the Veteran Cadre University of Dalian City who actively implemented these projects according to particular specifications. Of these organizations, the Lions Club of Dalian City claimed 39 projects, and the Liaoning Provincial Association of Private Enterprises claimed 9 projects. This practice has not only been a positive way to involve grassroots organizations with the provision of social services, but it has combined government input with civil society input to cater for residents' demands. These demands have thus been met with the government's approval and social organizations' enthusiasm.

Source: Lin Jiabin, The People-Based Innovation of Urban Social Management - Experience and Enlightenment of the '365 Work System' in Xigang District of Dalian City, No. 87 (Development Research Center of the State Council, 2014)

participate in decision-making, investment and implementation together (see Box 4.7).

In summary, China has achieved remarkable progress in terms of human development. However, lots of problems remain, particularly regarding inclusiveness and sharing. Against a background a profound transformations to its economic and social circumstances, inclusive human development in China has faced numerous challenges. In order to address these challenges, China has conducted some beneficial, experimental explorations and innovations to its education, healthcare, poverty reduction, income distribution and social governance systems. These have proven successful and are being used as examples across China. At the same time, some existing social innovations have failed to comprehensively respond to newly emerging challenges, thus more explorations are required.

CHAPTER 5

INTERNATIONAL EXPERIENCES OF INCLUSIVE HUMAN DEVELOPMENT

Key Messages:

- **International experience shows that social innovation can help to reduce inequality and promote inclusive human development.**
- **It is necessary for China to deal with its challenges and complexities according to its own national context. However, China can take inspiration from international experience, including:**
  - **Easing income inequality needs the simultaneous adoption of various measures, including improvements to the way the labor market functions; forming a fair social security system; standardizing China's income distribution and reducing income inequality. To achieve these, a strong tax system, social security system and other redistributive measures are required. Poverty reduction has shifted from an emphasis on alleviating economic poverty to alleviating multidimensional poverty, which measures deprivation using indicators such as education, health, housing and public goods.**
  - **Improving access to education is an important way for countries to promote inclusive and sustainable human development, which is also conducive for economic growth and social integration.**
  - **It will become increasingly necessary to promote the concept of "enlarged health" to integrate and to strengthen grassroots health service capabilities.**
  - **Expanding public participation, enhancing the role of the third sector and improving the media's ability to hold government to account are important ways to improve social governance.**

In order to further improve levels of inclusive human development, it will become increasingly important for China to overcome imbalances between urban and rural areas, different regions and populations, and also to deal with issues such as slow economic growth, population aging, urbanization (and high levels of migration) and rising public expectations, along with many other challenges. To achieve these, international experience and practices can be extremely useful. Based on the analytical framework laid out in the previous chapters,

this Chapter analyzes social innovation experiences, looking particularly at responses to four key issues: income inequality, poverty reduction, education, health, and social governance.

5.1 INTERNATIONAL EXPERIENCES ON ADJUSTING THE INCOME DISTRIBUTION — RESPONSES TO INCOME INEQUALITY AND POVERTY REDUCTION

The institutional arrangement of income directly determines the extent to which inclusive development can be achieved. International experiences with adjusting the income distribution can be divided into two main categories: responses to income inequality and poverty reduction.

RESPONDING TO INCOME INEQUALITY

International experiences of responding to income inequality cover three areas, namely: primary distribution, redistribution and systems for standardizing income distribution order.

Primary distribution innovation and improving the labor market. Under the right conditions, labor markets can provide workers with equal access to an income. The establishment of a minimum wage system and trade unions were two of the most important social innovations for improving labor markets after the 1920s.[1] These significantly enhanced inclusive development.

In the 18th and 19th centuries, the prevailing wage system for workmen was a daily wage or a project wage. The monthly payment of wages was a revolutionary innovation in the 20th century that was gradually adopted by all developed countries, greatly enhancing the stability of developed labor markets. Compared with other markets, the labor market is, to a large extent, a compromise-based social structure, where the implementation of a minimum wage can not only ensure reasonable wages for low-income groups, but it also promotes income growth through "spillover effects", and narrows the gap between wage income and capital income, thus reducing income inequality. Historically, the introduction of the minimum wage has had a direct impact on changes to income inequality. The first minimum wage was introduced in the United States in 1933; this soon became the most common method to raise the wages of low earners throughout the 1950s and 1960s. However, in the 1970s, the minimum wage was abandoned at the federal level, and as a direct result wage inequality — which had declined — began to grow significantly. As a result, the Obama administration has attempted to reinstate a federal minimum wage system in recent years. Evidence from France shows the opposite. A minimum wage was introduced in France in the 1950s; its use was gradually expanded during the 1950s and 1960s; and by the 1970s the French minimum wage was implemented nationwide. As a result, wage inequality in France initially expanded and then narrowed.

Countries where trade unions play a significant role include the Scandinavian countries, Germany and Japan. The history of unified national labor groups and collective bargaining system can be traced back to Denmark in 1899. These systems were subsequently adopted by other Scandinavian countries in the 1920s and 1930s. Since then, trade unions have been closely associated with social democratic parties. After

1 In addition to the introduction of minimum wages and trade union systems, governments in countries around the world also actively intervened in labor markets. For example, some countries formulated moderation measures such as ceilings on wages in order to adjust the income distribution. Available here: https://aeaweb.org/articles.php?doi=10.1257/jep.27.3.3.

the Second World War, in some countries (especially Scandinavian countries), keeping close ties and negotiations between trade unions, employers' associations and the government during policy-making processes became commonplace, regardless of which party held power. This relationship lasted for a long period of time after the Second World War. As a result of this special relationship, the aggressive pursuit of "equal pay for equal work" (also known as a "unified wage policy") in different industries, different regions and different enterprises became a pressing issue in many countries. In Germany, the "Collective Contract Law", promulgated in 1952, clearly defined the position of trade unions and employers' associations, and the principle of collective bargaining. Different from a "shareholder model" in other countries, German companies adopted a "stakeholder model". According to this model, union representatives are permitted a seat on a company's board of directors. These representatives not only play a role in terms of making advice, but they are also active decision makers. In 2010, collective bargaining covered 55 percent of employees; 50 percent of which bargained for wages according to industry standards. It is important to note that although the coverage of trade unions was very high, Germany's labor market still maintained a certain degree of flexibility. In Japan, trade unions also played a very powerful role, and negotiations between workers and their employers regarding wage-related matters occurred every spring during "annual spring wage talks". Japan's trade unions backed collectivism across society. During economic downturns, trade unions would offer to reduce the wages of all workers in order to avoid potential unemployment for some workers. Although this kind of behavior reduces the pay levels of all laborers, it keeps income inequality at bay across society, and has a positive effect on increasing workers' long-term welfare.

Regarding the labor market, the pursuit of gender equality has been an important goal in recent years. When welfare systems were first established in many western countries, policymakers assumed a specific intra-household division of labor — where husbands supported families through labor and wives were responsible for child-rearing and home-making. As a result, many social policies did not develop support for female employment and compensation systems regularly limited female employment. In the 1960s and 1970s, this system was challenged as a result of female education and an emerging feminist movement. Since the 1960s in many European countries, increasing numbers of women have participated in employment outside the home. However, there was still a large income gap between men and women, which was most prominent in the United Kingdom. In this context, the United Kingdom successively issued the "Equal Pay Act" and the "Sex Discrimination Act" in the 1970s, thus promoting the principle of gender equality. In 1973, the United Kingdom joined the European Economic Community and accepted the 1957 "Treaty of Rome", which required every Member State to enshrine the principle of "equal pay for equal work" between men and women. Since this date, many other acts have been passed in the United Kingdom that promoted equality between men and women. In recent years, the number of British women in employment has grown, mainly as a result of a rise in the number of women working in the public sector.

Innovations to the income distribution using progressive taxation and social security. At the beginning of the 20th century, tax revenues accounted for lower than 10 percent of national incomes in all developed countries. In the second half of the 20th century, however, this gradually rose to account for around one-third to one-half of national income.[1] In recent years, the proportion of tax revenue to national

1 Thomas Piketty, *Capital in the Twenty-First Century,* (The Belknap Press of Harvard University Press, London, 2014)

income has stood at around 30 percent in the United States, 40 percent in the United Kingdom, and between 45 percent and 55 percent in continental European countries.

Regarding tax reforms, progressive income and property taxes are two measures that directly affect income and wealth equality. The introduction of these two taxes in some countries can be traced back to before the First World War. Due to low tax rates, these taxes did not play a strong role until the 1920s, when tax rates rose rapidly. When first introduced, the United States and the United Kingdom chose more radical tax systems than other countries. For example, in the United States, top marginal income and legacy tax rates between 1919 and 1939 were over 70 percent. Over nearly half a century from 1932 to 1980, top federal income tax rates were around 81 percent and top marginal legacy tax rates remained at around 70–80 percent between the 1930s and 1980s. After the 1980s this changed when top marginal income tax rates fell to between 30 percent and 40 percent. The situation in the United Kingdom was very similar. In contrast, France and Germany made very few changes to their legacy and income tax rates. Here, top marginal legacy tax rates have remained below 40 percent, and top income tax rates have remained stable at 50–60 percent since the 1930s. The above examples show that since the 1930s, the United Kingdom and the United States have changed their attitude towards wealth, while in continental Europe (i.e. Germany and France) attitudes towards income have remained largely the same.[1]

Social security systems originated in the late 19th century, and were gradually perfected from the 1920s, especially after the Second World War. Income inequality was one of the driving forces behind social security systems, which are the reason income inequality in countries like Sweden and other Nordic countries has remained small. Social security systems are also the reason for low levels of income inequality in Germany and other European countries, according to international statistical comparisons made by the OECD.

In most high-income countries, social security of some level is guaranteed for most citizens. For example, welfare in Nordic countries is recognized as the best of all European countries. Under the Nordic model, all residents enjoy minimum pensions, all families with children enjoy child subsidies, and individuals afflicted by diseases, disabilities, unemployment and poverty enjoy cash subsidies and other government benefits.

Common features of all social security systems include: old age pensions, healthcare provision and social assistance for the unemployed and disadvantaged. In terms of expenditure, pension spending accounts for 70 percent to 80 percent of all social spending. In most high-income countries, public pensions are often the main source of retirees' income, and protect old people from poverty.

Institutional innovations with a goal of leveling the income distribution. Two other main measures for reducing income inequality include: features designed to eliminate privilege and level the income distribution, and mechanisms that address inefficiencies within existing policy systems.

Measures that are designed to level the income distribution include: fair trade agreements, as in South Korea; awarding high salaries to eliminate government corruption, as in Singapore; and transparent financial information systems, as in Sweden. During its economic take-off, South Korea relied on chaebols, which contributed significantly to the development of its economy, but also created economic monopolies and encouraged political corruption.

1 Ibid.

To address this, South Korea issued the "Monopoly Regulation and Fair Trade Act" in 1980, established the Korea Fair Trade Commission in 1981, and started to implement both a civil servant property publicity system and a financial naming system in 1993. In Singapore, in response to widespread government corruption (a commonplace especially in emerging industrialized countries in East Asia), the government established its modern civil service system and founded the Corruption Practices Investigation Bureau (CPIB) in order to be able to strictly investigate and punish corruption and reward civil servants for hard work. This reduced the evolution of a "privilege stratum" in society and provided an institutional environment, devoid of corruption, that encouraged economic development. In Sweden, one of the conditions that has encouraged compliance with its tax system is a highly transparent financial information system. Sweden is a society that regards information disclosure very highly. A website named Ratsit.se, which was established in November 2006, publishes taxpayers' financial information (obtained from the Swedish National Taxation Bureau) online, which allows anyone to easily obtain the income and tax information of all domestic taxpayers in Sweden. This approach prevents people from hiding tax evasion.

In addition, Sweden's child and family policy, which is highly regarded by social policy experts globally, has cured the deficiencies existing within the up-to-then policy systems. During the last 40 years since the early 1970s, Sweden's family welfare policy provided support for working couples and has promoted gender equality with regard to child-care. The country's main policy instruments include: parental leave, child care services, separately-calculated income taxes and Sweden's Family Law. Within its national fiscal framework, financial allocations for children include public subsidies, parental insurance, a children's pension, disability benefits, childcare annuities and an allowance for families with children.

POVERTY REDUCTION AND SOCIAL PROTECTION — EXPERIENCES

In any society and over any given period, the existence of poverty is regarded as a marker of unfulfilled inclusive human development. Therefore, various attempts to combat poverty during the history of mankind can be regarded as direct efforts to enhance levels of inclusive human development. Since the 18th century, rapid economic development has brought about a rapid decrease to incidences of poverty across the world. Using US$1 (1985 rates) as an internationally recognized poverty line, the poverty incidence among the world's population was as high as 84 percent in 1820, and had decreased to 24 percent by 1992.[1] It is undeniable, therefore, that the decline in poverty has mainly resulted from economic growth. At the same time, however, many countries' social innovation practices have also played a crucial role in combating poverty. These practices have included, in addition to many practical investigations, research that has guided poverty reduction activities across the world.

Concept development from absolute poverty to relative poverty and multidimensional poverty. Theoretical research on poverty stemmed from the concept of absolute poverty, which can be traced back to Booth (1889)[2] and Rowntree (1901)[3] in the United Kingdom in the late 19th and early 20th centuries. According to Booth and Rowntree, if an individual or a family (for income-based reasons) cannot meet

1 Francois Bourguignon and Christian Morrison, (2002) "Inequality Among World Citizens: 1820-1992." American Economic Review 92 (4)

2 Charles Booth, *Life and Labour of the People in London* (William and Norgate, London, 1889)

3 Joseph Rowntree, *Poverty: A Study of Town Life* (Macmillan, London, 1901)

a minimum standard of living, the individual or the family is suffering from absolute poverty. These theories heavily influenced poverty research throughout the 20th century and influenced the development of the "poverty line" concept. Above all, Booth and Rowntree's ideas led some scholars and international institutions to connect poverty with basic needs; the scope of which were gradually expanded.

With the advancement of poverty research, some scholars introduced the concept of relative poverty in the 1960s and 1970s. Relative poverty is measured according to a society's average living conditions, i.e. if a person or a family's living conditions (measured by income or consumption) are lower than the average level in society (the average or median income), the person or family can be identified as suffering from poverty. According to this concept, as long as there is an income gap and/or a low-income group, poverty is almost unavoidable.

Whether we are talking about absolute poverty or relative poverty, the main criterion for identification is the single dimension of income.[1] Along with the development of theories and practices, people have gradually realized that poverty is a complex and comprehensive social phenomenon. In addition to income, poverty also involves a number of other dimensions, such as education, health, housing and public goods, among others. Based on this consideration, Sen clearly advocated his "capability approach"[2] during the 1970s, where he suggested that it was important to understand poverty and development from multiple dimensions. This theory revolutionized studies on poverty and led to a new stage of poverty-related policy development. Influenced by Sen's "capability approach", poverty studies shifted from focusing on the single dimension of poverty, to focusing on multiple poverty dimensions after the 1980s.

Changes to international poverty reduction practices. The advancement of poverty concepts has led to changes in poverty reduction practices across the world. After the middle of the 20th century, poverty reduction methods in many countries has transitioned from "blood transfusion" models (which prioritize financial relief) to "blood generation" models, which prioritize individuals' agency. At the same time, the scope of poverty reduction has also extended from just income-based measured to multiple dimensions, with an emphasis on improving overall welfare. These changes have improved the inclusiveness of development in many countries.

The shift from "blood transfusion" to "blood generation" mode has encompassed two features. Firstly, poverty alleviation has shifted from mainly providing income support and subsidies to mainly providing technical training and improving the human capital of those in poverty. Secondly, in order to receive cash and in-kind subsidies conditionality has been introduced, such as with "conditional cash transfers (CCT)". Since the 1990s, many Latin American countries have made their cash subsidies conditional on school enrollment for the children of recipients. Medical service recipients must also adhere to "development plan[s] for a new generation". By providing conditional cash subsidies, governments have accelerated human capital accumulation and are effectively working to reduce the intergenerational transmission of poverty.[3]

The transition from one-dimensional to mul-

1 When measuring "absolute poverty", consumer spending is usually the main indicator . I.e. when income cannot meet minimum spending, an individual can be defined as someone suffering from "absolute poverty".

2 According to Sen's explanation, poverty corresponds with a lack of functional benefits; behind which, there exists an inability to realize functional benefits. Therefore, the cause of poverty is a lack of ability. All people should possess some basic "functionings", including th ability to obtain adequate nutrition, basic health conditions, basic housing, and certain education opportunities (Sen, 1983). If individuals or families lack one or more of these functionings, they can be identified as suffering from poverty.

3 For successful examples, see practices adopted in Brazil and other countries during their development phase.

tidimensional poverty methods is evident in the poverty reduction practices across regions and populations. Many of these methods have been adopted to improve conditions in less-developed regions. In the United States, the government has successively improved the environments of two underdeveloped areas in the Tennessee Valley and the middle and lower reaches of the Mississippi River since the 1930s. Through a series of institutional innovations, the government increased public investments, offered tax incentives, developed new industries and strengthened transfer payments, thus creating a new economic growth region. In South Korea, in order to reverse the huge gap between urban and rural areas, the government launched the "saemaul undong movement" in 1970. During the construction of this system, large government funds were invested in rural areas under the "saemaul undong movement". As a result, rural economic construction began to thrive. In addition, through a series of institutional innovations, the government increased investments in education, healthcare services, old-age pensions and other social assistance for farmers. These included the abolition of caps on agricultural land purchases, low-interest loans and the sale of agricultural tools and machinery at low prices.

Compared with poverty reduction practices in poverty-stricken *regions*, there are more institutional innovations in poverty reduction practices for poverty-stricken populations. At present, most countries in the world have established a relief system that provides people living below the poverty line with minimum social security, medical assistance, educational exemptions and student loans (among other support measures). In addition, some countries have conducted fruitful institutional innovations in the field of social exclusion. Research on social exclusion emerged in the late 1980s.[1] The popularization of this concept occurred due a deepening understanding of the multidimensional nature of poverty during this period. For researchers and policy makers, the attention paid to this issue stemmed from concerns about the emergence of marginal social groups, who posed a potential threat to social solidarity.[2] In 1997, in order to explore ways to eliminate social exclusion, the United Kingdom set up the Social Exclusion Unit, which evolved into the Social Exclusion Task Force at a later date. According to the Social Exclusion Task Force, social exclusion was a concept that included poverty but was wider than poverty; it involved being incapable of fully participating in normal social, political and civic life. Social exclusion could occur due to personal reasons (and therefore varied by individual), and due to specific living environments — causes were widespread. People experiencing social exclusion were generally faced with relatively higher crime rates, poorer living conditions, high levels of unemployment and low income, among other issues. At the same time, the Social Exclusion Task Force also pointed out that in the process of dealing with the above-mentioned issues, governments are unable to deal with one aspect independently; it is necessary to solve social exclusion by taking all aspects into considerations at once. In 1999, the United Kingdom launched the Poverty and Social Exclusion (PSE) Project and began to carry out analysis into four dimensions, including material poverty (with an emphasis on income or resource exclusion),

1 In fact, the earliest debate about social exclusion took place in France in the 1960s, but this concept was not widely used until the late 1980s when it was coined by the United Kingdom and adopted by other European countries. In France, the concept was first used to describe the relatively poor standards of living of those unable to access social protection. See Feng Wenmeng *Social Exclusion of the Elderly in Contemporary China: One Empirical Study Based on the Surveys in Six Provinces* (OECD International Conference on Social Cohesion and Development, 2011)

2 Grace Galabuzi, *Canada's Economic Apartheid: The Social Exclusion of Racialized Groups in Canada's New Century* (Canadian Scholar's Press, Toroto, 2006). Ratna Omdivar and Ted Richmond, Immigrant Settlement and Social Inclusion in Canada (Laidlaw Foundation Working Paper Series, 2003)

labor market exclusion (with an emphasis on a lack of job opportunities), social service exclusion (with an emphasis on the poor accessibility of public and private services), and exclusion from social relationships (with an emphasis on insufficient participation opportunities and social support). Relevant investigations and research have played a positive role in improving policy-making procedures for the elimination of poverty and social exclusion.[1]

RECENT EXPLORATIONS ON THE RESPONSE TO INCOME INEQUALITY AND POVERTY REDUCTION

From social security to social protection, more attention needs to be paid to participation. Before the 1990s, social security networks were considered to be an effective means to provide poverty-stricken populations with security. After the 1990s, however, driven by the International Labor Organization (ILO), the World Bank and other institutions, social protection has gradually become an important concept in international discussions on anti-poverty and socio-economic development. According to the ILO's definition in 1990, social security incorporates nine categories: disease, fertility, provision for the aged, disability, work injury, occupational disease, unemployment, death and family allowances.[2] Compared to social security, social protection is more inclusive, open and sustainable – not just with regard to the categories covered by this term, but also in the ways it addresses social exclusion, by facilitating participation, offering vocational training and employment services, among others.

Based on the distinctions between health protection and social protection, the United Nations defined nine categories of social protection: the protection of those with diseases and disabilities; the protection of the elderly; the protection of survivors; the protection of the family and children; the protection of the unemployed; housing protection and other unclassified protection from social exclusion; research and development into social protection, and other uncategorized social protections.[3] This clear definition provides clear guidance for countries aiming to implement a social protection system.

Institutional innovations for preventing old-age poverty. Since the middle of the 20th century, population aging has gradually become one of the world's greatest challenges, especially in high-income countries. The elderly population has expanded thanks to higher spending on medical treatments, improved public health conditions and higher spending on services for the aged. As a result, improving the labor participation rate of the aged, enhancing the health of the elderly and inhibiting the excessive growth of medical and health spending have gradually become important concerns. Many countries are now discussing specific ways to postpone the retirement age. In 2014, among OECD member countries, the average retirement age of men who entered the labor market at age 20 was 64 years old, and the average retirement age of women who entered the labor market at age 20 was 63.1 years old. The OECD predicted that in the near future the average retirement age of men and women would rise to 65.5 years old and 65.4 years old respectively.[4] At the same time, some countries, such as Germany, have begun to explore ways to create an elderly-friendly working environment in order to increase the number older people in employment.

1 Available here: http://www.cabinetoffice.gov.United Kingdom/media/cabinetoffice/social_exclusion_task_force/assets/research/chapters/4.pdf

2 Lynn Vellacott, *"social protection policies in the Asia Pacific region", statement to the International symposium on the Development of Social Security in Developing Countries,* New Delhi, April 1993.

3 *International Labour Organization World Social Security Report (2010–2011)* (Geneva, 2011), translated by the Institute for Social Security Research, the Ministry of Human Resources and Social Security, China Labour and Social Security Publishing House.

4 OECD. Stat, *Pensions At A Glance,* available here: http://www.oecd-ilibrary.org/finance-and-investment/oecd-pensions-at-a-glance_19991363

5.2 INTERNATIONAL EXPERIENCES IN THE FIELD OF EDUCATION: IMPROVING ACCESS

Human capital investment, with education at its core, is an important way for countries to promote industrialization, drive economic growth, support economic transformation, avoid the "middle-income trap", and improve their soft power. From the 19th century to the mid of the 20th century, social innovation in the field of education mainly involved organized efforts to improve access to education. After the middle of the 20th century, many countries around the world carried out multi-dimensional innovations to improve access to education.

Improving elementary education. In recent years, comparisons with the Programme for International Student Assessment (PISA) have shown that the average grades of students in Japan, South Korea and Finland are excellent, and that the balance of students' grades in these countries is also outstanding.[1] These three countries have one thing in common: a relatively balanced faculty that is able to move between elementary schools. In Japan and South Korea, this has been achieved via regular teacher flows. In Finland, it has been achieved through having high standards for faculty at all schools.

During their respective development processes, both Japan and South Korea rapidly expanded senior high school education, by improving three aspects, namely fiscal resources, teacher resources and student resources. This was achieved by establishing an integrated policy and financial system for national public compulsory education in both urban and rural areas. In Japan and South Korea, in all rural and urban schools, all public compulsory education funds were the responsibility of the government. Regarding resource allocation, the Japanese and South Korean governments aimed to provide equal public services and completely free compulsory education in urban and rural areas nationwide. Regarding the evolution of financial management for rural compulsory education, both Japan and South Korea experienced a situation where rural compulsory education funds (which were once almost entirely controlled by rural grassroots local governments) were transferred to central government and large local governments. As a result, central governments in these countries have been increasingly involved with investments in rural compulsory education, gradually taking over their financial management. At the same time, both countries have brought teachers into rank with civil servants, and the teaching resources have been more evenly spread across schools via legislation making both the teachers' rotation system[2] and the facility sharing system compulsory.[3] Furthermore, detailed provisions have been formulated to ensure the feasibility of these two systems. Japan and South Korea have not only put effort into improving facilities

1 Gong Sen et al., An International Comparison of Welfare Regimes and Social Policies (China Development Press, 2012)

2 The "regular flow system" for teachers in Japan started after the second world war and was mainly implemented within public elementary schools (primary schools, middle schools, high schools and special schools). In 1949, the Japanese Government developed the "Education Civil Servant Law", which prescribed that the regular flow of primary and secondary school teachers should be counted among the "turnover" of civil servants – this system has been improved gradually since 1960. The "regular flow system" for teachers in Japan has three characteristics: the forced flow; standard procedure; and flow between school districts and remote areas. As for teacher flow in South Korea, the main approach has been to implement a policy that "levels education", promoting a flow of teachers every four working years in order to ensure that all schools can access high quality teaching staff.

3 In 1891, Japan promulgated the"Criteria for Primary School Equipment", which benchmarked school locations and school facilities, and teaching assistance that should be provided. The 1947 "School Education Law" benchmarked how schools should be run. It recommended standards incluing location selection, building area, level of teachers, equiptment, the availability of books, etc. It also required a strict implementation in accordance with the law. The 1958 "Law concerning the Standard for Class Structure and Teaching and Administrative Staff Structure" standardized class sizes and ratios between teachers and students. It also advised on special measures for remote schools, including modern information technology provision, ensuring that all schools were well connected and not out-of-date – it also ensured that education resources were the same in less and more developed areas. Via an improved funding system, South Korea increased education funding to "unfavorable schools" in order to vastly improve their operating conditions.

and teaching staff at schools, but have also improved admissions[1] by implementing random school allocation systems (along with other methods). This has improved public schools nationwide in both cases, and has improved the fairness of compulsory education.

Over the past 40 years, Finland has established an education system that prioritizes high-quality teaching staff, and fully delegates powers to them. For a long time, Finland has paid great attention to teacher training. Now all teachers at elementary schools are qualified with graduate degrees. In addition, education administrators have fully delegated school and district level leadership to teaching staff, and have attached great importance to self-discipline in the teaching profession, conducting fewer performance appraisals and other administrative measures. In Finland, before entering senior high school, students do not take any standardized examinations. Instead, the examinations they take are prepared by their own teachers. During Finland's nine-year compulsory education, teachers encourage their students to "learn, create and maintain their natural curiosity"; no recorded academic results are kept. Against this backdrop, Finland has no competitive measures, such as examinations or performance-related pay structures, and there is no tradition of evaluating teachers according to their students' examination performance. Due to the Finnish emphasis on 'pure' education, Finnish teachers are regarded very highly and earn relatively high salaries. When Finnish teachers first enter teaching, their pay is similar to their American counterparts. After 15 years of service, however, Finnish teachers are paid significantly more than teachers in America.

1 In Japan, a child's admission to their local schools is unquestionable. Due to small differences between schools and the forced rotation of teachers, the vast majority of parents believe that there is no need to choose between schools during their children's compulsory education stage. Therefore students in different schools experience no significant differences in terms of the basic quality of their education. In South Korea, students are admitted to their local schools via a scoring/allocation system — schools within a school district are determined randomly by a computer, and high school entrance examinations are regularly cancelled.

Experiences of improving access to higher education. Nowadays, few higher education institutions (knowingly) discriminate against ethnic minorities, women or those from low-income families. In general, fair access to higher education is institutionally guaranteed. However, due to differences in families' economic circumstances, tuition costs can affect the accessibility of higher education. In order to eliminate the influence of income on access to higher education, many Nordic countries and some continental European countries have implemented free or low-cost tuition. Some countries, such as the United States, have introduced a comprehensive system of scholarships and student loans in order to support the students from disadvantaged backgrounds. The implementation of these systems has reduced the number of students who lose out on the opportunity to access to higher education as a result of low incomes, and has improved access to higher education.

In addition to financial support, some countries have also implemented a special care system for those from vulnerable families that wish to receive a university education. In the United States, social class and race are regarded as two major factors that affect equal access to education. Affirmative action, which came to effect in the 1960s, has made it easier for ethnic minorities to access higher education. In recent years, however, the influence of income on access to higher education has become increasingly prominent. Therefore, some scholars have recommended that affirmative action in the United States should be revised — by shifting current race-based affirmative action to an emphasis on socio-economic class, which could be targeted on metrics like income, street name, post code, single parent families, and others. In addition, the Obama administration has implemented a new type of university ranking which is linked to federal aid. One of its core aims is to take care of vulnerable groups and to encourage reputable universities to target their activi-

ties towards low-income groups in order to enroll and fund students from these backgrounds.

Improving access to preschool education. Since the middle of the 20th century, preschool education has gradually become a pressing concern for many countries. In 1965 in the United States, the government implemented the "Head Start" programme aged 3—5 years old, which provided disadvantaged children with education and health services. In recent years, the objectives of the "Head Start" programme have been gradually extended to fetuses and infants aged 0—3 years old. At the same time, since the 1970s, Chile, Brazil, Mexico and other Latin American countries and Mediterranean countries have also implemented comprehensive early childhood development programmes. The implementation of these programmes has promoted early childhood development in many poverty-stricken areas and has narrowed development gaps between children from different classes, particularly in terms of physical ability, intelligence, social cognition and communication.

Promoting the integration of vocational and general education and equalizing returns on investment. For a long time, in countries like Switzerland and Germany, vocational education, as a kind of social investment, has become one of the most important ways of dealing with income inequality between different groups and realizing inclusive development. In Germany, the government published the "Vocational Training Act" in 1969, and gradually established a "dual system" of vocational education and training that still exists today. Under this system, time limits for corporate training are limited to 3—4 days a week, and training should be explicitly written into training contracts. Participants must attend school for 1—2 days per week and academic study should be carried out within the framework of compulsory education. This "dual system" of vocational education and training has successfully promoted the integration of vocational education and industrial development, which has not only cultivated a large number of high-quality skilled workers for Germany (giving it a competitive advantage over other countries), it has also ensured that high manufacturing workers can command high wages and has promoted inclusiveness at the heart of its social development. In recent years, in order to strike a good balance between short-term employment and long-term student development, many more countries have begun to integrate vocational and general education and to foster students' transferable skills and academic abilities. Over the past decade, countries in northern Europe, Germany and South Korea have introduced reform measures that allow students at technical schools to transfer into general education systems. Countries such as Norway have also implemented a system of dual certificates. Since the 1990s, OECD member countries have begun to carry out reforms to vocational training so as to promote the integration of vocational and academic courses.

A shift in thinking: from popularity to fairness and then to relevance. In recent years, at the same time as paying attention to the equality of educational opportunity, some countries have started to pay attention to the "relevance" of education, ensuring that students are taught according to economic need. Thus, may schools and educational institutions have striven to cultivate talents that meet the needs of economic and social development.

5.3 INTERNATIONAL EXPERIENCE IN THE FIELD OF HEALTH: GUARANTEEING UNIVERSAL ACCESS TO HEALTHCARE AND IMPROVING MACRO PERFORMANCE

Fighting disease has been a priority throughout history. However, guaranteeing equal access to healthcare via the establishment of universal health systems only truly began at the start of the 20th century. After the mid-20th century, many countries have gradually begun to provide disease prevention and treatments as a basic public service. As a result of economic growth and advances to medical technology, human health has universally improved.

The human struggle against diseases can be divided into two stages. The first stage, before the middle of the 20th century, was when infectious diseases were a major risk to human health. In response to infectious diseases, important institutional measures were taken to establish public health service systems, improve health facilities and habits and introduce vaccinations and other interventions. The second stage was the period after the mid-20th century. During this period, chronic non-infectious diseases were the main risk to health in developed countries and some developing countries. In response to chronic non-infectious diseases, technologies were advanced and the availability of services was improved. More countries also paid greater attention to health management, changing the focus of medical and healthcare services from treatment to prevention. They also put significant effort into improving resources for health. In most developing countries, infectious diseases and chronic non-infectious diseases are currently very concerning. As such, countries are making greater efforts to learn from past international experiences, and to build effective public health and medical systems.

Improvements to inclusive human development by social innovations in the healthcare field can thus be mainly attributed to three things: the accessibility of services, fairness, and efficiency improvements. Since the 1950s, the main innovations to medical and healthcare services can be summarized into six main categories.

Establishing a universal basic healthcare system. In 1966, the United Nations passed the "International Covenant on Economic, Social and Cultural Rights", within which paragraph 12 clearly stipulated that "everyone has the right to enjoy the highest standards of physical and mental health that he/she can reach", and that member states should "create the conditions to ensure everyone to get medical care when he/she is sick".[1] So far, the vast majority of countries in the world have ratified this Convention. As a result, in 2000, the World Health Organization (WHO) further clarified its "new universal benefit concept" — providing everyone with high quality, clinical healthcare services, which aim to provide all residents with quality basic health services.[2]

At present, almost all high-income countries have committed to providing universal healthcare services according to need, rather than their ability to pay. In 1948, the United Kingdom established its National Health Service (NHS), available to all citizens and funded by general taxation. Since the establishment of the NHS, Denmark, Sweden and other Scandinavian countries, as well as Australia, New Zealand and other commonwealth countries have adopted this mode of healthcare provision. Before its transition, the former Soviet Union

1 Available here: https://www.gov.uk/government/publications/international-covenant-on-economic-social-and-cultural-rights-icescr-periodic-report

2 *WHO World Health Report (2000)*

and eastern European countries also offered universal healthcare provision, free at point of access. Germany, France and other continental European countries, as well as countries like Japan and Canada have established a system of compulsory health insurance system for all citizens. Many developing countries have also vigorously promoted universal healthcare in recent years. Even in the United States, where a universal health insurance system has not yet been established,[1] families with financial difficulties and senior citizens aged over 65 have been covered by "Medicaid" and "Medicare" since 1965. The implementation of these two systems has greatly enhanced the fairness of America's health system. In addition, the primary goal of medical reforms implemented by the Obama administration was to solve the issue of universal health insurance.

Regarding the gradual popularization of universal basic healthcare and health instance systems, the basic goal was to ensure that all residents, regardless of region, race or wealth, could enjoy the necessary medical services and a right to healthcare.

Constructing an integrated service system for prevention, treatment and rehabilitation. After the 1990s, most developed countries integrated early prevention, treatment and rehabilitation, and gradually built an integrated service system structured around these three pillars. The construction of such a system involves the following. Firstly, great importance should be attached to the establishment of a high-quality grassroots health service system with general medical practitioners, which would provide comprehensive services like health education, maternal and child healthcare, disease monitoring and prevention, health consultation and management, and the diagnosis and treatment of common and frequently occurring diseases. A mechanism for long-term communication between general medical practitioners and citizens should also be established. Secondly, great importance should be attached to promoting the division of labor, cooperation and information sharing between public health institutions and medical service institutions; different levels of medical institution; and between medical institutions and rehabilitation institutions so as to properly establish a continuous and connected healthcare service. In terms of services, efforts should be made to shift from treatment to prevention and health management. For example, specialized agencies should be established within hospitals to deal with specific illnesses, and individual medical cases should be better managed. In addition to being responsible for every patient's treatment, case managers should also provide operational advices and management arrangements for patient rehabilitation after treatment.

Controlling the growth of healthcare expenditure and promoting the macro-performance of health inputs. Since the 1980s, due to population aging and improvements to medical technologies,[2] many countries' medical and healthcare expenditures have risen rapidly. In response, countries around the world have taken steps to control growing expenditures —in a variety of ways.

The first has been paying attention to the utilization of appropriate technologies to control price-to-performance ratios. For example, the United Kingdom, Germany and other countries have made economic assessments of drugs and high-tech equipment so as to establish

1 In 2012, a 48 million people had no medical insurance in the United States, accounting for 15.4 percent of the total population. On March 23, 2010, the Obama administration passed an act for medical reforms, which aimed to expand health insurance coverage (The Patient Protection and Affordable Care Act, hereinafter referred to as the "ACA"). Most elements of the Act came into force in 2014. After the implementation of "Obama Care", about 17 million more people have got health insurance, but by 2015 about 10 percent of the population, or 33 million people, still have no health insurance.

2 For example, in the United States, the average cost of R&D for new drugs was US$140 million in the 1970s, US$320 million in the mid-1980s, US$820 million in the late 1990s, and US$1.2 billion in the early 21st century, with almost a ten-fold increase over 40 years (PhRMA, 2013).

price controls. At the same time, through various National Drug Reimbursement Lists and different reimbursement rates, governments in these countries have encouraged medical institutions and patients to use generic drugs and other appropriate cost-effective technologies.

The second has been to promote reforms to payment methods for medical services and to implement public policy goals such as improved diagnosis and treatment times. Based on fee-for-service systems and Diagnostic Related Groupings, the global payment system has become a major innovation in the field of health in recent years. This system shifts the focus of health systems from treatment to prevention by way of a total payment to the institutions that provide medical services (such as hospitals) within a certain set period of time. The successful introduction of this system has not only effectively reduced the medical and health spending, but has also fundamentally improved people's health standards by improving prevention. Therefore, this has become an effective measure for promoting efficiency in the health system itself. For example, an important approach the United Kingdom has been to give more power to general medical practitioners over the use of funds, and to establish a corresponding incentive mechanism. Germany, France and other countries have also explored a combination of payment methods in recent years. At present, the United States is the country with the most expensive public and private healthcare in the world. This is one reason why its medical and health system is constantly criticized.[1] In recent years, while improving fairness through expanding health insurance coverage, Obama care has also attempted to lay institutional foundations that will improve the efficiency of the American healthcare system. Some states have also explored a variety of cost-control methods, such as in Maryland, which has introduced its Global Payment System.

In addition, taking a rational view towards life, health and treatment, and disbanding clinical medical services that are not cost-effective is gradually perceived as acceptable by more and more countries. The occurrence of diseases is occasionally seen as part of nature and beyond the existing human capabilities. These diseases, according to the World Health Organization (WHO), the World Bank and other international institutions, should not be treated by some basic clinical services in low-income countries. These kinds of services have not only been given up in low-income countries, but some developed countries have many restrictions on certain services. They have started to implement lower-cost protective treatments that reduce pain as much as possible and improve care for patients.

Establishing a reasonable salary system for medical personnel. Due to complex medical knowledge and the uncertainty of treatment outcomes, the provision of medical services must be based on trust in doctors. Thus, it is necessary to enable doctors to gain patients' confidence and trust in them. Drawing experience from various countries around the world, it is clear that medical staff generally enjoy higher rates of pay — often around 2–4 times average national salaries, or even higher in some countries and regions. In general, doctors' salaries are fixed salaries based on their rank and/or title and supplemented overtime work, with very limited performance-related rewards or bonuses. In order to improve the enthusiasm of medical staff, some places, including the Taiwan province of China, for example, linked doctors' incomes to their service provision. However, this had negative results. Reforms and adjustments were carried out accordingly in response to this failure.[2]

1 Feng Wenmeng, *China's Healthcare Reform in the Coming Years: Experiences and Lessons from the United States,* (Working Paper, Harvard Kennedy School, 2013)

2 Gong Sen et al, *A study on Doctor's Remuneration System in China's Public Hospitals* (Social Sciences Academic Press, 2016)

Promoting service innovation by using information technology. Since the 1990s, as information technology has gradually improved, mobile healthcare, telemedicine and other services have emerged in the United States and other countries. With the help of information technology, these have improved connectivity between community clinics and doctors in hospitals, alleviating grassroots service ability. The innovation of services as a result of technological progress has promoted the division of labor, cooperation and resource sharing; it has increased the accessibility of medical services at a lower cost, and improved the equity of health services across the world.

Establishing the concept of 'enlarged health' and bedding health into all policies. After the mid-20th century, a series of studies confirmed that the main factors affecting individual health are not medical conditions, but people's daily lifestyles.[1] Due to the gradual increase of chronic diseases, many countries have begun to explore more positive health promotion strategies.

From the 1960s to the early 1970s, mortality rates for coronary heart disease and other cardiovascular diseases were high in Finland. Researchers found that this was closely related to the Finnish diet. As a result, in 1972, the Ministries of Social Affairs and Health in Finland took the lead in creating a healthier environment. They ensured that grassroots community health organizations played a preventative role so as to guide people to develop healthier lifestyles, especially dietary habits, thus aiming to reduce risk factors associated with cardiovascular diseases. So far, this has been successful.[2] There are many other successful cases of intervention in the field of health. For example, in the United States, the city of New York began to build a high-quality chronic disease monitoring system in 2002, and a number of European countries have implemented top-down strategies to encourage people to give up smoking since the start of the 21st century.[3]

The common features that these cases share are the ways these interventions tackled issues before they required treatment. As such, they successfully prevented and controlled diseases by changing people's habits. At the same time, the success of these cases also demonstrates that health is no longer exclusively a matter for the medical and health sector, but is also important to a number of different policy areas. Today, promoting multi-sector cooperation and integrating health into all policies is a global goal.

5.4 INTERNATIONAL EXPERIENCE IN SOCIAL GOVERNANCE INNOVATION: PUBLIC PARTICIPATION, THE THIRD SECTOR, AND MEDIA SUPERVISION

Before the Glorious Revolution in the United Kingdom and the Revolution in France, decision-making in each country was basically controlled by a small number of elite groups. After these revolutions, social and political decision-making moved from the hands of political elites to economic elites. After the Industrial Revolution and profound changes to economic activities and social organizations, however, 'common' people have gradually been able to participate in decision-making. In the 20th cen-

1 For example, World Health Organization (WHO) studies have shown that 15 percent of human health depends on genetics, 10 percent depends on social conditions, 8 percent depends on medical conditions, 7 percent depends on natural environment, and 60 percent depends on people's daily lifestyles (WHO, 2005).

2 Li Zhixin, *Research on Current Situation of Population Health, Challenge and Strategy: Study of China's Reform of Medicine and Healthcare System* (China Development Press, 2015).

3 Regarding tobacco control, the United Kingdom has applied a smoking ban and promulgated a series of policies such as "Healthy Life and Healthy People — England Tobacco Control Plan", and "Tobacco-Curing Industry Management" since 2007, with positive effects.

tury, especially after World War II, the concept of public participation in decision-making became increasingly popular, while expanded public participation emerged in many countries. As a result, decision-making processes began to reflect public demands more closely, and the political system became gradually more inclusive. After the 20th century, among major social innovations that expanded public participation, the most noteworthy were the expansion of participatory budgeting, the emergence of social organizations and the wide dissemination of public information.

Expansion of public participation: participatory budgeting. Since the mid-20th century, systems for electing representatives to participate in decision-making have been adopted by most countries. Under these circumstances, deciding how to expand public participation in grass-roots decision-making and how to achieve autonomy has become an important challenge for most countries wishing to improve their national governing abilities. Since the 1980s, as public participation expanded, participatory budgeting has attracted more and more attention. Participatory budgeting was first introduced in Latin America, and then expanded to Asia, Africa and Europe. This method is arguably the newest and most innovative approach in the area of political participation.[1]

The basic concept of participatory budgeting is allowing the general public to participate in decision-making and supervise public spending. This innovative practice was pioneered in Port Alegre, Brazil 1988. The traditional approach to public investment had been government-led. Typically, key projects were ranked in order of public concern by community-level General Assemblies; such as housing, urban infrastructure, healthcare, education, culture and sport. Then, publicly-elected Participation Council would investigate and evaluate all recommended projects and would provide more comprehensive and accurate information for the public to vote on; these were reviewed and approved via traditional decision-making procedures including the Chief Executive and the Parliament. At the regional and municipal level, the Participation Council also participated in project implementation.

Port Alegre's achievement was remarkable. It has provided an opportunity for stakeholders to participate in decision-making, and has bridged the division between decision-makers and stakeholders, empowering working class people across various communities.[2] As a result, the relationship between the political elite and civil society has improved significantly.[3] Similarly, the implementation of participatory budgeting has brought public investment to less-developed, population-dense regions. As a result, basic healthcare institutions have been established, the number of primary and middle schools and pre-schools has increased, roads are better maintained, and most families now have access to drinking water and waste treatment systems in poor residential areas.

The success of participatory budgeting in Brazil provides a positive example for all countries around the world. By 2010, more than one thousand communities/districts had adopted similar practices. Most of these are in Latin America, with increasing cases emerging in Asia and Europe, and some countries in Africa have also started to conduct relevant explorations.[4]

However, participatory budgeting is not the only method that enables the general public to participate in decision-making. Recently,

1 Yves Sintomer et al, *ASEM Participatory Budgeting: Critical Challenge for Democratic Participation* (Shanghai People's Publishing House, 2011)

2 Sergio Baierle, *Urban Struggles in Porto Alegre: Between Political Revolution and Transformism* (NGO Cidade, Porto Alegre, 2007)

3 Leonardo Avritzer, *Democracy and the Public Space in Latin America* (Princeton University Press, Princeton, 2002)

4 Yves Sintomer et al, *Learning from the South: Participatory Budgeting Worldwide – an Invitation to Global Cooperation* (GIZ, Bonn, 2010)

enabling local residents to directly participate in the decision-making of major affairs has become common practice in many countries. In Japanese towns and villages, town meetings take place, where the villagers can participate in discussions to decide major affairs in their regions. In some states in America, people have established county-based Resident Representative Committees, which communicate and consult with county-level health centers on how to improve local residents' health conditions. Residents' participation has made the medical system more problem-oriented and has improved health conditions in many areas.

After the 1980s, more innovative mechanisms that enabled public participation in decision-making emerged around the world. Due to general and local elections, which allow citizens to vote for public representatives, public participation has not only improved the inclusiveness of political participation, but has also improved the inclusiveness of economic and social development.

Expansion of multi-sector participation: the development of the third sector. In addition to the above-mentioned expansion of public participation mechanisms, the development of the third sector since the mid-20th century has played an important role in promoting inclusive human development. The third sector, also known as the "non-profit sector", has developed alongside the public (government) and the private (business) sectors. While the non-profit sector expanded rapidly in the second half of the 20th century, the non-profit sector can be traced back many years.[1] In the UK and the US, the development of social organizations has been more typical.

After World War II, the United Kingdom entered into its post-industrialization stage with an increasing number of social conflicts. In order to mitigate these conflicts, the British government began to construct a welfare system and private charity organizations. Within this context, charity organizations and other social organizations gradually grew into a "third sector", a sector independent from government and business. Since the 1990s, the British government has emphasized its cooperation with the third sector. In 1998, the British government signed the "Agreement on the Relationship between British Government and Voluntary and Social Sectors" alongside a number of charities, which defined the cooperative relationship between the government and social organizations, and made it clear that social organizations should be encouraged to participate in policy-making to guarantee more affective resource allocation. In 2006, the British government promulgated the newly revised "Charity Law". According to this Law, the scope of a charity was extended to include poverty relief, education development, religious promotion, human rights protection, dispute resolution caused by ethnic and religious conflicts, environmental protection, health promotion, community development, to revitalize cultural awareness and protect cultural heritage (among others). By 2010, the United Kingdom had established over one million social organizations, of which 170,000 were charity organizations. These social organizations employed around 1.5 million people, and accounted for 5 percent of total British employment. Accounting for 2 percent of British GDP, the United Kingdom's third sector was larger in economic value than the British agricultural sector.[2] Today, social organizations continue to play an important role in the UK. On one hand, social organizations actively participate in the policy-making process to ensure that government decisions reflect a broad range of people; on the other hand, the government procures many services from social organizations, including public welfare services such as child care,

1 For example, as early as the Middle Ages, the church had begun to carry out charitable activities, which improved people's lives.

2 Available here: https://data.ncvo.org.uk/

housing, health and education. For example in 2007—2008, the British government invested around GBP12.8 billion in social organizations, accounting for 1 percent of the government expenditure. In fact, these organizations provide three times the number of public services than provided by the government.

In addition, it is notable that during the development of British social organizations many "umbrella organizations" came into being, with the aim of serving social organizations. Umbrella organizations adopt membership systems, representing the interests of, and providing certain resources and services to, their members. Umbrella organizations therefore play an important role in the United Kingdom's public governance.[1]

In America, social organizations also play an important role. For example, "Green and Health Homes Initiative" was established in 1986 and is headquartered in Baltimore, Maryland. It was established to eliminate lead poisoning in children and to improve the environment in the region. In America, there are currently nearly 9 million families living in houses with poor insulation and air quality, suffering hazards such as mold and pests. This kind of housing is mostly inhabited by low-income families. Children in these households are more vulnerable to lead poisoning and other health risks. In response, the US federal government has established 238 subsidy programmes for housing reconstruction. However, households are struggling to find ways to utilize these project funds. In fact, most families struggle to access these funds to repair their homes. Against this background, the Green and Health Homes Initiative began to conduct an investigation to identify the specific environmental and health risks faced by each household, based on which the Initiative began to integrate government subsidy programmes, which resulted in the development of a Living Environment Improvement Program for each household. As a result, households participating in this programme have improved their living environments and eliminated environmental and health risks; unwell children have returned to school and parents have resumed work. The Green and Health Homes Initiative has not only reduced household energy consumption, but has also reduced the disease burden and improved health conditions — and correspondingly, government expenditure on healthcare. The Initiative has developed substantially, with 5,000 branches established across America by April 2014 and a total of US$62 million raised from all government parties.

The third sector, including social organizations, also plays an active role in most European countries, and in recent years social organizations in developing countries have gained momentum. In terms of the role of social organizations, due to their flexibility and their proximity to citizens, their understanding of problems tends to be very accurate; they are therefore often able to provide innovative solutions to very specific problems.

Promotion of public participation: the role of the media. The right to knowledge is a basic prerequisite for public participation in decision-making and supervision. In this, the media plays an important role. In 1688, the United Kingdom loosened controls on its media, giving the media more independence to convey information to the public. In the mid-19th century, popular newspapers appeared in America, and in the 20th century, the first radio station was established. After World War II, with the development of technology, mass media became prevalent around the world, which has facilitated the dis-

1 For example, the British National Congress of Voluntary Organizations (NCVO), established in 1919, is an umbrella organization throughout the United Kingdom. By 2010, it had 8,300 member organizations and hired 120 employees. This organization has effectively enhanced the voluntary sector's status in British community through providing recommendations, information and training to voluntary organizations, and organizing lobbyist and advocacy activities to influence relevant policies.

semination of information among the public, and, to a large extent, further protected public interests.

There are many examples of this around the world. For example, the disintegration of the American Standard Oil Company, which was caused by media exposure. In 1904, reporter Ida Tarbell published the "History of Standard Oil Company", which triggered a wave of public criticizm directed towards the company (then owned by Rockefeller), eventually causing the dissolution of Standard Oil in 1911. The media was particularly active, and strongly supported those politicians who intended to take effective measures to break up monopolies, thus protecting the public interest.

After the 1980s, information technology developed rapidly. The birth of the internet has greatly reduced the cost associated with access to information, has significantly expanded the scope of information dissemination, and has increased the speed of information dissemination. In this context, the growing influence of the media provides even more convenient channels to protect the public's right to information, participation and supervision.

5.5 INTERNATIONAL EXPERIENCE AND CHINA

In terms of promoting human development and inclusiveness, many countries in the world have carried out a lot of explorations and have accumulated rich innovative experiences. These experiences can provide useful examples for China when addressing its own imbalances regarding inclusive development. In order to enhance the inclusivity of China's future human development, it is important to draw lessons from other countries' successful approaches with regard to income, education, health, and political and social participation. However, it is important to note that all countries operate in distinct economic and social contexts. Failures that occurred in these international explorations can also inform policymaking. When absorbing and drawing lessons from international experiences, it will be necessary for China to adapt these lessons to suit China's specific conditions.

More attention must be paid to enhancing levels of inclusive human development — mainly through institutional design. International experience shows that by building a good policy system in the fields of income, education, healthcare and participation, levels and inclusiveness of human development can be better enhanced. Conversely, if China fails to build a good policy system, not only will it be difficult for China to achieve inclusive human development, but the country may also fall into the "middle-income trap" and suffer setbacks to its human development.

China has established a market economy system. Experience has proven that the creativity and wealth of a whole society can be greatly improved through market resource allocation; however, countries have also demonstrated that a solely market-driven approach can widen income gaps, especially at the point of primary distribution. Therefore, while giving full play to the decisive role of the market in the allocation of resources, distribution must be well handled so as to realize shared development. This is necessary for providing effective support and protection to underprivileged groups, and for establishing a fairer distribution system.

International experiences show that the development of education is extremely important for human development and inclusive growth. Education can improve human capital and the creativity of a whole society, which is important for avoiding intergenerational poverty and class stratification. The core to education is the

promotion of fairness — above all, the key is to provide all adolescents and children with equal access to elementary education. At the same time, it is also necessary to constantly expand and enrich the content of curricula, focusing especially on economic and social development, and to actively develop preschool education, vocational education, higher education, and life-long education.

Health is not only a basic human development goal, but it is also an important symbol of inclusive growth. International experiences show that there is a huge difference between the health risks of different groups, which depends on family support and other personal, social and economic conditions. If diseases are not effectively prevented, controlled and treated, this will not only seriously impact personal and family lives, but it will also negatively impact society. Therefore, it is important that China establishes an effective medical and healthcare system that is supported by government and social organizations, thus diversifying risk and protecting every citizen's basic right to health.

Along with economic development and social progress, differing interests and the diversification of demands between different groups are key international trends. In order to achieve social harmony and minimize social conflict, balance the interests of different parties and promote human development and inclusive growth, China must pay attention to various types of social participation. It must also keep information channels open, encourage freedom of expression, and constantly improve mechanisms for settling social conflicts.

Highlighting the operability of certain policies and ensuring that policy goals are effectively implemented and achieved. International experience shows that in order to achieve human development and inclusive growth, it is necessary not only to set a clear and explicit development plan but, more importantly, to formulate operational policy measures, implementation methods and goals for each specific policy field. China needs to responsibly handle relationship between government, market, society, individuals and families, to constantly improve its organizational and administrative patterns, strengthen policy evaluation, and establish trial-and-error mechanisms.

In order to share economic achievements, it is important that market allocation mechanisms are perfected. Firstly, it is crucial that the enthusiasm and creativity of all members in society is mobilized, and that wealth is equitably shared and job opportunities are created. It is also necessary to create a fair market environment, to ensure fair and equal opportunities for all to compete, to guarantee equivalent outcomes from inputs, and to regulate distribution among different groups. Taking into account the inevitable income gap that occurs after primary distribution, great attention must be paid to redistribution in order to achieve fair distribution outcomes. Concerning high-income groups, it is necessary to establish an effective tax regulation system, including income tax and legacy tax. For low-income groups, it is necessary to establish a financial assistance system, including employment assistance and a minimum wage (among others). Given that every citizen will face risks such as old age and potential disability, it is also necessary to establish social security systems including pension systems that can balance inter-generational relationships.

International experience shows that, in terms of educational development, the main priority is to clearly identify different types and levels of education and the relationship between government and the public. Elementary education, which should be offered free of charge to all children and adolescents as public goods through public financing, is fundamental to creating a fair education system. Higher educa-

tion and vocational education not only contribute to human capital development, but they also impact the future personal development of recipients; it is therefore necessary to balance responsibility for these education systems between government and individuals. In order to prevent social stratification, priority must be given to protecting vulnerable groups and their right to an education. Education should therefore aim to compliment economic growth and industrial development.

Health is susceptible to a number of factors. It has become a consensus among the international community that health should be integrated into all social policies. Regarding medical and healthcare, the priority is to strengthen public health systems, including preventing and controlling epidemics, protecting maternal and child health and improving health education. It is necessary to establish a sound medical service system with a rational hierarchy, and in particular, to safeguard a high-quality primary health service. It is crucial to establish and gradually improve medical insurance, and to share the risk of medical costs between different social groups and the government. It is also necessary to perfect incentive and restraint mechanisms, in order to unify the interests of medical and health institutions, medical staffs and the public.

Regarding social governance, international experience shows that a rule of law is the basis of good social governance. In order to better promote public participation, one of the most important methods is to vigorously develop nonprofit social organizations, thus addressing intra-group demands and promoting freedom of expression. In terms of the relationship between government and society, it is important to promote transparency in government and to reinforce constraints on power and improve accountability.

WHEN BORROWING INTERNATIONAL EXPERIENCES, IT IS NECESSARY TO DEVELOP AND INNOVATE IN LINE WITH CHINA'S SPECIFIC CONDITIONS

In order to better promote inclusive human development, national conditions must be taken fully into account when designing and selecting policies. In light of China's conditions, although its economy has grown rapidly since the reform and opening up, China remains a developing country. Therefore, maintaining stable economic growth remains one of its most important ways to realize human development and inclusive growth. Regarding poverty reduction, education, medical and healthcare in China, it will be necessary for the country to further enhance its public services by increasing public investment. This will be especially important for addressing poverty among low- and middle-income groups. In order to achieve this, it will be essential to draw lessons from other countries — particularly to ensure that welfare provision is affordable and sustainable.

Compared with many other countries in the world, China possessed relatively unique national conditions. China covers a vast geographical area and has an incomparably large population; development between urban and rural areas and between different regions is also relatively imbalanced. In order to successfully handle relationships between various levels of government, it will be necessary not only to learn from international experiences, but to pioneer local innovations according to China's special conditions. Industrialization and urbanization in China have been rapid, and other challenges such as population aging and changes to China's social structure will become increasingly concerning in years to come. To address these issues, it is difficult to directly imitate existing international experiences. China must carry out explorations of its own in order to find its own

solutions to national problems.

This chapter has demonstrated that many countries in the world have explored various ways to promote inclusive human development via social innovation, including income, education, health and social governance. These explorations are extremely valuable for China when looking at ways to improve its own inclusive development. However, China needs to acknowledge these experiences while adjusting and innovating in accordance with its own national conditions. These innovations can help to improve China's inclusivity and human development, so that it may also provide valuable experience to other countries hoping to improve their levels of human development.

CHAPTER 6

IDEAS AND RECOMMENDATIONS ON WAYS TO PROMOTE CHINA'S INCLUSIVE HUMAN DEVELOPMENT THROUGH SOCIAL INNOVATION

Key Messages

- **In the future, economic growth, equality of opportunity and social coordination will be the three major ways for China to achieve inclusive human development. It will be essential to achieve these goals in an integrated, efficient and coordinated manner, maintaining a relatively higher labor participation rate, high quality labor force and high labor productivity and promoting equal access to employment, education and health.**
- **Social policy should shift from expansion to integration, attention should be paid to the construction and integration of social policies, and a number of core goals should be met, including: employment creation, providing quality education, improving healthcare services and developing social investment projects. Minimum living allowances should also be moderately restrained, public pensions and other financial assistance should be strengthened, and social protection should complement the efforts of individuals.**
- **Currently, inequality of opportunity and a large income gap are prominent problems in China. In coming years, it will be necessary to reform inputs to and the direction of public investment, put effort into improving inclusiveness and fairness, enhance the efficiency of investment, and ensure that low- and middle-income groups benefit from these changes.**
- **Against the background of new governance models, it will be necessary to make innovations to the mechanisms and modes of social governance, build a cooperative relationship between urban and rural areas and better coordinate public and private, long- and short-term interests.**

During the three decades before the reform and opening up, China's inclusive human development was driven by three major mechanisms: economic growth, education, and medical and healthcare. After the reform and opening up, China's inclusive human development has been mainly driven by one major mechanism — economic growth — supplemented by three smaller mechanisms including education, healthcare, and social governance. Over the next decade and beyond, it will be interesting to see what the main drivers of China's inclusive

human development will be, and how these will fit together. Regarding social policy, prior to the reform and opening up social policies were limited; this changed following the reform, and there has been a significant increase to the number of policies available in recent years. In future, how these are further developed will be a significant concern. Namely — will it be necessary to realize integration in China? And if so, how should this be achieved? Since the reform, the goal of social policies in China has gradually shifted from social security for a small number, to social security for all via the establishment of specialized agencies. Many experts are now analyzing how this might change in the future.

Concerning the evolution of China's social governance mechanisms, China once had a single governing body; these have gradually diversified. It will be important to examine whether China's multiple governance systems increasingly compete or cooperate in future, and if the latter, how to cooperate? Since China's reform, social governance goals have gradually shifted from safeguarding public interests to protecting the interests of plural groups. It will be extremely interesting to observe how this evolves over time. Only after clarifying these major issues can China better develop a new direction for social innovation.

6.1 BASIC FRAMEWORK FOR CHINA'S INCLUSIVE HUMAN DEVELOPMENT IN COMING DECADES

In the context of accelerated population aging and economic slowdown, in order to improve the level and inclusiveness of human development in the next decade and into the future, China must not be overly dependent on economic growth alone. China should pay greater attention to supporting all-round growth, including the participation of vulnerable people, and to protecting the interests of its citizens. At the same time, it will also be necessary to establish sound coordination mechanisms so as to better safeguard public interests. This incorporates the vital concept of "co-construction and sharing", which was introduced at the 5th Plenary Session of 18th Central Committee of CPC.

CHINA'S INCLUSIVE HUMAN DEVELOPMENT SHOULD BE DRIVEN BY THREE MAIN MECHANISMS: ECONOMIC GROWTH, EQUALITY OF OPPORTUNITY AND SOCIAL COORDINATION

Firstly, against a background of economic slowdown, new mechanisms are needed to maintain a relatively high level of human development and to raise inclusiveness. Secondly, for medium- to high-speed economic growth, China will need to maintain a relatively higher labor participation rate, and improve labor quality and labor productivity. The latter requires China to further promote equal opportunities in terms of employment, education and health. Promoting equality of opportunity requires social consensus. To combat resistance from vested interest groups, it will be necessary to promote fairness and justice via social collaboration, with government leadership.

SOCIAL POLICIES MUST BE BETTER INTEGRATED, WHILE STRIKING A BALANCE BETWEEN SOCIAL PROTECTION AND INDIVIDUAL RESPONSIBILITY

Since 2012, a new generation of China's leadership has advocated perfecting China's social policy system, aiming to "defend the bottom line, stress key points, improve the system and

guide expectations". In 2015, the "Suggestions of the Central Committee of the CPC on Developing the 13th Five-Year Plan for National Economy and Social Development" set a goal to improve "everyone's participation, everyone's endeavor and everyone's enjoyment". Social policy has therefore shifted from overall expansion to "modulations", with policy goals shifting from a pure emphasis on social protection to a balance between social protection and individual responsibility. There are a number of reasons for this change in focus. Firstly, comprehensive reform of China's social policy system has emphasized the need to prioritize. Secondly, unlike the countries in northwestern Europe, China has no adequate governmental administrative capability that can mobilize enough resources to enhance the quality of all projects simultaneously. Thirdly, social investment policies — especially those that focus on education, healthcare and employment — have the added benefit of being able to improve labor quality and labor productivity at the same time. Furthermore, limiting policies that focus on social consumption, including minimum living allowances and public pensions, can help to weaken welfare dependency and promote labor participation. Finally, problems once solved by government-provided social protection can be replaced by the actions of individuals and families, who can pool their resources to solve them independently.

In addition to optimizing and coordinating social policies, it will be increasingly important to appropriately integrate different policies, and properly divide responsibilities among the state, market and society (including individual citizens and families). Overall, China should increase government social expenditure. At the same time, China should avoid overbearing the government with social responsibility — as occurred in a number of western welfare states. As a result, it is very important to acknowledge the distribution of social responsibilities between market and society (especially the burden felt by families), as well addressing unity, rights and obligations. It should be noted that for different policies, the balance of responsibility held by state, market and society should be different. In order to determine the ideal distribution of responsibilities, it is recommended to compare the effectiveness, efficiency, universality and sustainability of each responsibility-sharing scenario. On one hand, the private sector and other non-governmental organizations can participate in the provision of some public services, thus improving the efficiency and quality of these services. On the other hand, the government can play an important role in dealing with market failure and guaranteeing the fairness and quality of social services. When private enterprises and other non-governmental organizations lack the motivation to offer public welfare to all — particularly in remote rural areas — the government needs to ensure that citizens in these areas can access basic welfare and services.

THE AUTONOMY OF CITIZENS SHOULD BE FURTHER ENHANCED, AND THE RELATIONSHIP BETWEEN STATE AND SOCIETY SHOULD BECOME MORE COOPERATIVE

National and regional public services are growing more popular, and community demands for these services are increasing. Under these circumstances, the development of autonomous organizations at the grassroots level is broadening channels of communication between the public and the government and helping to satisfy public demands. It is also clear that a more diverse population is having obvious side effects, encouraging greater "political interference". For example, while middle-aged and elderly laborers generally oppose postponing the retirement age, provinces with higher

educational resources tend to oppose leveling the playing field with regard to educational resources and equality of opportunity. Therefore, while encouraging disadvantaged groups and regions to participate in social governance is certainly positive, China also needs to better coordinate the relationship between public and private interests. Greater attention should be paid to encouraging an integrated cooperation between the state and society.

6.2 EDUCATION POLICY INNOVATIONS: KEY RECOMMENDATIONS

After widening access to education at every level, there are two basic directions for educational innovation — one is to promote equality, and the other is to improve the quality of education, especially with regard to "relevance" (i.e. ensuring that skills taught align with economic priorities). In terms of educational equality, China has already established a system for promoting educational fairness at different levels. Therefore, the goal going forward will be to push forward further reforms.

PUSHING FORWARD COMPULSORY EDUCATION

When speeding up the construction of public schools in urban and rural areas, it is important to ensure strong faculties, especially in rural areas, and to promote the exchange of urban and rural teachers across regions. In addition, it is recommended to actively allocate enrollment quotas of high-quality senior high schools to junior high schools and to further decrease the number of students opting to attend only *particular* senior high schools.

Improving educational equality is a main objective for the all-round development of human beings and the achievement of social fairness and justice. China's elementary education is largely unified and resources are imbalanced, therefore there are huge differences in educational quality between different regions, urban and rural areas, and between different schools. The focus of future policy in China should be on promoting the balanced development of intra-regional compulsory education. As for relevant policy options, lessons can be drawn from Japan and South Korea, particularly with regard to the following:

Firstly, it is recommended to balance intra-regional fund allocation. Schools' technological funds, operating funds and human resource allocations should be guaranteed and fairly distributed. Government finances should be prioritized for schools with poor infrastructure and low quality faculties, and resource allocations to these schools should be improved. The cost of public services can be higher in remote rural areas than in urban or densely populated areas — especially regarding infrastructure construction, the allocation of school buses and operating costs. Thus, when allocating funds for education, it is recommended to prioritize rural areas, especially in areas with much lower population densities and relatively poor economic development. It is also recommended to further improve standards of per capita facility allocation, to stop reducing teaching places and to combine schools, and to guarantee equal compulsory education for all students in poor economic areas.

Secondly, it is recommended to popularize the intra-regional rotation of teachers and principals. According to the "Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform", delivered at the third plenary session of the 18th central committee of CPC in 2013, the exchange and rotation of teachers and principals between public schools should be actively promoted. The gov-

ernment should also draw lessons from Japan and the Republic of Korea, who introduced intra-regional teacher exchanges a number of years ago. It is also recommended to monitor the balanced development of compulsory education. Other than areas with poor traffic conditions, all other areas with poor compulsory education should comprehensively popularize the system within counties and districts. Related support policies, such as subsidies and teachers' apartments should also be offered as incentives to encourage domestic mobility.

Thirdly, it is recommended to "allocate enrollment quotas in high-quality senior high schools to junior high schools". Practices and experiences in areas like Shandong, Zhejiang, Heilongjiang provinces can provide positive examples. These areas "allocated enrollment quotas in high-quality senior high schools to junior high schools" as soon as possible and increased in order to curb school selecting (where families chose top-performing junior high schools for their children), to promote the balanced development of compulsory education and guarantee equal access to education for students in poorer schools with limited resources. In areas with imbalanced compulsory education development and low quotas, it is recommended implement plans as soon as possible in order to reverse these growing trends.

ACTIVELY EXPLORING "APPROPRIATE" EDUCATION

Fair access to education not only depends on equal resource allocations to schools, but it is also highly dependent on family background. Therefore, inequality in education cannot be entirely eliminated. Therefore, cultivating a sense of social responsibility among students (especially among elites and more able students) is important for improving fairness. In addition, it is also vital to cultivate students' innovative potential and to teach students skills that align with China's social and economic development needs. To achieve this, China can use international experience for inspiration.

6.3 HEALTHCARE INNOVATIONS: KEY RECOMMENDATIONS

China's healthcare system faces several problems, namely relatively low efficiency and fairness, which are two priorities for social innovation. To improve efficiency, China has introduced institutional arrangements, including a medical profession salary system and a hierarchical structure. To improve fairness, it will be increasingly important to improve access to basic medical and healthcare services for all.

ESTABLISH A SALARY SYSTEM THAT MOTIVATES MEDICAL PROFESSIONALS

Currently, the average pay of doctors in China's public hospitals is around two times the national average salary. In contrast, in most OECD member countries, doctors' average wages are between two and four times national average salaries. There are three other important structural issues that are also limiting the effectiveness of China's health system. Firstly, the structure of the doctors' pay in China is not reasonable. The proportion of bonuses linked to profit is too high, with the highest bonus accounting for 70—80 percent of total wages. Secondly, there is too large a difference between salaried income and retirement income. Doctors' pensions are much lower than their salaries, because their pensions are linked to basic salaries. Thirdly, there are huge gaps between regional hospitals. Hospitals in middle and eastern China, especially large hospitals, pay three to four times the local average salary, while hospitals in underdeveloped regions, especially

small hospitals, pay just slightly higher than the local average salary. As a result, hospitals in remote areas fail to retain good doctors, and thus cannot guarantee high quality medical treatments. Therefore, China must reform doctors' pay as a matter of urgency; otherwise progress cannot be made.

To this end, we suggest that doctors' legal compensation should be improved. Using international experience as an example, we suggest that the salaries (basic salary and subsidies) of Chinese doctors should be between two and three times average national salaries. Basic salaries should be increased to around 70 percent of total salaries (basic salary and subsidies), and the salary system should be strengthened according to post, professional title and level of seniority. Doctors' overtime salaries should also be improved. The United Kingdom's experience, which will covers around 20 percent of doctors' pay, should be used as an example. Medical reforms in Sanming City, Fujian Province, has shown that maintaining and redirecting medical insurance payments can effectively improve doctors' salaries in rural hospitals with poorer services.

TAKE PRACTICAL MEASURES TO PROMOTE A HIERARCHICAL MEDICAL SYSTEM

In order to attract high-quality doctors to work at smaller hospitals, three measures can be taken. Firstly, the existing system that takes no account of needs or doctors' specialties should be improved. Secondly, entry thresholds should be lowered through reforming administrative examinations and approval systems. Thirdly, the existing fixed compensation system for medical staffs should be reformed, and a mixed compensation system should be implemented. In order to encourage patients to attend local hospitals for diagnoses and rehabilitation, three measures can be taken. Firstly, service fees for specialists at local hospitals should be reformed, and reimbursements through medical insurance should be increased. Secondly, medical insurance reimbursement ratios for chronic diseases should be increased at the local level. Thirdly, the range of drugs offered by medical institutions at local medical practices should be expanded.

ESTABLISH A SYSTEM THAT OFFERS EQUAL ACCESS TO BASIC MEDICAL SERVICES

China should adopt a "capability-based fee payment" system, "as well as fee payment within the limit of capability when using" — in accordance with practices in middle and high-income economies. By establishing a fund allocation system, basic medical insurance funds can be allocated nationwide. At the provincial and municipal level, it is recommended to unify the basic medical insurance system for company employees, and government insurance systems for public sector employees. It will also be important to unify basic medical insurance systems for urban and rural residents. In addition, it is recommended to improve the insurance transfer system for employees and residents. The integration of all kinds of medical insurance schemes should be accelerated. Specific suggestions include:

Firstly, it is recommended to further integrate the medical insurance system for urban and public sector employees, thus establishing a unified basic medical insurance system for all urban Chinese workers. This reform would abolish the current medical insurance system special to public sector and would incorporate it into a medical insurance system for all urban employees, based on international experience. In regions where these conditions are satisfied, rural migrant workers, farmers, rural laborers and agency workers would also be gradually incorporated into this medical insurance system.

Secondly, according to "Opinions on Integrating the Basic Medical Insurance System for Urban and Rural Residents" issued by the Chinese Government in January 2016, it will be necessary to speed up the integration of the basic urban medical insurance system with China's new rural cooperative medical system, thus establishing a unified basic medical insurance system for urban and rural residents. The goal of such institutional integration is to achieve unifications in medicine insurance system, standard of payment, benefit level, information system, budget and fund management. Regarding the imbalance between urban and rural economic development, research shall be carried out on this issue as soon as possible in order to manage this problem imminently.

Thirdly, it is recommended to improve the pooled levels of medical insurance funding. Pooling should be implemented universally at the municipality level. In localities with better conditions, pooling should be actively implemented at the provincial level. At the national level, funding systems should be established as soon as possible; and management systems with unified service indicators should be implemented, with streamlined processes and rules. Medical insurance information management systems should also be established as open and interconnected (i.e. across regions), and should solve reimbursement problems for patients' outside their regions of domicile.

Fourthly, medical security systems should be nationally unified. Taking Singapore as a reference point, where patients are reimbursed according to ward standards, China should implement a system where everyone can equally enjoy high-quality diagnosis and treatment services, while opting for different living conditions and paying proportional fees they can afford.

6.4 ELIMINATING ABSOLUTE POVERTY: KEY RECOMMENDATIONS

Lifting China's rural poverty-stricken population out of poverty is one of the country's most pressing challenges. There are two paths for eliminating absolute poverty. One negative approach is to improve minimum living standards so that the population receiving the allowances will live above the poverty alleviation criteria. The other, which is more positive, is to target poverty alleviation efforts — this has been widely promoted by the Chinese Government. The implementation of targeted poverty alleviation measures improves the efficiency and sustainability of poverty elimination efforts by addressing local and population-based problems.

PROMOTE TARGETED POVERTY ALLEVIATION MEASURES

Regional and family-based approaches should be integrated by reforming the targeting of poverty alleviation measures in China. For a long time, China's rural poverty alleviation efforts targeted specific regions. For example, after identifying poverty-stricken counties, central, provincial and municipal governments focused poverty alleviation strategies in these areas. Intra-county resource allocations for poverty alleviation were largely determined by counties themselves with little guidance from central government. As a result, problems like fund misappropriation occurred. Regional targeting is necessary in order to improve infrastructure, education and healthcare, et cetera. However, greater attention should be paid to family-based targeting, which should be achieved by identifying poverty-stricken families and analyzing the causes of their poverty

(i.e. by improving their employment prospects, helping with their relocation, offering overall relief through social security, and offering medical assistance).

Greater attention should also be paid to improving the quality of elementary education and medical services in poverty-stricken areas in order to prevent intergenerational transmissions of poverty. Improving education and health levels in poverty-stricken areas can enhance future self-development, which is important to achieve sustainable poverty elimination. In addition to increased investment in school and medical equipment, it is important to encourage excellent teachers and medical and healthcare professionals to serve in poverty-stricken areas.

EMPHASIZE SELF-RELIANCE AND SELF-IMPROVEMENT, AVOID WELFARE DEPENDENCY AND UNIFY URBAN AND RURAL SOCIAL SECURITY SYSTEMS

Compared with other East Asian countries and regions under the same influence of Confucianism, for a number of reasons (including the design, management and implementation of policies), China has a relatively higher proportion of its population living on the minimum living allowances, and its expansion of the targeted population leads to low levels of allowances provision. To achieve targeted poverty reduction, the themes of self-reliance and self-improvement should be emphasized, and social policy goals should return to safety net standards, while entry thresholds for social security claims should be improved in three ways. Firstly, regarding the unemployed who earn local minimum wages, strict checks should be enforced ratifying child-support and maintenance payments, and high-income families should be excluded from benefits. The government should speed up the integration of social security information systems, build an online information publicity platform, explore more independent dynamic management systems using big data, strengthen handling procedures, regularly monitor and conduct performance evaluations, and comprehensively manage welfare dependence with the aim of reducing social security payments.

The integration of different systems in different regions can be achieved by uniting county and municipal level systems. At the provincial level, fiscal resources can be balanced according to the economic and financial conditions of each county and city. At the central level, targeted policies can be adopted, guiding improvements to minimal social security systems and moderating minimal social security standards in various regions. Specific policy measures mainly include further promoting the integration and unification of urban and rural minimum social security systems. Within the same county (city and district), gaps between minimum living standards of urban and rural residents should be reduced and/or eliminated. Another measure includes strengthening coordination between the minimum living standard scheme, such as minimum living standard allowances, and other social welfare policies, such as special types of assistance (medical assistance, housing assistance, educational assistance, judicial assistance, etc.). It is also recommended to strengthen the connection between social assistance systems and other social welfare systems and to improve healthcare, pensions, education and other social welfare provisions, encouraging many supporting mechanisms that are now provided by the government to return to the way they were originally provided. Furthermore, it is recommended to promote institutional integration and to perfect departments managed by "the leadership of government, the management by the department of civil affairs, the coordination among departments, as well as social participa-

tion". It is essential to organize, coordinate and manage major social assistance matters in a unified manner through the integration of administrative resources, creating a unified social assistance system, a unified supervision and administration mechanism, and a unified social assistance information management platform.

6.5 INNOVATIONS TO PENSION SYSTEM: KEY RECOMMENDATIONS

Innovations to pensions can be undertaken in two ways: firstly, by propelling the integration of pension systems and improving their fairness; and secondly, by promoting the sustainable development of basic endowment systems for employees.

ESTABLISH A UNIFIED BASIC ENDOWMENT INSURANCE SYSTEM FOR ALL GROUPS

By February 2014, China had merged its endowment insurance systems for urban and rural residents. Following this, it is recommended to further promote the integration of various old-age pension systems, unify basic pension systems for all groups through social insurance and national account systems, and narrow gaps between groups by "increasing the low level, stabilizing the middle level and limiting the high level". Specific suggestions are as follows:

Firstly, it is recommended to unify pension systems for all groups of urban and rural citizens regarding social insurance. It is recommended to establish an old-age pension system that consists of three pillars: basic endowment insurance, supplementary endowment insurance and personal income. According to China's cultural traditions and development levels, as well as lessons learned from international experiences, China's basic pension should account for around 50 percent of pensioners' incomes; China's supplementary pension (occupational annuity) should account for 10 percent; and the personal income of China's citizens should account for roughly 40 percent. Other income includes income transfers within families, such as child maintenance. Encouraging pension income from employment and other means is not only conducive to encouraging labor participation, but also conducive to maintaining China's tradition of mutual assistance within families. It is therefore significant for promoting economic development, improving social relations and reducing financial pressure on the government.

Secondly, the methods of calculating and providing basic pensions for all groups (urban and rural) should be unified through an individual national account system. Interests rates for individual accounts should be linked to macroeconomic indicators. In terms of security levels, the goals of basic pension insurance for urban and rural residents should be increased to 20 percent of the disposable income of urban and rural households, which is equivalent to absolute poverty levels. The target replacement rate for the basic pensions of enterprise employees should be stabilized at around 40 percent, which is equivalent to relative poverty levels. It is important to accelerate the gradual merging of the basic pension of public sector employees and urban enterprise employees.

Thirdly, it is recommended to promote the unification of management and services through information technology improvements. It is important to integrate the existing management of social insurance and other public services in order to establish a unified administrative agency for pensions. It will also be important to integrate the existing business management system through information technology construction and vigorously promoting a national social security card.

POSTPONE RETIREMENT, LOWER PENSION RATES AND ENSURE SUSTAINABILITY

After merging and reforming old-age security systems for public and private sector employees, the main impediment to postponing retirement age will be removed. For a mature pension system, balancing funds is mainly achieved by controlling spending. Compared with directly reducing benefits, adjusting pension qualification requirements has a much lower impact on society. However, postponing retirement has met with strong opposition globally. While in most countries, postponed retirement causes inter-generational conflicts, in China, conflicts mainly arise between public and private employees. This is due to China's "dual system", public sector employees, who do not contribute to their own pensions, enjoy higher benefits and larger rewards following retirement.

Lowering basic benefit rates can leave space for supplementary insurance and encourage individuals to take responsibility for their own financial futures. The ceiling for social security should be 60 percent, within which basic pensions should be adjusted as a bottom-line guarantee and replacement rates can be reduced to 40 percent. Correspondingly, premiums can be reduced to 20 percent. Regarding basic pensions as a bottom-line guarantee, the following considerations should be taken into account. First of all, like minimum social security, pensions belong to a social consumption spending category, which should be a lower priority than social investment, which includes education, healthcare and other human capital policies, as well elderly care services, child care and other polices that help to increase labor supply and improve labor productivity. Secondly, supplementary pensions offer the means to build a new relationship between labor and capital, by encouraging long-term stable employment. Thirdly, the above figures are close to average OECD levels. Finally, these levels are not only similar to minimum pension levels outlined by "International Labor Conventions", but are also equal to the relative poverty line in developed countries.

By controlling the range of benefits available and interest rates tied to accounts, payment rates can be reduced gradually, and replacement rates will decline naturally. In the next 10 years or so, the growth of wages will synchronize with the rapid growth of China's economy, and the wages of public sector employees will become better regulated. Along with the rapid growth of wages, the high basic pension rates can be lowered by properly controlling normal adjustment ranges of retirees' benefits. The replacement rates of future retirees' pensions will therefore reduce naturally as interest rates tied to individual accounts naturally decline.

More attention should be paid to developing annuity schemes within small and medium-sized enterprises as well to research regarding plans for the state to replace market supply. After the unification of basic pension systems, compensatory pensions (otherwise termed the "double-track annuity system") will become the focus of public attention. With reductions to high pension payments, the payments required from small and medium-sized enterprises will gradually reduce. However, company pensions are usually run by larger businesses, meaning that small and medium-sized enterprises usually pay relatively high administrative fees. With regard to insufficient market supply, the government should provide small and medium-sized enterprises with alternative products and services. Regarding supplementary pensions handled by the government, there might not be administrative fees, but there might be relatively lower rates of return on investment, which are only slightly higher than interest rates attached to bank deposits.

ESTABLISH AND IMPROVE BASIC PENSIONS

For those who are insured, it is recommended to improve China's individual pension account system and to establish a sound incentive mechanism in line with the principle of "paying more for more". More importantly, it is recommended to appropriately raise levels of pooled funds and to establish a compatible-incentive relationship between central and local governments with reciprocal powers and responsibilities. Regarding the national unification of payment systems and high pension rates, features such as the calculation and provision of benefits, adjustment methods, methods for transferring and renewing, and provincial-level pooled funds could also promote labor mobility. National regulations based on provincial-level pools can encourage the participation of local governments, balance cost burdens and encourage population movement simultaneously.

6.6 INNOVATIONS TO SOCIAL GOVERNANCE: KEY RECOMMENDATIONS

At present, China is working hard to improve its social governance system, especially with regard to the leadership of the Party committee, the authoritative position of China's government, public and private participation and rule of law. China is also refining its social governance and building a social governance system that encourages social participation and sharing. Within this basic framework, there are two clear directions for innovation in social governance: one is to encourage the development of non-political social organizations, while the other is to promote the mutual governance system involving government and society.

ENCOURAGE AND MOTIVATE THE DEVELOPMENT OF SOCIAL ORGANIZATIONS

Attention should be paid to cultivating and giving priority to the development of social organizations, including industry associations, chambers of commerce, science and technology organizations, public welfare and charity groups, and urban and rural community services. It is recommended to innovate the ways social organizations are managed, strengthen information disclosure and cultivate umbrella organizations. It is also recommended to acknowledge the role social organizations can play in social governance, especially with regard to public services and issues that can be best solved by social organizations that are closer to citizens.

GOVERNMENT TRANSPARENCY: DISCLOSING GOVERNMENTAL AFFAIRS, THE ASSETS OF GOVERNMENT OFFICIALS AND FINANCIAL INFORMATION

The "three disclosures" are fundamental for preventing corruption and ensuring power is exercised in an open and fair manner. At present, the progress of China's "three disclosures" is slow, with the disclosure of officials' assets limited within the CCP. We suggest that many measures should be taken simultaneously so as to actively promote transparency and hold the government to account. First of all, China's central government should encourage local areas to establish and improve transparency policies. Secondly, the central government should strengthen top-level design, speed up the formulation of relevant laws and regulations, and develop specific provisions concerning the theme, scope, content, degree, time, penalties and other aspects related to information disclo-

sures — with the aim to improve transparency. In addition, it is recommended to make full use of information technology, such as the internet, to expand channels of public supervision and increase the intensity of disclosure. Finally, it is recommended to put more effort into communicating with the public and to create an atmosphere wherein government officials take the initiative to voluntarily disclose information (and encourage others to). A good public opinion environment can often greatly accelerate and promote the implementation of such policies.

IMPLEMENT "PARTICIPATORY BUDGETING" AT THE COMMUNITY LEVEL

Domestic and international practices have shown that in order to fully mobilize citizens, it is necessary to involve them with public affairs — especially issues that relate to their core interests. By establishing wide-ranging, democratic decision-making tools under Party leadership, and providing a platform that "return[s] rights and endow[s] power", public enthusiasm can be mobilized, the authority of the Party and government organizations can be enhanced, and beneficial interactions between government, citizens and social organizations can be truly realized. Based on domestic and international practices and experiences of "participatory budgeting", we suggest that China fully introduces "participatory budgeting" at the community level, in order to ensure that public services fully satisfy public demands and improve the efficiency of public investment, which is also conducive to the development of democracy.

CONCLUSION

Over the next ten years and beyond, China's human development will not only focus on solving imbalances between regions and populations, but it will also have to cope with rapid aging population, economic slowdown, structural transformations and other major challenges. At the same time, China still has a number of advantages to advance inclusive human development. Firstly, China's political system has unique features in removing obstacles posed by multiple interests to social development. Secondly, in the next ten years or so, China's national economy may continue to experience medium to high levels of economic growth — China's newly created wealth can support incremental reforms and avoid the conflicts generated by stock reform. Even during China's "new normal" period of economic growth, China's annual economic growth rate will remain at 6—7 percent, and its exponential growth is expected to double in less than 12 years. This growth rate is much higher than the 2—3 percent growth rate of other developed economies during the time that they adopted active aging population policies. In addition, as a late-developing country, China is able to learn from the experiences of pioneering countries in the similar course.

Using its newly-accumulated financial resources, China can not only expand the scale of its social expenditure, but it can also adjust the structure of its social expenditure, and support inclusive development in areas such as education, healthcare, capacity building and innovation. It is believed that over the next decade beyond, China's social-investment social policy system and its new cooperative governance system will facilitate the sustainable development of China's economy, promoting its human development, which will reach the levels of other highly developed countries.

Table 1 2014 HDI Index Across Regions in China

Province	Expected Life Span Index	Education Index	Income Index	HDI
National	0.868	0.709	0.697	0.754
Beijing	0.952	0.854	0.806	0.869
Tianjin	0.932	0.791	0.814	0.843
Hebei	0.870	0.677	0.675	0.735
Shanxi	0.869	0.704	0.656	0.738
Inner Mongolia	0.861	0.689	0.758	0.766
Liaoning	0.892	0.764	0.745	0.798
Jilin	0.889	0.721	0.708	0.768
Heilongjiang	0.886	0.723	0.672	0.755
Shanghai	0.953	0.807	0.803	0.852
Jiangsu	0.896	0.730	0.778	0.798
Zhejiang	0.913	0.732	0.761	0.798
Anhui	0.871	0.656	0.654	0.720
Fujian	0.882	0.666	0.741	0.758
Jiangxi	0.860	0.681	0.655	0.726
Shandong	0.893	0.693	0.735	0.769
Henan	0.864	0.671	0.664	0.727
Hubei	0.868	0.706	0.699	0.754
Hunan	0.866	0.679	0.676	0.735
Guangdong	0.894	0.694	0.741	0.772
Guangxi	0.872	0.641	0.648	0.713
Hainan	0.891	0.671	0.671	0.738
Chongqing	0.881	0.676	0.701	0.747
Sichuan	0.866	0.656	0.657	0.720
Guizhou	0.809	0.613	0.616	0.673
Yunan	0.784	0.613	0.620	0.668
Tibet	0.762	0.451	0.630	0.600
Shaanxi	0.865	0.700	0.698	0.751
Gansu	0.826	0.642	0.616	0.689
Qinghai	0.791	0.627	0.674	0.694
Ningxia	0.845	0.668	0.682	0.727
Xinjiang	0.828	0.660	0.677	0.718

Source: Calculated by technical team of National Human Development Report 2016

Note: All charts do not cover Taiwan, Province of China, Hong Kong SAR or Macau SAR

Table 2 2014 Average Life Expectancy Across Regions

years)

Province	Average	Male	Female
National	74.83	72.38	77.37
Beijing	80.18	78.28	82.21
Tianjin	78.89	77.42	80.48
Hebei	74.97	72.70	77.47
Shanxi	74.92	72.87	77.28
Inner Mongolia	74.44	72.04	77.27
Liaoning	76.38	74.12	78.86
Jilin	76.18	74.12	78.44
Heilongjiang	75.98	73.52	78.81
Shanghai	80.26	78.20	82.44
Jiangsu	76.63	74.60	78.81
Zhejiang	77.73	75.58	80.21
Anhui	75.08	72.65	77.84
Fujian	75.76	73.27	78.64
Jiangxi	74.33	71.94	77.06
Shandong	76.46	74.05	79.06
Henan	74.57	71.84	77.59
Hubei	74.87	72.68	77.35
Hunan	74.70	72.28	77.48
Guangdong	76.49	74.00	79.37
Guangxi	75.11	71.77	79.05
Hainan	76.30	73.20	80.01
Chongqing	75.70	73.16	78.60
Sichuan	74.75	72.25	77.59
Guizhou	71.10	68.43	74.11
Yunan	69.54	67.06	72.43
Tibet	68.17	66.33	70.07
Shaanxi	74.68	72.84	76.74
Gansu	72.23	70.60	74.06
Qinghai	69.96	68.11	72.07
Ningxia	73.38	71.31	75.71
Xinjiang	72.35	70.30	74.86

Data source: State Bureau of Statistics, 2012, 'China Statistical Yearbook', Beijing, China Statistics Press

Table 3 Population (Sample Size) Distributed by Education Level Across Regions In China

(persons)

Province	Aged Over 6	Primary School	Middle School	High School	College and above
National	1,041,825	274,658	425,144	172,088	117,925
Beijing	16,645	1,692	4,496	3,321	6,859
Tianjin	11,582	1,894	4,242	2,483	2,670
Hebei	55,688	13,798	26,955	8,452	4,307
Shanxi	28,116	6,385	13,129	4,866	3,013
Inner Mongolia	19,503	4,918	8,374	3,283	1,966
Liaoning	34,925	6,401	15,256	5,535	6,924
Jilin	21,702	5,046	9,594	3,942	2,509
Heilongjiang	30,284	6,674	13,761	5,324	3,708
Shanghai	19,046	2,654	7,063	3,868	4,703
Jiangsu	61,632	14,527	24,668	11,346	8,462
Zhejiang	43,066	11,329	15,432	6,428	7,464
Anhui	45,731	13,022	18,937	6,191	4,186
Fujian	28,714	8,746	11,293	4,443	2,554
Jiangxi	34,378	9,105	13,419	7,546	3,228
Shandong	75,252	18,912	32,094	12,514	7,445
Henan	71,151	18,142	32606	10,877	5,757
Hubei	44,496	10,067	16684	10,032	5,304
Hunan	51,107	14,311	21498	9,080	4,343
Guangdong	81,324	18,284	37,022	16,733	6,665
Guangxi	35,486	11,385	15,385	4,538	2,732
Hainan	6,755	1,319	3,169	1,345	593
Chongqing	23,095	7,595	8,486	3,653	2,162
Sichuan	62,617	22,277	21,140	8,290	6,597
Guizhou	26,607	8,982	9,731	2,818	2,419
Yunan	35,624	1,4753	11,631	3,497	2,763
Tibet	2,300	915	279	97	55
Shaanxi	28,894	6,615	12,128	5,331	3,463
Gansu	19,821	6,747	6,945	2,820	1,788
Qinghai	4,398	1,532	1,206	511	553
Ningxia	4,969	1,427	1,825	778	559
Xinjiang	16,918	5,205	6,697	2,147	2,174

Data source: National Bureau of Statistics, 2012, 'China statistical yearbook', Beijing, China Statistics Press. This table is the sample data of 2013 national demographic change, sample rate is 0.0822%

Table 4 2013 Education Index Across Regions In China

Province	Hish School Enrollment %	Tertiary Education Enrollment %	Average Education year	Expected Average Education year	Average Education Index	Expected Average Education Index
National	82.5	26.5	9.1	12.5	0.691	0.697
Beijing	98.0	60.0	11.5	14.3	0.876	0.797
Tianjin	95.0	55.0	10.0	14.1	0.767	0.781
Hebei	85.0	26.5	8.2	12.6	0.625	0.701
Shanxi	86.8	28.1	8.8	12.7	0.670	0.707
Inner Mongolia	88.3	23.1	8.5	12.6	0.651	0.699
Liaoning	92.6	43.5	9.7	13.5	0.744	0.751
Jilin	91.9	32.0	9.0	13.0	0.686	0.724
Heilongjiang	87.7	34.0	9.1	13.0	0.692	0.722
Shanghai	91.7	70.0	10.1	14.6	0.770	0.808
Jiangsu	96.0	42.0	8.9	13.6	0.677	0.753
Zhejiang	92.5	45.0	8.9	13.6	0.679	0.754
Anhui	80.0	24.3	7.8	12.4	0.598	0.687
Fujian	83.4	26.6	8.0	12.6	0.609	0.698
Jiangxi	76.0	25.5	8.5	12.3	0.650	0.683
Shandong	95.0	28.0	8.4	13.0	0.638	0.721
Henan	89.1	23.7	8.0	12.6	0.614	0.701
Hubei	87.2	32.9	8.7	12.9	0.663	0.718
Hunan	85.0	25.0	8.3	12.6	0.633	0.697
Guangdong	86.2	28.0	8.5	12.7	0.652	0.706
Guangxi	69.0	19.0	7.8	11.8	0.598	0.657
Hainan	70.0	24.5	8.4	12.1	0.641	0.671
Chongqing	80.0	30.0	8.2	12.6	0.624	0.700
Sichuan	76.0	25.0	7.9	12.3	0.604	0.682
Guizhou	55.0	20.0	7.4	11.5	0.565	0.636
Yunan	65.0	20.0	7.2	11.8	0.551	0.653
Tibet	60.1	23.4	3.9	11.7	0.298	0.652
Shaanxi	85.3	31.0	8.6	12.8	0.659	0.711
Gansu	70.0	22.0	7.8	12.0	0.593	0.666
Qinghai	67.1	26.2	7.3	12.1	0.561	0.670
Ningxia	84.7	25.1	8.0	12.5	0.612	0.697
Xinjiang	69.1	25.0	8.1	12.1	0.621	0.671

Data sources: As there was no updated data, the enrollment rate was employed from the calculation result of "China National Human Development Report 2013'. It needs to be noted that the enrollment rate calaculated by each province is not accordant with the natioanl standard, the accuracy of data is thus hardly guaranteed, only used for reference.

Table 5 2014 Per Capita GDP and GNI Across Regions In China

Province	The year`s GDP			The year`s GNI		
	RMB	US dollar	PPP US dollar	RMB	US dollar	PPP US dollar
National	46,531	7,505	13,059	46,243	7,458	12,978
Beijing	99,995	16,128	28,063	99,375	16,028	27,889
Tianjin	105,202	16,968	29,524	104,550	16,863	29,341
Hebei	39,984	6,449	11,221	39,736	6,409	11,152
Shanxi	35,064	5,655	9,841	34,847	5,620	9,780
Inner Mongolia	71,044	11,459	19,938	70,604	11,388	19,815
Liaoning	65,201	10,516	18,298	64,797	10,451	18,185
Jilin	50,162	8,091	14,078	49,851	8,040	13,990
Heilongjiang	39,226	6,327	11,009	38,983	6,288	10,940
Shanghai	97,343	15,700	27,319	96,739	15,603	27,149
Jiangsu	81,874	13,205	22,978	81,366	13,124	22,835
Zhejiang	72,967	11,769	20,478	72,515	11,696	20,351
Anhui	34,427	5,553	9,662	34,214	5,518	9,602
Fujian	63,472	10,237	17,813	63,078	10,174	17,703
Jiangxi	34,661	5,590	9,727	34,446	5,556	9,667
Shandong	60,879	9,819	17,085	60,502	9,758	16,979
Henan	37,073	5,980	10,404	36,843	5,942	10,340
Hubei	47,124	7,601	13,225	46,832	7,554	13,143
Hunan	40,287	6,498	11,306	40,037	6,458	11,236
Guangdong	63,452	10,234	17,807	63,059	10,171	17,697
Guangxi	33,090	5,337	9,287	32,885	5,304	9,229
Hainan	38,924	6,278	10,924	38,683	6,239	10,856
Chongqing	47,859	7,719	13,431	47,562	7,671	13,348
Sichuan	35,128	5,666	9,859	34,910	5,631	9,797
Guizhou	26,393	4,257	7,407	26,229	4,231	7,361
Yunan	27,264	4,397	7,652	27,095	4,370	7,604
Tibet	29,252	4,718	8,209	29,071	4,689	8,159
Shaanxi	46,929	7,569	13,170	46,638	7,522	13,089
Gansu	26,427	4,262	7,417	26,263	4,236	7,371
Qinghai	39,633	6,392	11,123	39,387	6,353	11,054
Ningxia	41,834	6,747	11,741	41,575	6,706	11,668
Xinjiang	40,607	6,550	11,396	40,355	6,509	11,326

Data source: GDP counted on RMB is from 'the 2015 China Statistical Abstract'

Note: GDP expressed in US dollars is counted on the currency rate of 6.2, GDP and GNI expressed in PPP dollar is employed from the database of World Bank through coversion factor.

Table 6 The Ranking of 2014 HDI and Per Capita GNI Across Regions In China

Province	HDI Index	HDI Ranking	per capita GNI (PPP$)	Ranking	Ranking (GNI minus HDI)
National	0.754		12,978		
Beijing	0.869	1	27,889	2	1
Tianjin	0.843	3	29,341	1	-2
Hebei	0.735	19	11,152	18	
Shanxi	0.738	16	9,780	24	8
Inner Mongolia	0.766	10	19,815	6	-4
Liaoning	0.798	6	18,185	7	1
Jilin	0.768	9	13,990	11	2
Heilongjiang	0.755	12	10,940	20	8
Shanghai	0.852	2	27,149	3	1
Jiangsu	0.798	4	22,835	4	0
Zhejiang	0.798	5	20,351	5	0
Anhui	0.720	23	9,602	26	3
Fujian	0.758	11	17,703	8	-3
Jiangxi	0.726	22	9,667	25	3
Shandong	0.769	8	16,979	10	2
Henan	0.727	20	10,340	22	2
Hubei	0.754	13	13,143	13	0
Hunan	0.735	18	11,236	17	
Guangdong	0.772	7	17,697	9	2
Guangxi	0.713	26	9,229	27	1
Hainan	0.738	17	10,856	21	4
Chongqing	0.747	15	13,348	12	-3
Sichuan	0.720	24	9,797	23	
Guizhou	0.673	29	7,361	31	2
Yunan	0.668	30	7,604	29	
Tibet	0.600	31	8,159	28	-3
Shaanxi	0.751	14	13,089	14	0
Gansu	0.689	28	7,371	30	2
Qinghai	0.694	27	11,054	19	-8
Ningxia	0.727	21	11,668	15	-6
Xinjiang	0.718	25	11,326	16	-9

Table 7 Population and Its Composition

(10,000 persons)

Year	Total Population (year-end)	By Gender				By Residence			
		Male		Female		Urban		Rural	
		Population	Proportion	Population	Proportion	Population	Proportion	Population	Proportion
1949	54,167	28,145	51.96	26,022	48.04	5,765	10.64	48,402	89.36
1950	55,196	28,669	51.94	26,527	48.06	6,169	11.18	49,027	88.82
1951	56,300	29,231	51.92	27,069	48.08	6,632	11.78	49,668	88.22
1955	61,465	31,809	51.75	29,656	48.25	8,285	13.48	53,180	86.52
1960	66,207	34,283	51.78	31,924	48.22	13,073	19.75	53,134	80.25
1965	72,538	37,128	51.18	35,410	48.82	13,045	17.98	59,493	82.02
1970	82,992	42,686	51.43	40,306	48.57	14,424	17.38	68,568	82.62
1971	85,229	43,819	51.41	41,410	48.59	14,711	17.26	70,518	82.74
1972	87,177	44,813	51.40	42,364	48.60	14,935	17.13	72,242	82.87
1973	89,211	45,876	51.42	43,335	48.58	15,345	17.20	73,866	82.80
1974	90,859	46,727	51.43	44,132	48.57	15,595	17.16	75,264	82.84
1975	92,420	47,564	51.47	44,856	48.53	16,030	17.34	76,390	82.66
1976	93,717	48,257	51.49	45,460	48.51	16,341	17.44	77,376	82.56
1977	94,974	48,908	51.50	46,066	48.50	16,669	17.55	78,305	82.45
1978	96,259	49,567	51.49	46,692	48.51	17,245	17.92	79,014	82.08
1979	97,542	50,192	51.46	47,350	48.54	18,495	18.96	79,047	81.04
1980	98,705	50,785	51.45	47,920	48.55	19,140	19.39	79,565	80.61
1981	100,072	51,519	51.48	48,553	48.52	20,171	20.16	79,901	79.84
1982	101,654	52,352	51.50	49,302	48.50	21,480	21.13	80,174	78.87
1983	103,008	53,152	51.60	49,856	48.40	22,274	21.62	80,734	78.38
1984	104,357	53,848	51.60	50,509	48.40	24,017	23.01	80,340	76.99
1985	105,851	54,725	51.70	51,126	48.30	25,094	23.71	80,757	76.29
1986	107,507	55,581	51.70	51,926	48.30	26,366	24.52	81,141	75.48
1987	109,300	56,290	51.50	53,010	48.50	27,674	25.32	81,626	74.68
1988	111,026	57,201	51.52	53,825	48.48	28,661	25.81	82,365	74.19
1989	112,704	58,099	51.55	54,605	48.45	29,540	26.21	83,164	73.79
1990	114,333	58,904	51.52	55,429	48.48	30,195	26.41	84,138	73.59
1991	115,823	59,466	51.34	56,357	48.66	31,203	26.94	84,620	73.06
1992	117,171	59,811	51.05	57,360	48.95	32,175	27.46	84,996	72.54
1993	118,517	60,472	51.02	58,045	48.98	33,173	27.99	85,344	72.01
1994	119,850	61,246	51.10	58,604	48.90	34,169	28.51	85,681	71.49
1995	121,121	61,808	51.03	59,313	48.97	35,174	29.04	85,947	70.96
1996	122,389	62,200	50.82	60,189	49.18	37,304	30.48	85,085	69.52
1997	123,626	63,131	51.07	60,495	48.93	39,449	31.91	84,177	68.09
1998	124,761	63,940	51.25	60,821	48.75	41,608	33.35	83,153	66.65
1999	125,786	64,692	51.43	61,094	48.57	43,748	34.78	82,038	65.22
2000	126,743	65,437	51.63	61,306	48.37	45,906	36.22	80,837	63.78
2001	127,627	65,672	51.46	61,955	48.54	48,064	37.66	79,563	62.34
2002	128,453	66,115	51.47	62,338	48.53	50,212	39.09	78,241	60.91
2003	129,227	66,556	51.50	62,671	48.50	52,376	40.53	76,851	59.47
2004	129,988	66,976	51.52	63,012	48.48	54,283	41.76	75,705	58.24
2005	130,756	67,375	51.53	63,381	48.47	56,212	42.99	74,544	57.01
2006	131,448	67,728	51.52	63,720	48.48	58,288	44.34	73,160	55.66
2007	132,129	68,048	51.50	64,081	48.50	60,633	45.89	71,496	54.11
2008	132,802	68,357	51.47	64,445	48.53	62,403	46.99	70,399	53.01
2009	133,450	68,647	51.44	64,803	48.56	64,512	48.34	68,938	51.66
2010	134,091	68,748	51.27	65,343	48.73	66,978	49.95	67,113	50.05
2011	134,735	69,068	51.26	65,667	48.74	69,079	51.27	65,656	48.73
2012	135,404	69,395	51.25	66,009	48.75	71,182	52.57	64,222	47.43
2013	136,072	69,728	51.24	66,344	48.76	73,111	53.73	62,961	46.27
2014	136,782	70,079	51.23	66,703	48.77	74,916	54.77	61,866	45.23

a) Figures 1981 (inclusive) are from household registrations; for the year 1982,1990,2000 and 2010 are the census year estimates; the rest of the data covered in those tables have been estimated on the basis of the annual national sample surveys of population. The same applies to the relevant tables following.

b) Total population and population by sex include the military personnel of the Chinese People's Liberation Army, the military personnel are classified as urban population in the item of population by residence.

c) Table 7-27, data are derived from NBS publicized data

Table 8 Age Composition and Dependency Ratio of Population

(10,000 persons)

Year	Total Population (year-end)	by Age						Gross Dependency Ratio(%)	Children Dependency Ratio(%)	Old Dependency Ratio(%)
		Aged 0—14		Aged 15—64		Aged 65 and Over				
		Population	Proportion	Population	Proportion	Population	Proportion			
1982	101,654	34,146	33.6	62,517	61.5	4,991	4.9	62.6	54.6	8.0
1987	109,300	31,347	28.7	71,985	65.9	5,968	5.4	51.8	43.5	8.3
1990	114,333	31,659	27.7	76,306	66.7	6,368	5.6	49.8	41.5	8.3
1991	115,823	32,095	27.7	76,791	66.3	6,938	6.0	50.8	41.8	9.0
1992	117,171	32,339	27.6	77,614	66.2	7,218	6.2	51.0	41.7	9.3
1993	118,517	32,177	27.2	79,051	66.7	7,289	6.2	49.9	40.7	9.2
1994	119,850	32,360	27.0	79,868	66.6	7,622	6.4	50.1	40.5	9.5
1995	121,121	32,218	26.6	81,393	67.2	7,510	6.2	48.8	39.6	9.2
1996	122,389	32,311	26.4	82,245	67.2	7,833	6.4	48.8	39.3	9.5
1997	123,626	32,093	26.0	83,448	67.5	8,085	6.5	48.1	38.5	9.7
1998	124,761	32,064	25.7	84,338	67.6	8,359	6.7	47.9	38.0	9.9
1999	125,786	31,950	25.4	85,157	67.7	8,679	6.9	47.7	37.5	10.2
2000	126,743	29,012	22.9	88,910	70.1	8,821	7.0	42.6	32.6	9.9
2001	127,627	28,716	22.5	89,849	70.4	9,062	7.1	42.0	32.0	10.1
2002	128,453	28,774	22.4	90,302	70.3	9,377	7.3	42.2	31.9	10.4
2003	129,227	28,559	22.1	90,976	70.4	9,692	7.5	42.0	31.4	10.7
2004	129,988	27,947	21.5	92,184	70.9	9,857	7.6	41.0	30.3	10.7
2005	130,756	26,504	20.3	94,197	72.0	10,055	7.7	38.8	28.1	10.7
2006	131,448	25,961	19.8	95,068	72.3	10,419	7.9	38.3	27.3	11.0
2007	132,129	25,660	19.4	95,833	72.5	10,636	8.1	37.9	26.8	11.1
2008	132,802	25,166	19.0	96,680	72.7	10,956	8.3	37.4	26.0	11.3
2009	133,450	24,659	18.5	97,484	73.0	11,307	8.5	36.9	25.3	11.6
2010	134,091	22,259	16.6	99,938	74.5	11,894	8.9	34.2	22.3	11.9
2011	134,735	22,164	16.5	100,283	74.4	12,288	9.1	34.4	22.1	12.3
2012	135,404	22,287	16.5	100,403	74.1	12,714	9.4	34.9	22.2	12.7
2013	136,072	22,329	16.4	100,582	73.9	13,161	9.7	35.3	22.2	13.1
2014	136,782	22,558	16.5	100,469	73.4	13,755	10.1	36.2	22.5	13.7

Table 9 Gross Domestic Product

(100 million yuan, calculated at current prices)

Year	Gross National Income	Gross Domestic Product	Primary Industry	Secondary Industry	Tertiary Industry	Per Capita GDP (yuan)
1978	3650.2	3650.2	1018.4	1736.0	895.8	382
1979	4067.7	4067.7	1258.9	1903.3	905.4	420
1980	4551.6	4551.6	1359.4	2180.5	1011.6	464
1981	4896.0	4898.1	1545.6	2243.7	1108.8	493
1982	5340.2	5333.0	1761.6	2370.6	1200.9	529
1983	5998.5	5975.6	1960.8	2632.6	1382.2	584
1984	7262.0	7226.3	2295.5	3089.7	1841.1	697
1985	9064.6	9039.9	2541.6	3846.8	2651.6	860
1986	10308.0	10308.8	2763.9	4469.9	3074.9	966
1987	12094.2	12102.2	3204.3	5225.3	3672.6	1,116
1988	15095.1	15101.1	3831.0	6554.0	4716.0	1,371
1989	17098.9	17090.3	4228.0	7240.8	5621.6	1,528
1990	18824.8	18774.3	5017.0	7678.0	6079.3	1,654
1991	21940.2	21895.5	5288.6	9055.8	7551.2	1,903
1992	27082.0	27068.3	5800.0	11640.4	9627.9	2,324
1993	35450.4	35524.3	6887.3	16373.0	12264.1	3,015
1994	48370.3	48459.6	9471.4	22333.5	16654.7	4,066
1995	60146.5	61129.8	12020.0	28536.2	20573.6	5,074
1996	70538.3	71572.3	13877.8	33665.8	24028.7	5,878
1997	78517.3	79429.5	14264.6	37353.9	27810.9	6,457
1998	83505.7	84883.7	14618.0	38808.8	31456.8	6,835
1999	88989.8	90187.7	14548.1	40827.6	34812.0	7,199
2000	98562.2	99776.3	14716.2	45326.0	39734.1	7,902
2001	108683.4	110270.4	15501.2	49262.0	45507.2	8,670
2002	119765.0	121002.0	16188.6	53624.4	51189.0	9,450
2003	135718.9	136564.6	16968.3	62120.8	57475.6	10,600
2004	160289.7	160714.4	20901.8	73529.8	66282.8	12,400
2005	184575.8	185895.8	21803.5	87127.3	76964.9	14,259
2006	217246.6	217656.6	23313.0	103163.5	91180.1	16,602
2007	268631.0	268019.4	27783.0	125145.4	115090.9	20,337
2008	318736.7	316751.7	32747.0	148097.9	135906.9	23,912
2009	345046.4	345629.2	34154.0	157850.1	153625.1	25,963
2010	407137.8	408903.0	39354.6	188804.9	180743.4	30,567
2011	479576.1	484123.5	46153.3	223390.3	214579.9	36,018
2012	532872.1	534123.0	50892.7	240200.4	243030.0	39,544
2013	583196.7	588018.8	55321.7	256810.0	275887.0	43,320
2014	634043.4	636138.7	58336.1	271764.5	306038.2	46,629

a) Since 1980, the difference between the Gross Domestic Product and the Gross National Income (formerly, the Gross National Product) is the net factor income from the rest of the world.

b) The figures of GDP in 2013 and before have been revised according to the results of the 3rd National Economic Census. The same applies to the relevant tables following.

c) Data of 2014 were preliminary estimation. The same applies to the relevant tables following.

Table 10 Per Capita Income of Urban and Rural Households

Year	Per Capita Disposable Income of Urban Households		Per Capita Net Income of Rural Households	
	Value (yuan)	Index(1978=100)	Value (yuan)	Index (1978=100)
1978	343.4	100.0	133.6	100.0
1980	477.6	127.0	191.3	139.0
1985	739.1	160.4	397.6	268.9
1990	1510.2	198.1	686.3	311.2
1991	1700.6	212.4	708.6	317.4
1992	2026.6	232.9	784.0	336.2
1993	2577.4	255.1	921.6	346.9
1994	3496.2	276.8	1221.0	364.3
1995	4283.0	290.3	1577.7	383.6
1996	4838.9	301.6	1926.1	418.1
1997	5160.3	311.9	2090.1	437.3
1998	5425.1	329.9	2162.0	456.1
1999	5854.0	360.6	2210.3	473.5
2000	6280.0	383.7	2253.4	483.4
2001	6859.6	416.3	2366.4	503.7
2002	7702.8	472.1	2475.6	527.9
2003	8472.2	514.6	2622.2	550.6
2004	9421.6	554.2	2936.4	588.0
2005	10493.0	607.4	3254.9	624.5
2006	11759.5	670.7	3587.0	670.7
2007	13785.8	752.5	4140.4	734.4
2008	15780.8	815.7	4760.6	793.2
2009	17174.7	895.4	5153.2	860.6
2010	19109.4	965.2	5919.0	954.4
2011	21809.8	1046.3	6977.3	1063.2
2012	24564.7	1146.7	7916.6	1176.9
2013	26955.1	1227.0	8895.9	1286.4
2014	29381.0	1310.5	9892.0	1404.7

a) The data shown of the year 1978–2012 in the table are compiled on the basis of the urban and rural household surveys. And the year 2013–2014 in the table are reckoned at comparable coverage on the basis of the integrated household income and expenditure survey, including both urban and rural households.

Table 11 Number of Employed Persons at Year-end by Three Strata of Industry

Year	Economically Active Population (10,000 persons)	Total Employed Persons (10,000 persons)	Primary Industry (10,000 persons)	Secondary Industry (10,000 persons)	Tertiary Industry (10,000 persons)	Composition in Percentage		
						Primary Industry (10,000 persons)	Secondary Industry (10,000 persons)	Tertiary Industry (10,000 persons)
1952	21,106	20,729	17,317	1,531	1,881	83.5	7.4	9.1
1957	23,971	23,771	19,309	2,142	2,320	81.2	9.0	9.8
1962		25,910	21,276	2,059	2,575	82.1	8.0	9.9
1965		28,670	23,396	2,408	2,866	81.6	8.4	10.0
1970		34,432	27,811	3,518	3,103	80.8	10.2	9.0
1975		38,168	29,456	5,152	3,560	77.2	13.5	9.3
1978	40,682	40,152	28,318	6,945	4,890	70.5	17.3	12.2
1979	41,592	41,024	28,634	7,214	5,177	69.8	17.6	12.6
1980	42,903	42,361	29,122	7,707	5,532	68.7	18.2	13.1
1981	44,165	43,725	29,777	8,003	5,945	68.1	18.3	13.6
1982	45,674	45,295	30,859	8,346	6,090	68.1	18.4	13.5
1983	46,707	46,436	31,151	8,679	6,606	67.1	18.7	14.2
1984	48,433	48,197	30,868	9,590	7,739	64.0	19.9	16.1
1985	50,112	49,873	31,130	10,384	8,359	62.4	20.8	16.8
1986	51,546	51,282	31,254	11,216	8,811	60.9	21.9	17.2
1987	53,060	52,783	31,663	11,726	9,395	60.0	22.2	17.8
1988	54,630	54,334	32,249	12,152	9,933	59.3	22.4	18.3
1989	55,707	55,329	33,225	11,976	10,129	60.1	21.6	18.3
1990	65,323	64,749	38,914	13,856	11,979	60.1	21.4	18.5
1991	66,091	65,491	39,098	14,015	12,378	59.7	21.4	18.9
1992	66,782	66,152	38,699	14,355	13,098	58.5	21.7	19.8
1993	67,468	66,808	37,680	14,965	14,163	56.4	22.4	21.2
1994	68,135	67,455	36,628	15,312	15,515	54.3	22.7	23.0
1995	68,855	68,065	35,530	15,655	16,880	52.2	23.0	24.8
1996	69,765	68,950	34,820	16,203	17,927	50.5	23.5	26.0
1997	70,800	69,820	34,840	16,547	18,432	49.9	23.7	26.4
1998	72,087	70,637	35,177	16,600	18,860	49.8	23.5	26.7
1999	72,791	71,394	35,768	16,421	19,205	50.1	23.0	26.9
2000	73,992	72,085	36,043	16,219	19,823	50.0	22.5	27.5
2001	73,884	72,797	36,399	16,234	20,165	50.0	22.3	27.7
2002	74,492	73,280	36,640	15,682	20,958	50.0	21.4	28.6
2003	74,911	73,736	36,204	15,927	21,605	49.1	21.6	29.3
2004	75,290	74,264	34,830	16,709	22,725	46.9	22.5	30.6
2005	76,120	74,647	33,442	17,766	23,439	44.8	23.8	31.4
2006	76,315	74,978	31,941	18,894	24,143	42.6	25.2	32.2
2007	76,531	75,321	30,731	20,186	24,404	40.8	26.8	32.4
2008	77,046	75,564	29,923	20,553	25,087	39.6	27.2	33.2
2009	77,510	75,828	28,890	21,080	25,857	38.1	27.8	34.1
2010	78,388	76,105	27,931	21,842	26,332	36.7	28.7	34.6
2011	78,579	76,420	26,594	22,544	27,282	34.8	29.5	35.7
2012	78,894	76,704	25,773	23,241	27,690	33.6	30.3	36.1
2013	79,300	76,977	24,171	23,170	29,636	31.4	30.1	38.5
2014	79,690	77,253	22,790	23,099	31,364	29.5	29.9	40.6

Table 12 Average Wage of Employed Persons in Urban Units and Related Indices

Year Region	Average Wage (yuan)					Indices of Average Real Wage(preceding year=100)				
	Total	Staff and Workers	State-owned Units	Urban Collective-owned Units	Units of Other Types of Ownership	Total	Staff and Workers	State-owned Units	Urban Collective-owned Units	Units of Other Types of Ownership
1995	5,348	5,500	5,553	3,934	7,728	101.8	103.8	100.4	103.7	102.6
2000	9,333	9,371	9,441	6,241	11,238	111.3	111.4	110.9	107.5	109.9
2005	18,200	18,364	18,978	11,176	18,362	112.5	112.8	113.6	113.1	109.4
2006	20,856	21,001	21,706	12,866	2,1004	112.9	112.7	112.7	113.4	112.7
2007	24,721	24,932	26,100	15,444	24,271	113.4	113.6	115.0	114.8	110.6
2008	28,898	29,229	30,287	18,103	28,552	110.7	111.0	109.8	111.0	111.4
2009	32,244	32,736	34,130	20,607	31,350	112.6	113.0	113.7	114.8	110.8
2010	36,539	37,147	38,359	24,010	35,801	109.8	110.0	108.9	112.9	110.7
2011	41,799	42,452	43,483	28,791	41,323	108.6	108.5	107.7	113.9	109.6
2012	46,769	47,593	48,357	33,784	46,360	109.0	109.2	108.3	114.3	109.2
2013	51,483	52,388	52,657	38,905	51,453	107.3	107.3	106.1	112.2	108.2
2014	56,360	57,361	57,296	42,742	56,485	107.2	107.2	106.6	107.6	107.5
Beijing	102,268	103,400	102,538	45,500	104,146	107.7	107.7	106.6	104.9	108.2
Tianjin	72,773	73,839	84,254	44,946	69,764	105.2	105.0	108.8	107.1	103.8
Hebei	45,114	46,239	43,351	36,358	47,004	106.5	106.5	107.1	107.7	105.6
Shanxi	48,969	49,984	45,843	38,841	52,633	103.4	103.2	106.5	104.5	100.9
Inner Mongolia	53,748	54,460	56,304	53,766	50,621	103.8	103.8	102.2	103.4	106.2
Liaoning	48,190	49,110	47,768	32,889	50,065	103.7	103.8	101.8	101.3	105.3
Jilin	46,516	47,683	49,267	37,351	44,072	106.3	106.6	105.8	105.8	107.1
Heilongjiang	44,036	46,036	42,794	37,740	46,776	105.7	105.5	107.3	103.2	103.2
Shanghai	100,251	100,623	102,277	60,008	100,904	108.0	107.7	104.8	106.7	108.9
Jiangsu	60,867	61,783	72,260	53,122	58,364	104.3	104.4	104.3	102.9	104.5
Zhejiang	61,572	62,460	87,609	56,684	55,124	106.6	106.8	105.7	106.6	107.1
Anhui	50,894	52,388	51,974	41,741	50,657	104.3	104.9	104.6	107.8	103.9
Fujian	53,426	54,235	62,970	50,679	50,388	107.8	107.6	106.0	120.2	108.2
Jiangxi	46,218	47,299	49,519	39,893	44,158	106.6	106.3	107.0	108.5	106.5
Shandong	51,825	52,460	58,485	45,015	48,986	108.0	107.8	108.5	106.5	107.9
Henan	42,179	42,670	46,604	37,601	40,100	107.9	107.7	108.0	111.1	107.9
Hubei	49,838	50,637	53,299	36,449	48,079	111.2	111.2	116.7	107.5	107.7
Hunan	47117	48,525	48,344	36,417	46,843	108.0	108.3	107.2	108.2	108.7
Guangdong	59,481	59,827	68,803	40,509	57,777	109.3	109.3	107.6	111.3	109.8
Guangxi	45,424	46,846	46,065	36,874	45,378	107.5	107.6	106.0	112.2	109.1
Hainan	49,882	50,589	53,622	38,393	47,521	108.6	108.7	111.4	103.3	106.9
Chongqing	55,588	56,852	64,046	40,166	52,536	108.9	109.1	112.3	114.1	107.5
Sichuan	52,555	53,722	57,018	43,707	49,435	107.3	107.3	103.6	109.4	110.4
Guizhou	52,772	54,685	54,083	55,520	50,927	109.1	109.1	106.5	113.4	112.8
Yunnan	46,101	47,802	52,224	48,389	40,645	106.4	106.0	109.2	108.4	102.8
Tibet	61,235	68,059	61,886	29,574	60,161	103.8	103.5	101.2	116.5	122.3
Shaanxi	50,535	52,119	50,355	42,932	51,267	104.3	104.5	101.9	109.3	106.4
Gansu	46,960	48,470	49,614	34,257	44,297	107.4	107.6	106.5	102.2	108.9
Qinghai	57,084	57,804	60,815	40,883	53,261	108.8	108.6	107.5	116.9	110.3
Ningxia	54,858	56,811	53,923	44,674	56,063	106.4	106.7	105.8	89.9	107.3
Xinjiang	53,471	54,407	49,846	59,378	58,622	106.7	107.0	106.5	102.4	106.9

a) Average wage of employed persons in urban units from 1995 to 2008 referred to average earning of employed persons in urban units. The same applies to the related tables following.

Table 13 Registered Unemployed Persons and Unemployment Rate in Urban Area by Region

Region	Unemployed Persons (10,000 persons)							Unemployment Rate (%)						
	1990	2005	2010	2011	2012	2013	2014	1990	2005	2010	2011	2012	2013	2014
Beijing	1.7	10.6	7.7	8.1	8.1	7.5	7.4	0.4	2.1	1.4	1.4	1.3	1.2	1.3
Tianjin	8.1	11.7	16.1	20.1	20.4	21.7	22.5	2.7	3.7	3.6	3.6	3.6	3.6	3.5
Hebei	7.7	27.8	35.1	36.0	36.8	37.2	38.3	1.1	3.9	3.9	3.8	3.7	3.7	3.6
Shanxi	5.5	14.3	20.4	21.1	21.0	21.1	24.5	1.2	3.0	3.6	3.5	3.3	3.1	3.4
Inner Mongolia	15.2	17.7	20.8	21.8	23.1	23.8	24.8	3.8	4.3	3.9	3.8	3.7	3.7	3.6
Liaoning	23.7	60.4	38.9	39.4	38.1	39.6	41.0	2.2	5.6	3.6	3.7	3.6	3.4	3.4
Jilin	10.5	27.6	22.7	22.2	22.3	22.6	23.2	1.9	4.2	3.8	3.7	3.7	3.7	3.4
Heilongjiang	20.4	31.3	36.2	35.0	41.3	41.4	39.9	2.2	4.4	4.3	4.1	4.2	4.4	4.5
Shanghai	7.7	27.5	27.6	27.0	26.7	25.3	25.6	1.5		4.4	3.5	3.1	4.0	4.1
Jiangsu	22.5	41.6	40.6	41.4	40.5	37.6	36.6	2.4	3.6	3.2	3.2	3.1	3.0	3.0
Zhejiang	11.2	29.0	31.1	31.7	33.4	33.4	33.1	2.2	3.7	3.2	3.1	3.0	3.0	3.0
Anhui	15.2	27.8	26.9	33.1	31.3	32.4	31.5	2.8	4.4	3.7	3.7	3.7	3.4	3.2
Fujian	9.0	14.9	14.5	14.6	14.5	14.7	14.3	2.6	4.0	3.8	3.7	3.6	3.6	3.5
Jiangxi	10.3	22.8	26.3	24.6	25.7	27.4	29.4	2.4	3.5	3.3	3.0	3.0	3.2	3.3
Shandong	26.2	42.9	44.5	45.1	43.4	42.2	43.1	3.2	3.3	3.4	3.4	3.3	3.2	3.3
Henan	25.1	33.0	38.2	38.4	38.3	40.2	40.0	3.3	3.5	3.4	3.4	3.1	3.1	3.0
Hubei	12.7	52.6	55.7	55.1	42.3	40.2	37.9	1.7	4.3	4.2	4.1	3.8	3.5	3.1
Hunan	15.9	41.9	43.2	43.1	44.1	45.6	47.3	2.7	4.3	4.2	4.2	4.2	4.2	4.1
Guangdong	19.2	34.5	39.3	38.8	39.6	38.0	36.8	2.2	2.6	2.5	2.5	2.5	2.4	2.4
Guangxi	13.9	18.5	19.1	18.8	18.9	18.0	18.7	3.9	4.2	3.7	3.5	3.4	3.3	3.2
Hainan	3.5	5.1	4.8	2.9	3.6	3.9	4.3	3.0	3.6	3.0	1.7	2.0	2.2	2.3
Chongqing		16.9	13.0	13.0	12.4	12.1	13.4		4.1	3.9	3.5	3.3	3.4	3.5
Sichuan	38.0	34.3	34.6	36.9	40.7	42.9	54.4	3.7	4.6	4.1	4.2	4.0	4.1	4.2
Guizhou	10.7	12.1	12.2	12.5	12.6	13.7	14.1	4.1	4.2	3.6	3.6	3.3	3.3	3.3
Yunnan	7.8	13.0	15.7	16.0	17.4	18.1	19.2	2.5	4.2	4.2	4.1	4.0	4.0	4.0
Tibet			2.1	1.0	1.6	1.6	1.7			4.0	3.2	2.6	2.5	2.5
Shaanxi	11.2	21.5	21.4	20.9	19.5	21.1	22.3	2.8	4.2	3.9	3.6	3.2	3.3	3.3
Gansu	12.5	9.3	10.7	10.8	9.8	9.3	9.7	4.9	3.3	3.2	3.1	2.7	2.3	2.2
Qinghai	4.2	3.6	4.2	4.4	4.1	4.2	4.2	5.6	3.9	3.8	3.8	3.4	3.3	3.2
Ningxia	4.0	4.4	4.8	5.2	4.6	4.7	5.0	5.4	4.5	4.4	4.4	4.2	4.1	4.0
Xinjiang	9.6	11.1	11.0	11.1	11.8	11.9	11.2	3.0	3.9	3.2	3.2	3.4	3.4	3.2

Table 14 Per Capita Disposable Income of Nationwide Households by Income Quintile

(yuan)

Item	2013	2014
Low Income Households	4402.4	4747.0
Lower Middle Income Households	9653.7	10887.0
Middle Income Households	15698.0	17631.0
Upper Middle Income Households	24361.2	26937.0
High Income Households	47456.6	50968.0

a) The Quintile divided national total population into 5 equal sized groups by income

Table 15 Poverty Conditions in Rural Areas

Year	1978 Standard		2008 Standard		2010 Standard	
	Poverty Population (10,000 persons)	Poverty Headcount Rate (%)	Poverty Population (10,000 persons)	Poverty Headcount Rate (%)	Poverty Population (10,000 persons)	Poverty Headcount Rate (%)
1978	25000.0	30.7				
1980	22000.0	26.8				
1981	15200.0	18.5				
1982	14500.0	17.5				
1983	13500.0	16.2				
1984	12800.0	15.1				
1985	12500.0	14.8				
1986	13100.0	15.5				
1987	12200.0	14.3				
1988	9600.0	11.1				
1989	10200.0	11.6				
1990	8500.0	9.4				
1991	9400.0	10.4				
1992	8000.0	8.8				
1994	7000.0	7.7				
1995	6540.0	7.1				
1997	4962.0	5.4				
1998	4210.0	4.6				
1999	3412.0	3.7				
2000	3209.0	3.5	9,422	10.2		
2001	2927.0	3.2	9,029	9.8		
2002	2820.0	3.0	8,645	9.2		
2003	2900.0	3.1	8,517	9.1		
2004	2610.0	2.8	7,587	8.1		
2005	2365.0	2.5	6,432	6.8		
2006	2148.0	2.3	5,698	6.0		
2007	1479.0	1.6	4,320	4.6		
2008			4,007	4.2		
2009			3,597	3.8		
2010			2,688	2.8	16,567	17.2
2011					12,238	12.7
2012					9,899	10.2
2013					8,249	8.5
2014					7,017	7.2

a) 1978 Standard: It was referred to as the rural poverty standard from 1978 to 1999, and as the rural absolute poverty standard from 2000 to 2007.

b) 2008 Standard: It was referred to as the rural low income standard from 2000 to 2007, and as the rural poverty standard from 2008 to 2010.

c) 2010 Standard: It was defined as the rural poverty alleviation standard.

Table 16 Statistics on Social Relief

(10,000 persons)

Year Region	Number of Urban Residents Receiving Minimum Living Allowance	Number of Rural Residents Receiving Minimum Living Allowance	Rural Households with Centralized Livelihood Guaranteed in Five Aspects	Rural Households with Decentralized Livelihood Guaranteed in Five Aspects
2007	2272.1	3566.3	138.0	393.3
2008	2334.8	4305.5	155.6	393.0
2009	2345.6	4760.0	171.8	381.6
2010	2310.5	5214.0	177.4	378.9
2011	2276.8	5305.7	184.5	366.5
2012	2143.5	5344.5	185.3	360.3
2013	2064.2	5388.0	183.5	353.8
2014	1877.0	5207.2	174.3	354.8
Beijing	8.9	5.1	0.2	0.2
Tianjin	13.6	10.1	0.1	1.1
Hebei	62.5	209.9	6.7	16.4
Shanxi	72.6	140.7	2.5	13.5
Inner Mongolia	70.6	122.2	2.5	6.4
Liaoning	80.2	80.7	3.4	10.5
Jilin	75.9	79.0	2.4	9.2
Heilongjiang	127.3	117.3	5.1	8.6
Shanghai	18.7	3.0	0.1	0.2
Jiangsu	30.7	119.1	10.2	9.6
Zhejiang	6.4	50.8	3.5	0.1
Anhui	72.4	208.9	16.1	27.0
Fujian	14.7	73.9	0.9	7.5
Jiangxi	98.3	170.1	12.1	10.9
Shandong	44.6	258.2	16.8	5.8
Henan	118.9	397.9	18.7	30.0
Hubei	107.1	221.6	7.0	18.7
Hunan	134.0	316.0	10.3	40.0
Guangdong	31.6	158.8	2.7	21.1
Guangxi	44.8	329.0	2.2	26.7
Hainan	11.1	21.5	0.2	2.9
Chongqing	41.0	50.2	6.4	9.9
Sichuan	173.4	425.3	27.0	23.5
Guizhou	47.6	416.8	3.9	7.8
Yunnan	100.9	458.9	3.9	17.2
Tibet	4.7	32.3	0.8	0.8
Shaanxi	57.8	181.6	4.9	8.4
Gansu	81.4	339.0	1.3	11.0
Qinghai	20.3	37.2	0.5	1.9
Ningxia	16.8	39.2	0.4	1.0
Xinjiang	88.1	132.7	1.4	6.8

a) Livelihood Guaranteed in Five Aspects: Food, Cloth, medical service, accommodation, and burial for those most vulnerable group

Table 17 Basic Statistics on Educational Funds

(10,000 yuan)

Year Region	Total	Government Appropriation for Education	Public Expenditure on Education	Funds from Runners of Private Schools	Donations and Fund-raising for Running Schools	Income from Teaching Research and Other Auxiliary Activity	Tuition and Miscellaneous Fees	Other Educational Funds
1992	8,670,491	7,287,506	5,649,364		69,6285		439319	
1995	18,779,501	14,115,233	10,929,473	203,672	162,8414		2012423	
2000	38,490,806	25,626,056	21,917,652	858,537	1,139,557	9382717	5948304	1,483,939
2001	46,376,626	30,570,100	27,056,548	1,280,895	1,128,852	11575137	7456014	1,821,643
2002	54,800,278	34,914,048	32,549,425	1,725,549	1,272,791	14609169	9227792	2,278,722
2003	62,082,653	38,506,237	36,190,977	2,590,148	1,045,927	17218399	11214985	2,721,943
2004	72,425,989	44,658,575	42,444,209	3,478,529	934,204	20114268	13465517	3,240,414
2005	84,188,391	51,610,759	49,460,379	4,522,185	931,613	23399991	15530545	3,723,842
2006	98,153,087	63,483,648	61,353,481	5490,583	899,078	24073042	15523301	4,206,736
2007	121,480,663	82,802,142	80,943,369	809,337	930,584	31772357	21309082	5,166,242
2008	145,007,374	104,496,296	102,129,675	698,479	1,026,663	33670711	23492983	5,115,225
2009	165,027,065	122,310,935	119,749,753	749,829	1,254,991	35275939	25155983	5,435,371
2010	195,618,471	146,700,670	141,639,029	1,054,254	1,078,839	41060664	30155593	5,724,045
2011	238,692,936	185,867,009	178,217,380	1,119,320	1,118,675	44246927	33169742	6,341,005
2012	286,553,052	231,475,698	203,141,685	1,281,753	956,919	46198404	35048301	6,640,278
2013	303,647,182	244,882,177	214,056,715	1,474,089	855,445	49262087	37376869	71,733,84
Central Government	25,290,117	16,364,673	11,797,944		247,317	6998743	3381006	1,679,385
Local Governments	278,357,064	228,517,505	202,258,771	1,474,089	608,128	42,263,344	33,995,863	5,493,999
Beijing	9,998,366	8,941,899	6,991,419	3384	8,560	855,343	748,212	189,180
Tianjin	5,699,615	4,986,021	4,615,072	782	7,631	632,387	529,025	72,795
Hebei	10,298,143	8,523,960	7,693,297	50,262	6,637	1,606,017	1,386,046	111,267
Shanxi	6,918,247	5,716,634	5,113,739	48,321	4,494	1,043,347	811,304	105,451
Inner Mongolia	6,121,559	5,546,840	4,381,367	9,453	4,017	515,753	406,458	45,496
Liaoning	9,302,062	7,766,499	6,710,143	19,214	2,074	1,415,382	1,170,479	98,894
Jilin	5,480,347	4,623,684	4,222,481	34,827	5,859	750,332	620,060	65,646
Heilongjiang	6,006,258	5,126,395	4,856,334	2,380	1,368	836,690	757,361	39,425
Shanghai	9,069,715	7,640,400	6,677,279	735	6,397	1,141,498	950,523	280,686
Jiangsu	19,862,835	15,765,569	13,688,640	71,191	1,237,70	3,168,318	2,444,601	733,987
Zhejiang	14,490,439	10,890,610	9,189,630	35,855	569,97	2,780,301	2,273,707	726,676
Anhui	10,413,043	8,594,589	7,315,100	46,870	14,121	1,638,949	1,276,090	118,515
Fujian	8,228,012	6,514,206	5,665,641	78,321	46,843	1,431,102	1,088,793	157,540
Jiangxi	8,284,996	6,932,770	6,522,443	26,897	9,378	1,214,374	953,006	101,576
Shandong	17,796,161	14,995,863	13,976,663	57,610	27,202	2,562,457	2,023,150	153,030
Henan	15,577,127	12,650,584	11,024,685	199,298	6,492	2,470,745	2,067,431	250,007
Hubei	8,972,278	6,697,669	5,918,977	96,561	16,042	1,811,299	1,434,060	350,709
Hunan	10,784,551	8,449,160	8,007,249	63,437	14,113	1,978,319	1,549,244	279,523
Guangdong	24,775,503	18,505,746	16,174,824	319136	108,921	5,492,403	4,589,916	349,298
Guangxi	7,794,191	6,540,555	6,118,549	17,551	8,998	1,136,774	909,308	90,314
Hainan	2,222,868	1,826,386	1,541,553	25,470	7,920	326,227	277,104	36,865
Chongqing	6,565,622	5,228,011	4,068,524	32,148	17,731	1,088,175	852,831	199,557
Sichuan	13,805,525	11,225,895	10,313,256	130,007	33,563	2,272,207	1,568,448	143,853
Guizhou	6,799,795	5,954,134	5,534,802	25,396	10,604	678,610	527,431	131,051
Yunnan	9,006,912	7,820,920	6,708,655	33,144	25,631	917,660	726,891	209,556
Tibet	1,206,744	1,182,000	1,103,722	3,950	1,567	18,183	12,441	1,045
Shaanxi	8,926,920	7,246,693	6,809,083	2,6321	7,938	1,474,355	1,251,858	171,614
Gansu	4,811,034	4,265,005	3,761,703	4,111	4,858	490,552	409,776	46,509
Qinghai	1,569,408	1,468,671	1,231,555	3,819	1,057	70,331	54,604	25,531
Ningxia	1,578,935	1,385,750	1,117,371	6,226	3,663	145,841	111,070	37,455
Xinjiang	5,989,856	5,504,391	5,205,017	1,413	13,687	299,414	214,637	170,950

a) "Funds from runners of private schools" from 1992 to 2006 equals to funds from social organizations and citizens for running schools.

b) From 1992 to 2012, the Public Expenditure on Education referred to budgetary educational funds, which included the appropriated funds for education, for science research, capital construction, other funds, and education surcharges. Since 2012, it includes the appropriated funds for education, capital construction, and education surcharges.

c) Data of national education funds in 2012 were revised after final verification.

Table 18 Number of Entrants of Formal Education by Type and Level

(10,000 persons)

Year	Undergraduate in Regular HEIs	Specialized Courses	Regular Senior Secondary Schools	Secondary Vocational Education	Junior Secondary Schools	Vocational Junior Secondary Schools	Regular Primary Schools	Special Education Schools	Pre-school Education Institutions
1978	40.2		692.9		2006.0		3315.4	0.6	
1980	28.1		383.4		1557.6	6.7	2942.3	0.6	
1985	61.9		257.5		1367.0	17.6	2298.2	0.9	
1990	60.9		249.8		1389.3	19.4	2064.0	1.6	
1995	92.6		273.6		1781.1	28.8	2531.8	5.6	
2000	220.6	48.7	472.7		2295.6	32.3	1946.5	5.3	1531.1
2001	268.3	66.6	558.0		2287.9	30.0	1944.2	5.6	1398.2
2002	320.5	89.1	676.7		2281.8	29.5	1952.8	5.3	1373.6
2003	382.2	199.6	752.1		2220.1	24.8	1829.4	4.9	1316.8
2004	447.3	237.4	821.5		2094.6	16.4	1747.0	5.1	1350.3
2005	504.5	268.1	877.7	655.7	1987.6	11.1	1671.7	4.9	1356.2
2006	546.1	293.0	871.2	747.8	1929.5	5.9	1729.4	5.0	1391.3
2007	565.9	283.8	840.2	810.0	1868.6	4.8	1736.1	6.3	1433.6
2008	607.7	310.6	837.0	812.1	1859.6	3.4	1695.7	6.2	1482.7
2009	639.5	313.4	830.3	868.5	1788.5	2.1	1637.8	6.4	1546.9
2010	661.8	310.5	836.2	870.4	1716.6	1.1	1691.7	6.5	1700.4
2011	681.5	324.9	850.8	813.9	1634.7	0.7	1736.8	6.4	1827.3
2012	688.8	314.8	844.6	754.1	1570.8	0.5	1714.7	6.6	1911.9
2013	699.8	318.4	822.7	674.8	1496.1	0.4	1695.4	6.6	1970.0
2014	721.4	338.0	796.6	619.8	1447.8	0.2	1658.4	7.1	1987.8

Table 19 Net Enrolment Ratio of School-age Children in Primary Schools and Promotion Rate of Graduates of Regular School by Levels

(%)

Year	Net Enrollment Ratio of School-age Children in Primary Schools	Promotion Rate from Primary Schools to Junior Secondary Schools	Promotion Rate from Junior Secondary Schools to Senior Secondary Schools	Promotion Rate from Senior Secondary Schools to Higher Education
1990	97.8	74.6	40.6	27.3
1991	97.9	77.7	42.6	28.7
1992	97.2	79.7	43.4	34.9
1993	97.7	81.8	44.1	43.3
1994	98.4	86.6	47.8	46.7
1995	98.5	90.8	48.3	49.9
1996	98.8	92.6	48.8	51.0
1997	98.9	93.7	57.5	48.6
1998	98.9	94.3	50.7	46.1
1999	99.1	94.4	50.0	63.8
2000	99.1	94.9	51.2	73.2
2001	99.1	95.5	53.0	78.8
2002	98.6	97.0	58.3	83.5
2003	98.7	97.9	59.6	83.4
2004	99.0	98.1	63.8	82.5
2005	99.2	98.4	69.7	76.3
2006	99.3	100.0	75.7	75.1
2007	99.5	99.9	80.5	70.3
2008	99.5	99.7	82.1	72.7
2009	99.4	99.1	85.6	77.6
2010	99.7	98.7	87.5	83.3
2011	99.8	98.3	88.9	86.5
2012	99.9	98.3	88.4	87.0
2013	99.7	98.3	91.2	87.6
2014	99.8	98.0	95.1	90.2

a) Enrolment ratio of school-age children before 1991 was calculated on the basis of primary school pupils aged 7–11 enrolled. From 1991 onwards its calculation has taken account of the age of entry and the length of schooling prevailing.

b) Promotion rate of senior secondary school graduates is the ratio of total number of new entrants

Table 20 Children of Migrant Workers and Children Left Behind (2014)

(person)

Item	Total	Children of Migrant Workers	From Other Provinces	From Other Counties of the Same Province	Children Left Behind
Regular Primary Schools					
Graduates	2,627,219	1,080,772	498,863	581,909	1,546,447
Entrants	4,125,265	1,755,669	808,633	947,036	2,369,596
Trained in Preschool	4,044,827	1,739,497	801,939	937,558	2,305,330
Enrolment	23,651,171	9,555,861	4,445,085	5,110,776	14,095,310
Female	10,389,863	4,042,598	1,871,169	2,171,429	6,347,265
Junior Secondary Schools					
Graduates	2,399,676	750,392	258,215	492,177	1,649,284
Entrants	3,426,128	1,180,922	478,583	702,339	2,245,206
Enrolment	10,050,302	3,391,446	1,310,100	2,081,346	6,658,856
Female	4,429,766	1,403,723	538,253	865,470	3,026,043

Table 21 Total Health Expenditure

Year	Total Health Expenditure (100 million yuan)	Government Health Expenditure		Social Health Expenditure		Out-of-pocket Health Expenditure		Per Capita Health Expenditure (yuan)			Health Expenditure as Percentage of GDP (%)
		Level (100 million yuan)	As Percentage of Health Expenditure	Level (100 million yuan)	As Percentage of Health Expenditure	Level (100 million yuan)	As Percentage of Health Expenditure	Total	Urban	Rural	
1978	110.21	35.44	32.16	52.25	47.41	22.52	20.43	11.45			3.02
1979	126.19	40.64	32.21	59.88	47.45	25.67	20.34	12.94			3.10
1980	143.23	51.91	36.24	60.97	42.57	30.35	21.19	14.51			3.15
1981	160.12	59.67	37.27	62.43	38.99	38.02	23.74	16.00			3.27
1982	177.53	68.99	38.86	70.11	39.49	38.43	21.65	17.46			3.33
1983	207.42	77.63	37.43	64.55	31.12	65.24	31.45	20.14			3.47
1984	242.07	89.46	36.96	73.61	30.41	79.00	32.64	23.20			3.35
1985	279.00	107.65	38.58	91.96	32.96	79.39	28.46	26.36			3.09
1986	315.90	122.23	38.69	110.35	34.93	83.32	26.38	29.38			3.06
1987	379.58	127.28	33.53	137.25	36.16	115.05	30.31	34.73			3.14
1988	488.04	145.39	29.79	189.99	38.93	152.66	31.28	43.96			3.23
1989	615.50	167.83	27.27	237.84	38.64	209.83	34.09	54.61			3.60
1990	747.39	187.28	25.06	293.10	39.22	267.01	35.73	65.37	158.82	39.31	3.98
1991	893.49	204.05	22.84	354.41	39.67	335.03	37.50	77.14	187.56	45.61	4.08
1992	1096.86	228.61	20.84	431.55	39.34	436.70	39.81	93.61	222.01	55.34	4.05
1993	1377.78	272.06	19.75	524.75	38.09	580.97	42.17	116.25	268.58	68.45	3.88
1994	1761.24	342.28	19.43	644.91	36.62	774.05	43.95	146.95	332.56	85.49	3.63
1995	2155.13	387.34	17.97	767.81	35.63	999.98	46.40	177.93	401.28	101.48	3.53
1996	2709.42	461.61	17.04	875.66	32.32	1372.15	50.64	221.38	467.43	134.34	3.79
1997	3196.71	523.56	16.38	984.06	30.78	1689.09	52.84	258.58	537.85	157.16	4.02
1998	3678.72	590.06	16.04	1071.03	29.11	2017.63	54.85	294.86	625.94	194.63	4.33
1999	4047.50	640.96	15.84	1145.99	28.31	2260.55	55.85	321.78	701.98	203.22	4.49
2000	4586.63	709.52	15.47	1171.94	25.55	2705.17	58.98	361.88	812.95	214.93	4.60
2001	5025.93	800.61	15.93	1211.43	24.10	3013.89	59.97	393.80	841.20	244.77	4.56
2002	5790.03	908.51	15.69	1539.38	26.59	3342.14	57.72	450.75	987.07	259.33	4.79
2003	6584.10	1116.94	16.96	1788.50	27.16	3678.66	55.87	509.50	1108.91	274.67	4.82
2004	7590.29	1293.58	17.04	2225.35	29.32	4071.35	53.64	583.92	1261.93	301.61	4.72
2005	8659.91	1552.53	17.93	2586.41	29.87	4520.98	52.21	662.30	1126.36	315.83	4.66
2006	9843.34	1778.86	18.07	3210.92	32.62	4853.56	49.31	748.84	1248.30	361.89	4.52
2007	11573.97	2581.58	22.31	3893.72	33.64	5098.66	44.05	875.96	1516.29	358.11	4.32
2008	14535.40	3593.94	24.73	5065.60	34.85	5875.86	40.42	1094.52	1861.76	455.19	4.59
2009	17541.92	4816.26	27.46	6154.49	35.08	6571.16	37.46	1314.26	2176.63	561.99	5.08
2010	19980.39	5732.49	28.69	7196.61	36.02	7051.29	35.29	1490.06	2315.48	666.30	4.89
2011	24345.91	7464.18	30.66	8416.45	34.57	8465.28	34.77	1806.95	2697.48	879.44	5.03
2012	28119.00	8431.98	29.99	10030.70	35.67	9656.32	34.34	2076.67	2999.28	1064.83	5.26
2013	31668.95	9545.81	30.14	11393.79	35.98	10729.34	33.88	2327.37	3234.12	1274.44	5.39
2014	35312.40	10579.23	29.96	13437.75	38.05	11295.41	31.99	2581.66			5.55

a) Data in this table are at current prices. Data of 2014 are preliminary data.

b) Since 2001, total health expenditure does not include that of educational expenditure of higher education Since 2006, it included medical aid expenditure in urban and rural areas.

Table 22 Death Rate of Major Diseases in Urban Areas (2014)

Category of Diseases	Crude Mortality Rate (1/100,000)			Percentage(%)			Rank		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Infectious Disease(Not Including Respiratory Tuberculosis)	6.64	9.15	4.05	1.08	1.30	0.77	10	8	10
Parasitic Disease	0.04	0.05	0.03	0.01	0.01	0.01	17	16	17
Malignant Tumour	161.28	203.37	117.88	26.17	28.82	22.49	1	1	2
Diseases of the Blood and Blood-forming Organs and Immunodeficiency	1.25	1.33	1.16	0.20	0.19	0.22	15	14	15
Endocrine, Nutritional & Metabolic Diseases	17.64	16.56	18.75	2.86	2.35	3.58	6	7	6
Mental Disorders	2.66	2.68	2.64	0.43	0.38	0.50	11	11	11
Diseases of the Nervous System	6.91	7.13	6.69	1.12	1.01	1.28	8	10	8
Heart Diseases	136.21	140.43	131.85	22.10	19.90	25.15	2	2	1
Cerebrovascular Disease	125.78	139.60	111.53	20.41	19.78	21.27	3	3	3
Diseases of the Respiratory System	74.17	85.22	62.77	12.03	12.08	11.97	4	4	4
Diseases of the Digestive System	14.53	17.83	11.13	2.36	2.53	2.12	4	6	7
Diseases of the Musculoskeletal System and Connective Tissue	1.66	1.26	2.08	0.27	0.18	0.40	14	15	12
Diseases of the Genitourinary System	6.65	7.44	5.83	1.08	1.05	1.11	9	9	9
Pregnancy, Childbirth and the Puerperium	0.09		0.18	0.01		0.03	16		16
Perinatal Diseases	2.11	2.53	1.69	0.34	0.36	0.32	12	12	13
Congenital Malformations, Deformations and Chromosomal Abnormalities	1.83	2.08	1.58	0.30	0.29	0.30	13	13	14
Undiagnosed Diseases	2.43	3.03	1.81	0.39	0.43	0.35			
Other Diseases	7.08	5.64	8.57	1.15	0.80	1.64			
External Causes of Injury and Poison	37.77	50.06	25.10	6.13	7.09	4.79	5	5	5

Table 23 Death Rate of Major Diseases in Rural Areas (2014)

Category of Diseases	Crude Mortality Rate (1/100,000)			Percentage (%)			Rank		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Infectious Disease(Not Including Respiratory Tuberculosis)	7.90	10.85	4.81	1.19	1.42	0.87	8	8	10
Parasitic Disease	0.05	0.06	0.05	0.01	0.01	0.01	19	16	17
Malignant Tumour	152.59	196.32	106.87	23.02	25.66	19.23	1	1	3
Diseases of the Blood and Blood-forming Organs and Immunodeficiency	1.10	1.21	0.99	0.17	0.16	0.18	17	15	15
Endocrine, Nutritional & Metabolic Diseases	13.13	11.77	14.55	1.98	1.54	2.62	7	7	6
Mental Disorders	2.70	2.70	2.70	0.41	0.35	0.48	11	12	11
Diseases of the Nervous System	6.66	6.81	6.49	1.00	0.89	1.17	10	10	8
Heart Diseases	143.72	148.70	138.50	21.68	19.43	24.92	3	3	1
Cerebrovascular Disease	151.91	169.00	134.04	22.92	22.09	24.12	2	2	2
Diseases of the Respiratory System	80.02	88.54	71.11	12.07	11.57	12.79	4	4	4
Diseases of the Digestive System	14.51	18.86	9.97	2.19	2.47	1.79	6	6	7
Diseases of the Musculoskeletal System and Connective Tissue	1.63	1.37	1.89	0.25	0.18	0.34	16	14	13
Diseases of the Genitourinary System	7.09	8.17	5.96	1.07	1.07	1.07	9	9	9
Pregnancy, Childbirth and the Puerperium	0.14		0.28	0.02		0.05	18		16
Perinatal Diseases	2.44	2.93	1.92	0.37	0.38	0.35	14	11	12
Congenital Malformations, Deformations and Chromosomal Abnormalities	2.10	2.35	1.84	0.32	0.31	0.33	15	13	14
Undiagnosed Diseases	2.58	2.85	2.29	0.39	0.37	0.41			
Other Diseases	6.44	5.37	7.56	0.97	0.70	1.36			
External Causesof Injury and Poison	55.29	75.32	34.35	8.34	9.84	6.18	5	5	5

Table 24 Mortality Rate of the Maternal and Children Aged under 5 in Surveillance Areas

Year	Newborn Mortality Rate (‰)			Infant Mortality Rate(‰)			Mortality Rate of Children under 5 (‰)			Maternal Mortality Rate (1/100,000)		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
1991	33.1	12.5	37.9	50.2	17.3	58.0	61.0	20.9	71.1	80.0	46.3	100.0
1992	32.5	13.9	36.8	46.7	18.4	53.2	57.4	20.7	65.6	76.5	42.7	97.9
1993	31.2	12.9	35.4	43.6	15.9	50.0	53.1	18.3	61.6	67.3	38.5	85.1
1994	28.5	12.2	32.3	39.9	15.5	45.6	49.6	18.0	56.9	64.8	44.1	77.5
1995	27.3	10.6	31.1	36.4	14.2	41.6	44.5	16.4	51.1	61.9	39.2	76.0
1996	24.0	12.2	26.7	36.0	14.8	40.9	45.0	16.9	51.4	63.9	29.2	86.4
1997	24.2	10.3	27.5	33.1	13.1	37.7	42.3	15.5	48.5	63.6	38.3	80.4
1998	22.3	10.0	25.1	33.2	13.5	37.7	42.0	16.2	47.9	56.2	28.6	74.1
1999	22.2	9.5	25.1	33.3	11.9	38.2	41.4	14.3	47.7	58.7	26.2	79.7
2000	22.8	9.5	25.8	32.2	11.8	37.0	39.7	13.8	45.7	53.0	29.3	69.6
2001	21.4	10.6	23.9	30.0	13.6	33.8	35.9	16.3	40.4	50.2	33.1	61.9
2002	20.7	9.7	23.2	29.2	12.2	33.1	34.9	14.6	39.6	43.2	22.3	58.2
2003	18.0	8.9	20.1	25.5	11.3	28.7	29.9	14.8	33.4	51.3	27.6	65.4
2004	15.4	8.4	17.3	21.5	10.1	24.5	25.0	12.0	28.5	48.3	26.1	63.0
2005	13.2	7.5	14.7	19.0	9.1	21.6	22.5	10.7	25.7	47.7	25.0	53.8
2006	12.0	6.8	13.4	17.2	8.0	19.7	20.6	9.6	23.6	41.1	24.8	45.5
2007	10.7	5.5	12.8	15.3	7.7	18.6	18.1	9.0	21.8	36.6	25.2	41.3
2008	10.2	5.0	12.3	14.9	6.5	18.4	18.5	7.9	22.7	34.2	29.2	36.1
2009	9.0	4.5	10.8	13.8	6.2	17.0	17.2	7.6	21.1	31.9	26.6	34.0
2010	8.3	4.1	10.0	13.1	5.8	16.1	16.4	7.3	20.1	30.0	29.7	30.1
2011	7.8	4.0	9.4	12.1	5.8	14.7	15.6	7.1	19.1	26.1	25.2	26.5
2012	6.9	3.9	8.1	10.3	5.2	12.4	13.2	5.9	16.2	24.5	22.2	25.6
2013	6.3	3.7	7.3	9.5	5.2	11.3	12.0	6.0	14.5	23.2	22.4	23.6
2014	5.9	3.5	6.9	8.9	4.8	10.7	11.7	5.9	14.2	21.7	20.5	22.2

Table 25 Conditions of New Cooperative Medical System (NCMS)

Indicator	2008	2009	2010	2011	2012	2013	2014
Number of Counties Implementing of NCMS (unit)	2,729	2,716	2,678	2,637	2,566	2,489	
Number of Enrollees (100 million persons)	8.15	8.33	8.36	8.32	8.05	8.02	7.36
Enrollment Rate (%)	91.5	94.2	96.0	97.5	98.3	99.0	98.9
Per Capita Premiums (yuan)	96.3	113.4	156.6	246.2	308.5	370.6	410.9
Payout at Current Year (100 million yuan)	662.3	922.9	1187.8	1710.2	2408.0	2908.0	2890.4
Number of Beneficiaries from Reimbursement (100 million person-times)	5.85	7.59	10.87	13.15	17.45	19.42	16.52

Table 26 Statistics on Social Organizations

Year Region	Number of Institutions (unit)	Social Organization	Non-enterprise Units Run by NGO	Fund Organization	Staff and Workers at Year-end (person)	Female	Social Organization	Non-enterprise Units Run by NGO	Fund Organization
2000	153,322	130,668	22,654						
2005	319,762	171,150	147,637	975					
2006	354,393	191,946	161,303	1,144	4,251,850	1,062,770	2,695,983	1,540,476	15,391
2007	386,916	211,661	173,915	1,340	4,568,515	1,166,211	2,885,287	1,664,959	18,269
2008	413,660	229,681	182,382	1,597	4,758,332	1,406,787	2,855,858	1,892,060	10,414
2009	431,069	238,747	190,479	1,843	5,446,666	1,581,352	3,356,506	2,078,160	12,000
2010	445,631	245,256	198,175	2,200	6,181,918	1,628,947	3,960,704	2,208,050	13,164
2011	461,971	254,969	204,388	2,614	5,992,765	1,495,862	3,630,298	2,348,326	14,141
2012	499,268	271,131	225,108	3,029	6,132,774	1,777,824	3,469,467	2,644,621	18,686
2013	547,245	289,026	254,670	3549	6,365,813	1,880,817	3,531,635	2,815,532	18,646
2014	606,048	309,736	292,195	4,117	6,822,623	200,3785	3,736,265	3,065,964	20,394
Central-level	2,252	1,941	84	227	33,101	14,510	29,608	1,501	1,992
Local-level	603,796	307,795	292,111	3,890	6,789,522	1,989,275	3,706,657	3,064,463	18,402
Beijing	9,083	3,730	5,035	318	104,147	37,214	37,242	64,601	2,304
Tianjin	4,729	2,215	2,450	64	38,270	15,926	11,483	26,676	111
Hebei	17,642	9,810	7,783	49	260,419	71,292	131,274	128,874	271
Shanxi	12,330	6,855	5,416	59	148,571	42,896	80,241	68,187	143
Inner Mongolia	11,790	7,044	4,655	91	87,880	26,901	55,876	31,631	373
Liaoning	20,137	8,966	11,102	69	204,806	62,657	107,695	96,575	536
Jilin	10,521	5,671	4,771	79	55,888	11,843	34,920	20,865	103
Heilongjiang	12,479	5,471	6,932	76	138,980	50,623	96,425	42,423	132
Shanghai	12,365	3,909	8,257	199	157,443	33,570	31,355	124,993	1,095
Jiangsu	71,571	32,706	38,382	483	533,822	146,460	216,457	315,701	1,664
Zhejiang	39,844	19,430	20,033	381	356,994	107,451	132,073	223,908	1,013
Anhui	22,549	11,977	10,492	80	231,774	60,682	103,447	128,125	202
Fujian	21,357	13,892	7,286	179	259,139	55,110	187,430	70,630	1,079
Jiangxi	14,236	8,030	6,156	50	179,910	53,139	94,098	85,579	233
Shandong	41,165	17,738	23,335	92	342,065	80,613	139,121	202,622	322
Henan	27,572	11,183	16,285	104	221,127	71,200	74,266	146,479	382
Hubei	26,560	11,878	14,587	95	355,090	100,503	220,021	134,222	847
Hunan	24,011	12,194	11,628	189	241,550	80,367	123,396	117,107	1,047
Guangdong	47,680	22,132	24,990	558	574,091	244,758	184,832	386,169	3,090
Guangxi	20,321	12,311	7,961	49	321,481	69,324	241,198	79,905	378
Hainan	4,847	2,334	2,457	56	45,476	17,317	21,475	23,721	280
Chongqing	14,387	7,049	7,284	54	146,041	63,672	46,082	99,558	401
Sichuan	37,800	20,030	17,642	128	514,534	146,467	319,728	193,906	900
Guizhou	9,424	5,624	3,760	40	173,845	43,795	131,701	41,941	203
Yunnan	19,207	12,987	6,145	75	448,907	161,589	386,579	62,119	209
Tibet	600	570	17	13	12,452	4,398	12,224	157	71
Shaanxi	18,050	9,907	8,055	88	252,343	52,503	168,539	83,324	480
Gansu	14,400	10,742	3,605	53	169,563	32,146	146,582	22,972	9
Qinghai	3,362	2,209	1,126	27	16,880	3,982	11,725	5,110	45
Ningxia	4,324	3,129	1,140	55	60,510	11,989	53,168	7,067	275
Xinjiang	9,453	6,072	3,344	37	135,524	28,888	106,004	29,316	204

Table 27 Statistics on Autonomy Organizations

Year Region	Number of Institutions (unit)	Village Committee	Neighborhood Committee	Member at Year-end (10,000 persons)	Female	Village Committee	Neighborhood Committee
2000	840,083	731,659	108,424	363.4	78.0	315.0	48.4
2005	709,026	629,079	79,947	311.1	68.5	265.7	45.4
2006	704,386	623,669	80,717	287.3	77.6	243.0	44.3
2007	694,715	612,709	82,006	282.7	71.5	241.1	41.6
2008	687,698	604,285	83,413	276.0	71.8	233.9	42.2
2009	683,767	599,078	84,689	277.1	71.9	234.0	43.1
2010	681,715	594,658	87,057	277.3	71.6	233.4	43.9
2011	679,133	589,653	89,480	277.3	73.4	231.9	45.4
2012	679,628	588,475	91,153	279.2	74.2	232.3	46.9
2013	683,167	588,547	94,620	280.7	76.1	232.3	48.4
2014	682,144	585,451	96,693	280.2	76.7	230.5	49.7
Beijing	6,869	3,937	2,932	3.4	1.8	1.4	2.0
Tianjin	5,273	3,698	1,575	2.5	1.2	1.5	1.0
Hebei	52,471	48,636	3,835	18.5	3.3	16.6	1.9
Shanxi	30,354	28,072	2,282	11.1	2.6	10.0	1.1
Inner Mongolia	13,427	11,192	2,235	5.2	1.7	4.1	1.1
Liaoning	15,663	11,558	4,105	7.1	3.0	4.5	2.6
Jilin	11,308	9,313	1,995	3.4	1.2	2.8	0.6
Heilongjiang	11,741	8,902	2,839	5.3	1.7	3.9	1.4
Shanghai	5,727	1,605	4,122	2.7	1.5	0.6	2.1
Jiangsu	21,400	14,428	6,972	11.0	3.4	7.2	3.8
Zhejiang	32,318	27,997	4,321	12.6	3.6	10.6	2.0
Anhui	18,043	14,786	3,257	7.7	2.3	6.0	1.7
Fujian	16,748	14,440	2,308	7.0	1.7	5.8	1.2
Jiangxi	20,319	17,011	3,308	7.7	2.0	6.5	1.3
Shandong	80,015	73,388	6,627	32.1	9.3	28.9	3.2
Henan	51,342	46,938	4,404	21.2	4.8	19.0	2.1
Hubei	29,635	25,448	4,187	11.3	3.6	9.3	2.0
Hunan	46,623	41,523	5,100	16.6	4.8	14.4	2.2
Guangdong	25,933	19,347	6,586	12.3	3.6	8.6	3.8
Guangxi	16,183	14,291	1,892	8.1	2.0	6.9	1.2
Hainan	3,036	2,561	475	1.6	0.4	1.3	0.3
Chongqing	11,030	8,255	2,775	5.4	1.8	3.8	1.6
Sichuan	53,123	46,318	6,805	21.3	5.2	18.3	3.0
Guizhou	18,763	16,747	2,016	8.9	2.0	7.7	1.2
Yunnan	14,238	12,035	2,203	7.1	1.5	5.8	1.3
Tibet	5,464	5,255	209	2.5	0.5	2.3	0.1
Shaanxi	28,761	26,608	2,153	10.8	2.7	9.7	1.1
Gansu	17,297	15,957	1,340	6.8	1.3	6.1	0.7
Qinghai	4,608	4,157	451	1.8	0.4	1.6	0.2
Ningxia	2,741	2,274	467	1.1	0.4	0.9	0.2
Xinjiang	11,691	8,774	2,917	5.9	1.6	4.2	1.7

SOCIAL POLICY INNOVATION AND HUMAN DEVELOPMENT: CHINA EXPERIENCE

Quantitative Report

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EXECUTIVE SUMMARY OF QUANTITATIVE REPORT

Starting with the formal definition of the United Nations Development Program's Human Development Index (HDI), we compared the histories of the HDI and its education, health, and income components for the seven countries that had the highest HDI gains over the 1980 to 2013 period. The seven countries were Cambodia, China, Turkey, Republic of Korea, Iran, Nepal, and Saudi Arabia. Emphasis was on a descriptive account and a comparison to China's HDI development during this period. HDI and its components were annually illustrated. All HDI components, education, health, and income rose during the three decades analyzed, at varying rates.

The aggregate measure, HDI, is always in the second or third place in value. With a few exceptions, health is the highest valued component and education is the lowest valued component. Saudi Arabia, with its huge petroleum economy, has the highest per-capita income and its per-capita income component exceeds all the other dimensions. Health is second highest. In both Turkey and Iran, per-capita income exceeds health in the earlier years of the analysis period, but health then reaches the highest component levels.

While the education component has the lowest value in most countries, it steadily rises over the analysis period. The exceptions are Nepal, which experiences a deep cut in the last half of the first decade of this century, but then rises to where it would have been prior to the cut, and Cambodia, whose education component is relatively constant over the entire analysis period. Korea's components are the most alike in their values over the whole period. Saudi Arabia has the largest differences among components during the early years, but over time its components values reduce in their differences.

We were able to predict the starting values (1980 values) for HDI and its components. There seems to be a relationship between how low the starting value was and how much gain a country experience in the aggregate HDI measure and in all its three component parts. Based on the AR-1 model, which takes into account the intertemporal correlations among the differences between observed and predicted values, with Saudi Arabia's income component as the single exception, our estimates of the annual increments in the aggregate HDI and in its component parts were statistically significant. With the exception of Turkey's income component, the correlations between the annual differences between predicted and observed values were statistically significant. This implied that annual increments in HDI and its components were highly correlated.

Since resources are the most basic consideration for allocations to education and health, for China, we examined whether changes in the income component historically led to changes in the education and/or health HDI components. The results of these analyses showed an induced change—changes in the income component lead to changes in other components—but a change that was very small in magnitude. This finding leads us to suggest that economic growth in China has generated resources for its health and education systems, but the growth in health and education is mainly determined

by its social policy.

Based on the definitional expression for HDI we estimated and illustrated the contribution of a unit increase in each HDI component to the growth in HDI in China. Results were calculated and illustrated for each year in the analysis period, 1980—2013. Results were averaged over decade intervals and we illustrated the percentage contribution of the different components to HDI growth, by decade, 1980 through 2010. The total contribution to HDI growth over this period mainly comes from income and education. On average, while health has maintained about a 10 percent contribution over the thirty years, the contribution of education to the growth in HDI rose with time. During the period of 2000 and 2010, the education component reached almost the same magnitude with income. Over the analysis period, the contribution of education to the gain in HDI is 34.86 percent, the contribution of health to the gain in HDI is 10.11 percent, and the contribution of income to the gain in HDI is 56.26 percent.

Based on the AR-1 models of annual growth in HDI and in its components, we annually predicted the HDI scores and the HDI component scores for the years 2015 through 2035. Our projections show the marginal contribution of education's growth to HDI growth to exceed the marginal contribution of income's growth over the entire 2015—2035 projection period. Moreover, education's marginal contribution's excess to income's marginal contribution continues to grow. Education is projected to have the highest marginal contribution among the three indices.

In this report, we emphasized the comparative nature of HDI, country to country, put forth an explanation for its pattern in China, 1980 to 2013, projected a future pattern 2015 to 2035, and began to suggest what component changes would cause the greatest gains to HDI. In the introduction of this report we stated that there have been a plethora of criticisms and suggestions for improvements in the measurements of human development. We end with a criticism of our suggestions about what social policies are likely to affect the growth of HDI. The criticism is that the HDI components are not independent. Increases in income cause the marginal contributions of education, health, and income to fall. Hence, while HDI analysis can be quite useful for international comparisons, if interest is in where resources are to be expanded and where they are to be contracted, it is better to make cost-benefit analysis of the direct investments under consideration and to compare these results. If one is interested in the comparisons of HDI components within a country, it is better to measure the components in the national currency of the country and analyze that data over time in much the same way we have analyzed the HDI standardize units in this report.

INTRODUCTION

MEASURING HUMAN DEVELOPMENT

The Human Development Index (HDI) created by the United Nations Development Program (UNDP) aims "to shift the focus of development economics from national income accounting to people-centered policies"[1].

HDI contains three dimensions: a long and healthy life, measured by life expectancy at birth; educational achievement, measured by mean years of schooling and expected years of schooling; and a decent standard of living, measured by Gross National Income (GNI) per capita. In this report, the three dimensions are termed education, health, and income, respectively.

The algorithm created by UNDP to calculate a country's HDI in a particular year starts with the country measures of these three dimensions. It then "standardizes" these measures by subtracting from a country's measure the minimum level of the variable for the countries covered, and then dividing this difference by the range in the level of the variable for the countries covered. HDI is then calculated, using these standardized measures, by taking the product of the three standardized measures and raising that product to the one-third power.

$$HDI = (education, health, income)^{(1/3)}$$

1 http://en.wikipedia.org/wiki/Human_Development_Index, accessed May 15, 2015

While it is an economic truth that more economic resources create the potential for higher HDI component levels, and hence higher HDI and component levels—indeed the income per capita component of HDI is a direct measure of economic resources—the index also depends on the resource allocations of each government to education and health efforts, as well as the historical and ongoing institutional developments in those areas.

Since its publication in 1990, there is no short of criticisms and suggestions for improvements in the measurements of human development[1,2,3,4], such as the arbitrary nature of HDI, the weighting structure of health, education and income, and inclusions of other dimensions of human development. Chinese scholars have made efforts to disseminate the HDI concept[5] and provide suggestions to improve the measurements[6,7]. Some suggest adding dimensions of ecology[8], or political culture[9].

Scholars have tried to substitute principal component analysis[10,11] for HDI based on provincial data. However, the resulting indices are highly correlated to HDI and the rankings are also very similar. This suggests that HDI and its components can serve as good indicators for human development over time.

Some researchers take HDI as given, and explored the relationships between depression and HDI[12], incident of disability and HDI[13], as well as maternal and child death and HDI[14].

Study also assessed the impact of environmental factors on HDI[15]. Studies based on China's HDI discussed the relationship of public finance and HDI in China, and suggested more public revenue should be allocated to health and education, from the HDI perspective[16,17].

Studies have begun to explore the dynamics of the human development index over time[18], and the pattern of convergence and divergence of basic needs and income based on international HDI comparisons[19].

PATTERNS OF HUMAN DEVELOPMENT: AN INTERNATIONAL COMPARISON

China began to reform its planned economy and develop a market-based economy at the end of 1970s. Its social policy has primarily been used as a tool to cushion the shocks of the economic transformation to markets and to families between 1980s and 1990s. Starting the new century, under the new development paradigm of "building a harmonious society", it begun to invest in health, education and social protection systems. Between the 1980s and 2013, China's gain in human development measured by HDI ranked the second highest. During this same period, many other countries have also made significant achievements in human development. This study will examine the dynamics of China's HDI between 1980 and 2013, and compare the pattern of changes with the highest gainers in HDI in this period.

PATTERNS AND DYNAMICS OF CHINA HUMAN DEVELOPMENT

Economic growth will bring more resources to the health and education sectors; however, each country will have different domestic policies in investing in health and education. Each country's, and each household's priorities in resource allocation differ by stages of development. In this aspect, social policies play an important role in enhancing each country's human development achievement. China has maintained an unprecedented rate of economic growth; 9 percent over a period of 30 years. How China's economic growth has contributed to social sector development is worth closer examination. This study aims to understand the dynamics of economic growth and the progress in health and education, analyze the marginal impact of health and education indices on HDI in comparison with the income index. We will also look at patterns of convergence and divergence of the HDI components. Finally, we will estimate the models of the HDI and its components to predict the future changes of these indices.

DATA SOURCE AND REPORT STRUCTURE

This study is primarily based on the HDI and its components provided by UNDP by country and on China provincial data over time. We decided to use the standardized indices because of the data availability, as well as consistency across time and country/provinces. In addition, literature review shows other measures of human development yielded similar ranking with HDI.

This report contains five sections, with the introduction, followed by an international comparison of the most rapid gainers. Then, it discusses the pattern and dynamics of China's HDI, and makes a projection of China's future HDI values. The final discussion section focuses on China's social policy innovations and their relationships with human development.

PATTERNS OF HUMAN DEVELOPMENT: AN INTERNATIONAL COMPARISON

This analysis is based on the data published by UNDP, between the period of 1980 and 2013, by country[1]. HDI is a standardized measure with scores ranged between 0 and 1. During these three decades, all countries have gained in their HDI scores; Cambodia gained the most; China ranked second. This section examines and compares the HDI's over the 1980 through 2013 period for the counties with the highest HDI gains over this period—HDI gains above 0.25. Seven countries have gained over a quarter of the HDI during this period: Cambodia (0.333), China (0.296), Turkey (0.263), Republic of Korea (0.263), Iran (0.259), Nepal (0.254), and Saudi Arabia (0.253), see table 1 below.

Figures 1 to 7 present the trends of HDI and its components over the period of 1980 to 2013 for Cambodia, China, Turkey, Republic of Korea, Iran, Nepal and Saudi Arabia. The color code in the graphs is HDI=Black, Education=Dark blue, Health=Greg, Income=Libht blue.

It is important to take the units on the vertical axes into account. For example, over most of the period, health is the highest HDI component in both Cambodia and China (Figures 1 and 2, which follow directly). And, while both countries end the analysis period with their health components in the 0.8 neighborhood, Cambodia starts below 0.2 and China starts at about 0.7

Table 1: Highest Gainers of HDI Between 1980 and 2013

Country	HDI		
	1980	2013	Change
Cambodia	0.251	0.584	0.333
China	0.423	0.719	0.296
Turkey	0.496	0.759	0.263
Republic of Korea	0.628	0.891	0.263
Iran	0.490	0.749	0.259
Nepal	0.286	0.540	0.254
Saudi Arabia	0.583	0.836	0.253

TREND OF HDI AND ITS COMPONENTS BETWEEN 1980 AND 2013

We begin with illustrations of HDI and its component dimensions over the analysis period. Countries are placed in their highest to lowest gain order, see Table 1 directly above.

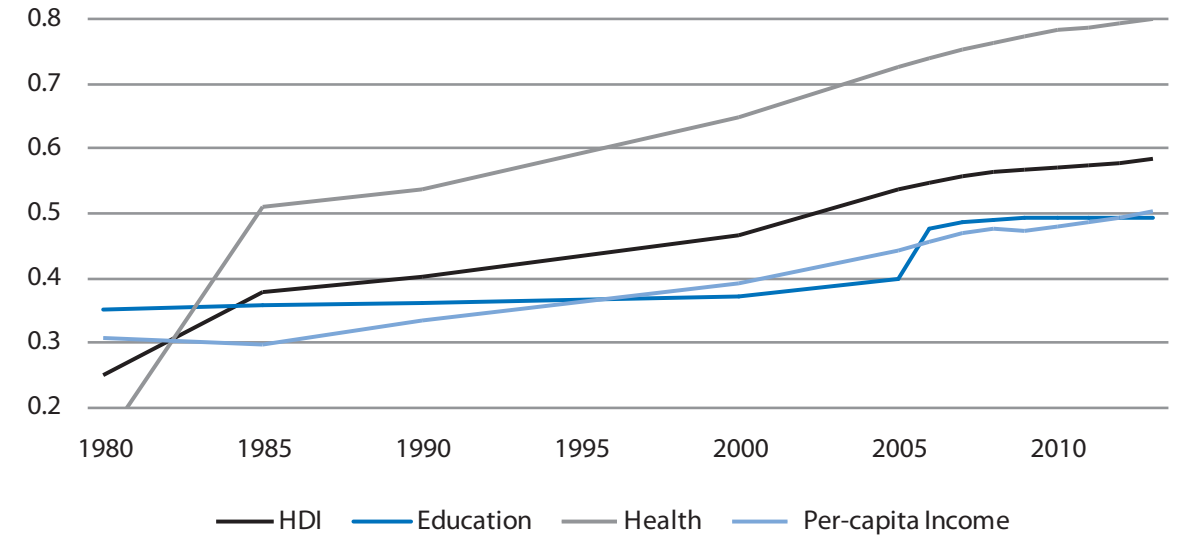
1 http://hdr.undp.org/en/content/human-development-index-hdi-table, accessed April 30, 2015

CAMBODIA HDI BETWEEN 1980 AND 2013

For Cambodia, the health score started very low in 1980[2]. It quickly rose to over 0.5 and kept rising at rates higher than the other two HDI dimensions. Cambodia's education score began

2 Under the totalitarian dictatorship of Pol Pot, about 25 percent of the Cambodian population died due to executions, strenuous working conditions, malnutrition and poor medical care in the 1970s. https://en.wikipedia.org/wiki/Pol_Pot, accessed April 30, 2015.

Figure 1: Cambodia HDI and Its Components



the analysis period at a higher level than its income and health scores, but it had a flat rate of growth prior to 2005. Cambodia's income score was lower than education before 1995. Its income score began to exceed its educational score in 1996, but was then surpassed by the education score around 2005. The HDI, as the combined score, increased quickly between 1980 and 1985, then it steadily increased between 1985 and 2000, and then sped up after 2000.

CHINA HDI BETWEEN 1980 AND 2013

Over the entire analysis period, China's health HDI component was the highest of its HDI component scores. China's per-capita income component starts out with the lowest value of the three components, but rises very fast and passes China's education component in about 1990. With the exception of the per-capita income component, the other two components seem to diminish their annual rise after about 2010. The general rise in all three components results in a constantly increasing HDI score.

TURKEY HDI BETWEEN 1980 AND 2013

The education component for Turkey's HDI starts out a little lower than China'. Similar to China's education component, it remains the lowest of the three HDI components throughout the analysis period. The annual rate of increase in the education component accelerates in the 21st Century, compared to its rate of increase in the 20th Century. Turkey's health component starts the analysis period at a little lower level than China's health component, but the health components in both countries continually rises over the period. Turkey's health component exceeds its income component in about 1995.

KOREA HDI BETWEEN 1980 AND 2013

The health component in Korea is quite similar to the health component in China. Both are the highest of the three components throughout the entire analysis period; both start at about the same levels and end at about the same lev-

Figure 2: China HDI and Its Components

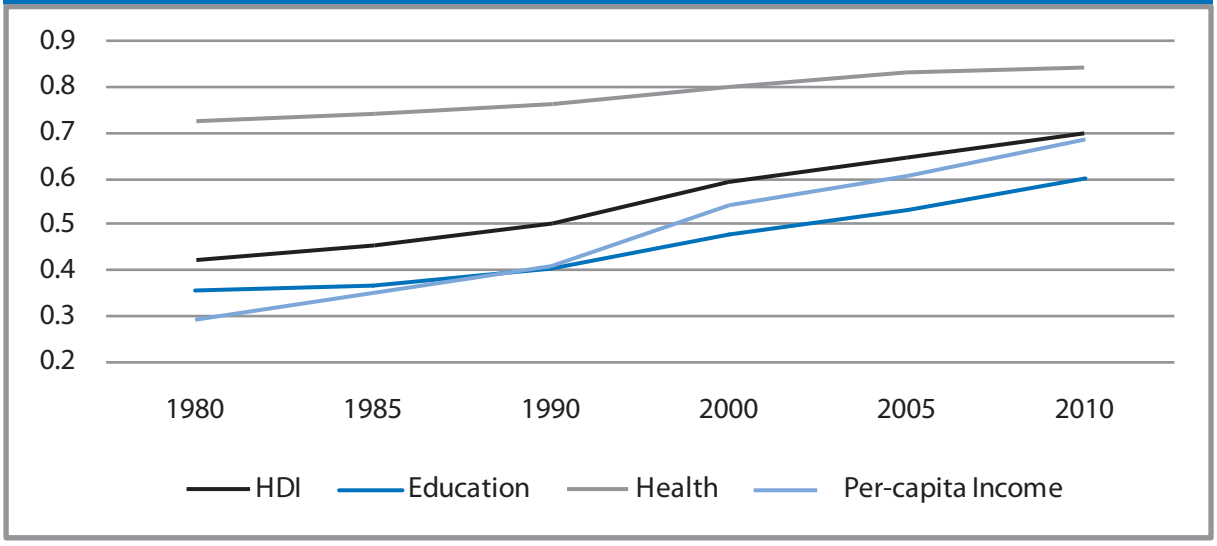
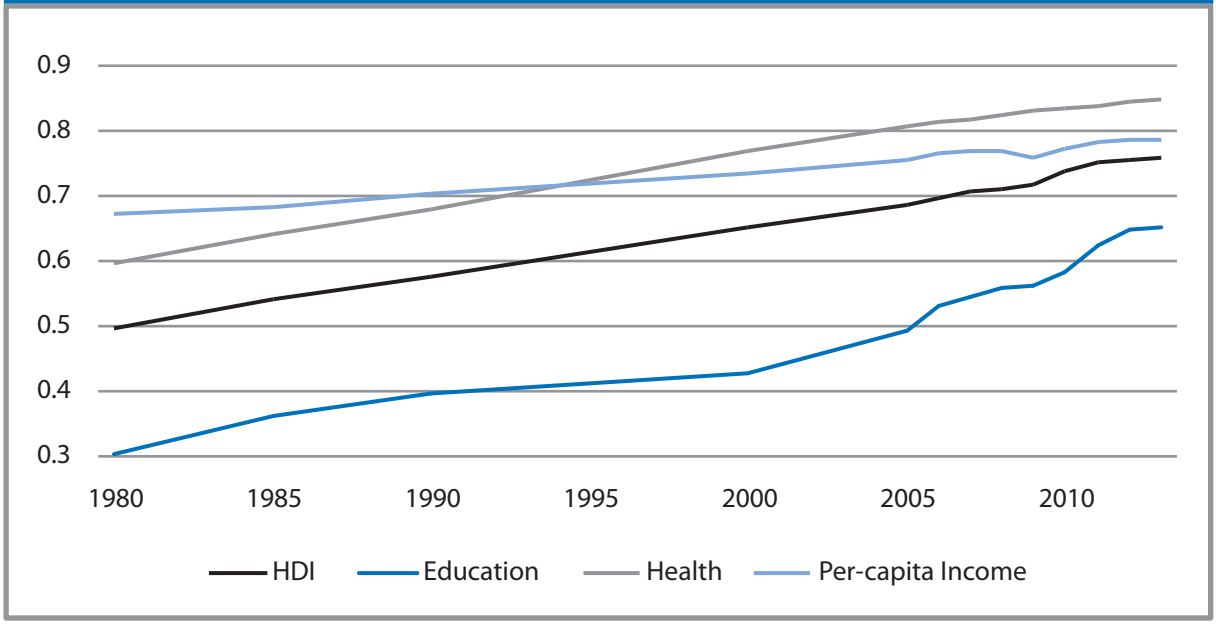


Figure 3: Turkey HDI and Its Components



els. The education component in Korea, like the education component in China is the component with the lowest values. However, Korea's education component has higher values than China's. Also, Korea's education component catches up to its income component in about 2005 and both remain at about the same value to 2013. Again, the general rise in all component scores results in a continuously rising aggregate HDI score.

IRAN HDI BETWEEN 1980 AND 2013

Quite unlike China and Korea, Iran's income component is relatively static throughout the analysis period. The income component starts out as the highest component, but is passed by Iran's health component in about 1989. Like China, Turkey and Korea, Iran's education component has the lowest HDI values, but its year

Figure 4: Republic of Korea HDI and Its Components

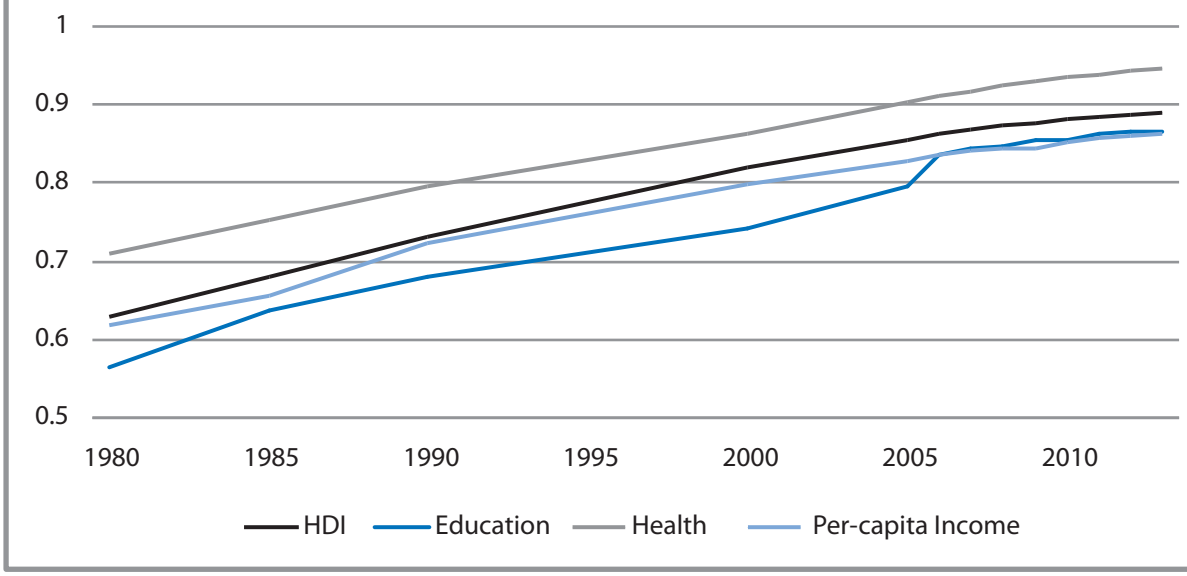
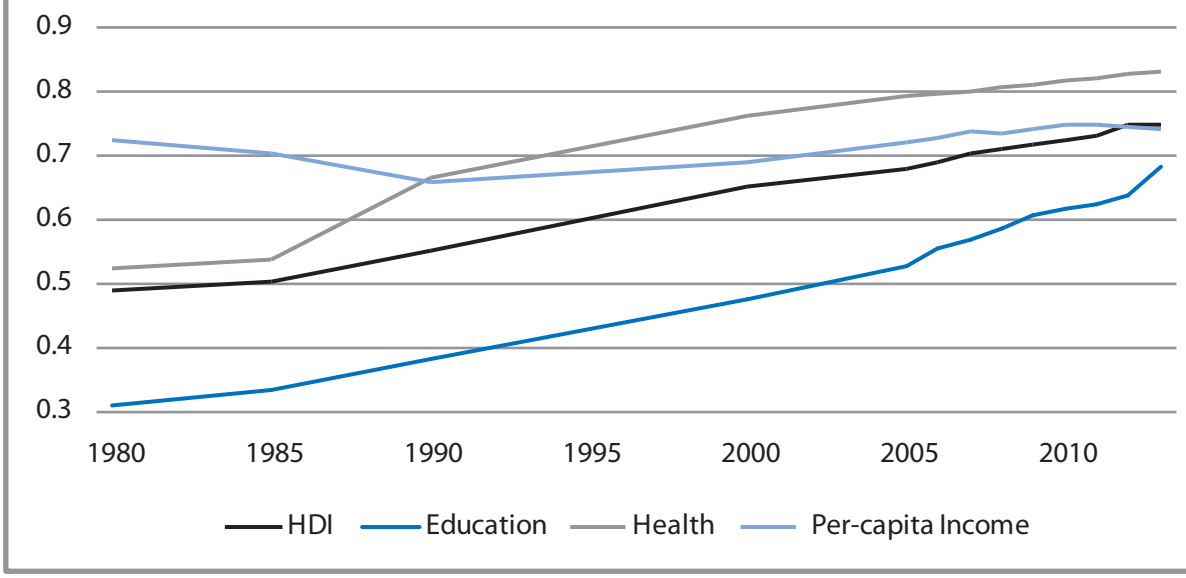


Figure 5: Iran HDI and Its Components



to year rise in values seems to be accelerating throughout the analysis period. Nevertheless, Iran's education component remains the lowest of the HDI components throughout the analysis.

NEPAL HDI BETWEEN 1980 AND 2013

Nepal's health component ends the analysis period about where China's health component started the analysis period. Nepal's education component was the lowest of Nepal's HDI components. After an impressive early gain, its education component remained rather stationary from 1990 to 2005. Then, after a quick rise, it took a precipitous fall in the last quarter of the first decade of the 21st Century. Just as quickly, it had a rise and ended the analysis period at almost the level of Nepal's income component.

Figure 6: Nepal HDI and Its Components

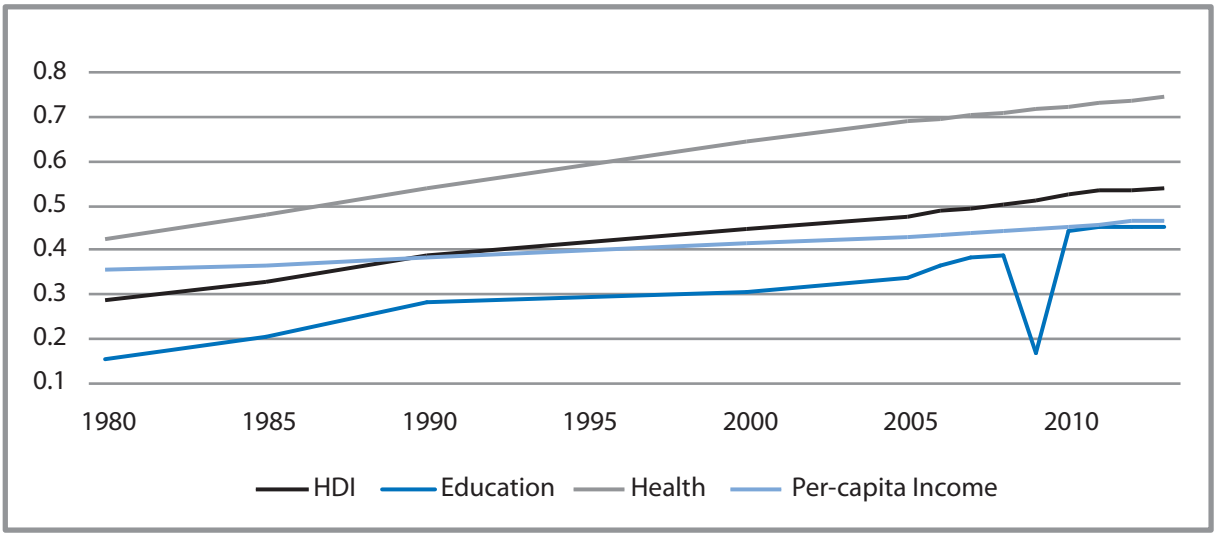
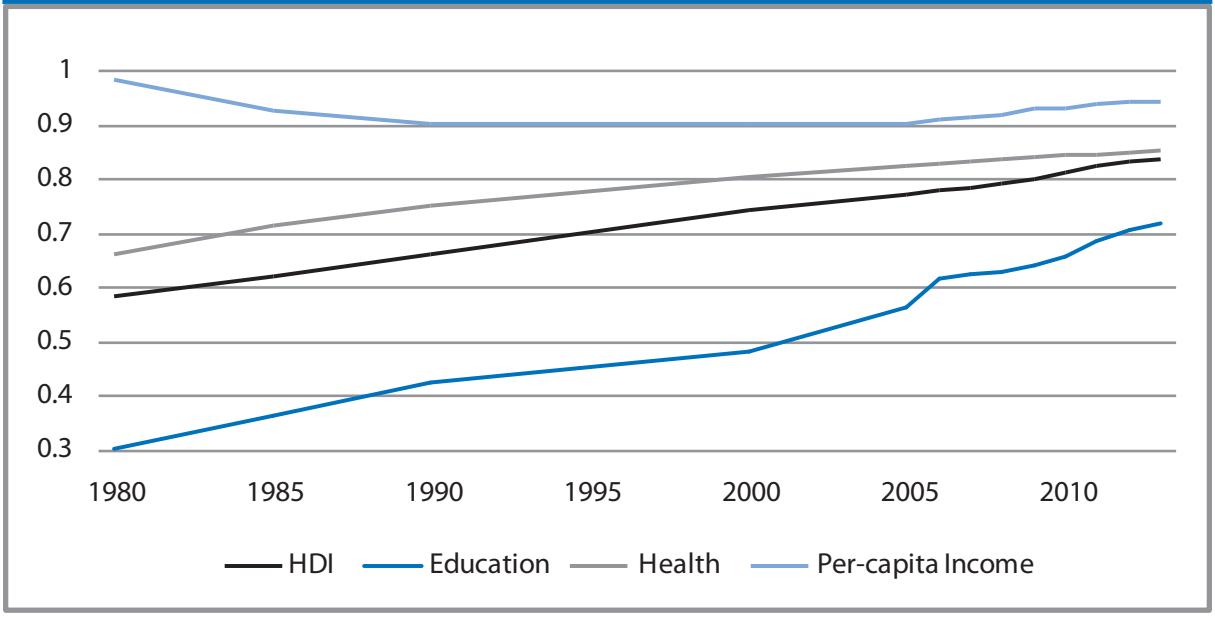


Figure 7: Saudi Arabia HDI and Its Components



SAUDI ARABIA HDI BETWEEN 1980 AND 2013

Saudi Arabia's components are quite different from China's. Its income component, based on its oil reserves, starts out close to the maximum possible adjusted HDI level, and then falls ever so slightly over the rest of the analysis period. Saudi Arabia's health component is second highest. Beginning and ending at about China's levels. While its education component is always the lowest of the three components, it starts out at about China's value, but ends slightly higher than China's value

PATTERNS OF HDI BETWEEN 1980 AND 2013 FOR HIGHER GAINERS

In summary, in most countries, health is the highest valued component of HDI. The HDI is always in the second or third place. With some exceptions, discussed immediately above, health highest and education lowest. Saudi Arabia,

with its huge petroleum economy, has the highest per-capita income and its per-capita income exceeds all the other dimensions. Health is second highest. In both Turkey and Iran, per-capita income exceeds health in the earlier years of the analysis period, but health then reaches the highest component levels.

The education component has the lowest value in most countries. However, it steadily rises over the analysis period. The exceptions are Nepal, which experiences a deep cut in the last half of the first decade of this century, but then rises to where it would have been prior to the cut, and Cambodia, whose education component is relatively constant over the entire analysis period. Korea's components are the most alike in their values over the whole period. Saudi Arabia has the largest differences among components during the early years, but over time its components values reduce in their differences.

THE RELATIONSHIP BETWEEN STARTING VALUE AND GAINS IN HDI

We turn now to a more detailed understanding of the above illustrated data, to our analysis of change in HDI and in its components over the analysis period. We are interested in the values of HDI and its components when the analysis period began; in our ability to predict the starting values with the linear models we employed to understand the annual increments to HDI and its components over the period; in the annual increments of HDI and its components estimated by our models; and the degree of consistency in annual increments throughout the period.

Does the level of gain over the entire period depend on the starting value of HDI or its components in 1980? Toward an answer to this question, Table 2 presents the observed and predicted starting values HDI in 1980. Tables 3, 4, and 5 present similar results for the education, health, and income components.

Given that these are the highest gaining countries, and that they are ordered from highest gainers to lowest gainers, there seems to be a tendency for the highest gaining countries to have had the lowest observed and predicted starting values. It would appear that starting values have some influence on the total gains in HDI or its components for the countries that experienced the highest gains over the three decades plus three years analyzed.

THE ANNUAL INCREMENT OF HDI AND ITS COMPONENTS

Table 6 presents the estimated annual increments in HDI and its components between 1980 and 2013. The first thing to keep clear about annual increments is that these are annual increments of standardized measures, not country measures. It is reasonable to begin by asking, "how good are our estimates of annual increments?" With the exception of two annual increments in the per capital income component (Iran and Saudi Arabia), all annual increments in HDI and its components are significantly different (in a statistical sense) from zero.

All of the increment measures for HDI are less than 1 percent per annum. They vary from a high of 0.913 percent per annum for China to a low of 0.763 percent per annum for Saudi Arabia. The annual increments for the education component varies from 1.1 percent for Iran and 1 percent for Turkey to 0.458 percent for both Cambodia and Saudi Arabia. The health increments grow the fastest for Cambodia (1 percent), Nepal (0.97 percent), and Iran (0.97 percent). The per capita income component is about the economy over the period. The annual

Table 2: Starting Value of HDI, 1980

Country	Observed	Predicted	Difference
Cambodia	0.251	0.285	-0.034
China	0.423	0.408	0.015
Turkey	0.496	0.595	-0.099
Republic of Korea	0.628	0.629	-0.001
Iran	0.490	0.469	0.021
Nepal	0.286	0.287	-0.001
Saudi Arabia	0.583	0.577	0.006

Table 3: Starting Value of the Education Component of HDI, 1980

Country	Observed	Predicted	Difference
Cambodia	0.353	0.325	0.028
China	0.358	0.333	0.025
Turkey	0.304	0.280	0.024
Republic of Korea	0.565	0.569	-0.004
Iran	0.309	0.273	0.036
Nepal	0.155	0.158	-0.003
Saudi Arabia	0.304	0.325	-0.021

Table 4: Starting Value of the Health Component of HDI, 1980

Country	Observed	Predicted	Difference
Cambodia	0.145	0.236	-0.091
China	0.724	0.720	0.004
Turkey	0.595	0.592	0.003
Republic of Korea	0.709	0.707	0.002
Iran	0.525	0.526	-0.001
Nepal	0.425	0.421	0.004
Saudi Arabia	0.662	0.666	-0.004

Table 5: Starting Value of the Income Component of HDI, 1980

Country	Observed	Predicted	Difference
Cambodia	0.309	0.284	0.025
China	0.292	0.273	0.019
Turkey	0.674	0.666	0.008
Republic of Korea	0.619	0.621	-0.002
Iran	0.725	0.706	0.019
Nepal	0.358	0.350	0.008
Saudi Arabia	0.984	0.945	0.039

Table 6: Estimated Annual Increment in HDI and It Components over the Analysis period

Country	HDI		Education		Health		Income	
	Predicted	t-stat	Predicted	t-stat	Predicted	t-stat	Predicted	t-stat
Cambodia	0.00900	9.634	0.00458	4.206	0.01000	5.101	0.00613	8.902
China	0.00913	31.553	0.00791	12.472	0.00398	27.746	0.01300	53.529
Turkey	0.00783	45.780	0.01000	7.103	0.00776	26.199	0.00353	25.754
Republic of Korea	0.00800	15.851	0.00906	20.184	0.00724	28.485	0.00746	13.031
Iran	0.00827	25.454	0.01100	12.047	0.00960	8.766	0.00064	0.601
Nepal	0.00759	23.142	0.00757	4.217	0.00972	24.478	0.00331	18.711
Saudi Arabia	0.00763	58.475	0.00458	4.206	0.00578	11.112	0.00000	0.000

Table 7: Consistency in HDI and Its Components Annual Increment Model

Country	HDI		Education		Health		Income	
	Estimated	t-stat	Estimated	t-stat	Estimated	t-stat	Estimated	t-stat
Cambodia	0.824	5.965	0.685	3.171	0.881	8.219	0.284	16.814
China	0.868	8.753	0.875	8.795	0.785	5.702	0.842	7.316
Turkey	0.494	2.427	0.884	9.916	0.949	19.498	0.206	0.738
Republic of Korea	0.953	20.795	0.600	2.508	0.917	11.556	0.925	14.012
Iran	0.712	3.491	0.828	5.209	0.885	10.060	0.934	16.371
Nepal	0.828	6.335	0.001	0.004	0.958	23.719	0.885	8.767
Saudi Arabia	0.664	3.849	0.685	3.171	0.954	21.401	0.957	20.299

increments of this component in Saudi Arabia and Iran were not statistically different from. China had by far the fastest grow in the HDI per capita income component; Korea had the second fastest grow in its income component, 1.3 percent and 0.75 percent, respectively.

How consistent was the annual increment in HDI and its components throughout the period? The auto regressive−1 (AR−1) model is used to estimate annual increments. The AR1 model assumes that the difference between the observed and predicted value in any year and country is correlated to this same difference during the previous year. Since we only have observations for 1980, 1985, 1990, 2000, 2005, and 2006 through 2013, the difference between the predicted value and the observation for 2013, for example, equals (Subscript[σ, v]^2/(1-ρ^2))$\{\{1,\rho^5,\rho^{10},\rho^{20},\rho^{25},\rho^{26},\rho^{27},\rho^{28},\rho^{29},\rho^{30},\rho^{31},\rho^{32},\rho^{33}\}$, where ρ is the correlation and Subscript[σ, v]^2 is the variance in the error of the relation between pairs of observations separated by one year. Note that differences between observed and predicted values are correlated to every other observed and predicted difference in the analysis. Since there is a temporal symmetry, the difference between the predicted and observation values for 1980 has the same correlations in reverse order as the difference between predicted and observation values for 2013, (Subscript[σ,v]^2/(1-ρ^2)) $\{\rho^{33},\rho^{28},\rho^{23},\rho^{13},\rho^{8},\rho^{7},\rho^{6},\rho^{5},\rho^{4},\rho^{3},\rho^{2},\rho,1\}$. For positive correlations, the value of the correlation coefficient lies between zero and one. The higher the correlation the more intertemporally consistent are the observations of HDI or its components.

Table 7 presents estimates of the correlations and their statistical significance among the observations over the period.

All of the estimates of the correlations among the deviations between observations and predicted values for the HDI index were statistically different from zero. The least consistent HDI growth model was Turkey (0.494). Saudi Arabia and Iran were the next two least consistent 0.664 and 0.712, respectively. All of the other countries had correlation estimates greater than 0.824. Korea's was the most consistent with a correlation estimate of 0.953

The AR-1 annual increment model does not explain the growth in the education component of Nepal. The correlation coefficient is estimated to be 0.001 and not different from zero. Korea's correlation in the education component model is the second lowest. Its value is 0.600. Cambodia's is the third lowest. Its value is 0.685. All the remaining countries have correlations exceeding 0.828.

The highest consistency is found in the annual increment model for the health component. All estimated correlations are above 0.785, the estimate for China. Cambodia and Iran have the second and third lowest estimates, 0.881 and 0.885, respectively. The remaining estimates are above Turkey's estimate of 0.949. From highest to lowest, Nepal, Saudi Arabia, and Turkey have estimates, respectively, of 0.958, 0.954 and 0.949.

The least consistent linear growth model is the income component model. The correlation for Turkey is 0.206, a value not statistically different from zero. Cambodia's estimate is 0.284, but not quite statistically different from zero. The correlation estimates for the remaining countries are all above China's estimate of 0.842.

PATTERNS AND DYNAMICS OF CHINA HUMAN DEVELOPMENT

RELATIONSHIP BETWEEN CHANGES IN INCOME AND OTHER TWO COMPONENTS

Since resources are the most basic consideration for allocations to education and health, for China, we examined whether changes in the income component historically led to changes in the education and/or health components of HDI. The results of these analyses showed an induced change, changes in the income component leading to changes in other components, but a change that was very small in magnitude. For example, the results reported in Table 8 shows the estimate of change in the education component of 0.00791 for a unit change in income. However, the income component is measured in thousandths of units. Accordingly, a change of 0.1 in the income component is likely to lead to an induced change of 0.000791 in the education component. Similarly, as reported in Table 9 a change of 0.1 in the income component is likely to induce a health component increase of 0.000398 health units.

We conclude with consideration about the contribution of a unit increase in a component of a country's HDI measure in any one year to the country's HDI measure. The bottom line here is that the standardized unit measures of the education and health components of HDI are almost entirely free of induced growths in the income component of HDI.

CONTRIBUTION OF THE THREE COMPONENTS TO HDI CHANGES

The contribution of a unit increase of an HDI

Table 8 Results of Time Series Estimation of China's Income HDI Component's Induced Change in China's Education Component of HDI

Parameter	Estimate	Standard Error	t-statistic
β0ei	0.333	0.006	59.834
β1ei	0.00791	0.000	28.201
σv	0.007	0.000	37.725
r	0.875	0.005	189.171

Table 9 Results of Time Series Estimation of China's Income HDI Component's Induced Change in China's Health Component of HDI

Parameter	Estimate	Standard Error	t-statistic
β0hi	0.720	0.003	243.154
β1hi	0.00398	0.000	27.746
σv	0.002	0.000	4.658
r	0.785	0.138	5.702

component is the change in HDI due to the change of a unit of a component. Since HID is defined by (education health income)^(1/3), the change in HDI due to a unit change in a component, say in education, is given by the partial derivative of HDI with respect to education.

D[(education health income)^(1/3),education] =(health income)/(3 (education health income)$^{2/3}$) = (health income)/(3 (HDI)^2)

Note that the contribution of a unit of the education component depends on the values of the other two HDI components, divided by three times the square of the HDI value.

Figure 2 in section 2 above illustrates the changes of HID and its components over time for China. The Income index started lowest among the three components but rose at the fastest speed. China's health index was high but the rate of growth was slow. China's education index maintained a consistently higher rate of growth than its health index. We repeat Figure 2 directly below.

Figure 8 presents the marginal contribution of each component to HDI. While China's income index increases at the highest rate, its contribution to HDI is declining over time. China's education contribution to HDI is relatively constant over the analysis period. In contrast, while the health index rises at a lower rate, its marginal contribution to HDI is increasing significantly over time.

Table 11 calculates the total contribution to HDI between 1980 and 1990, 1990 and 2000, and 2000 and 2010. And figure 9 presents contributions of HDI components to HDI gains over 1980—1990, 1990—2000, and 200—2010.

China's economic growth maintained a rate of over 9 percent over the entire analysis period. Between 1980 and 1985, 78.3 percent of the HDI increases depended on the growth in income. Contribution from health was 11.7 percent, and education contributed less than 10 percent at 9.5 percent.

Between 1985 and 1990, while income contribution still holds the 1st place, contribution

Table 10 China HDI and the Marginal Contribution of Its Components over Time

Year	HDI	Education Index	Health Index	Income Index	Marginal Contribution of Education	Marginal Contribution of Health	Marginal Contribution Of Income
1980	0.423	0.358	0.724	0.292	0.394	0.195	0.483
1985	0.457	0.366	0.744	0.350	0.416	0.205	0.435
1990	0.502	0.406	0.761	0.408	0.412	0.220	0.410
2000	0.591	0.478	0.802	0.540	0.413	0.246	0.365
2005	0.645	0.531	0.832	0.606	0.405	0.258	0.355
2006	0.657	0.544	0.835	0.624	0.403	0.262	0.351
2007	0.671	0.561	0.835	0.644	0.398	0.268	0.347
2008	0.682	0.575	0.840	0.658	0.396	0.271	0.346
2009	0.693	0.590	0.842	0.669	0.391	0.274	0.345
2010	0.701	0.599	0.844	0.683	0.390	0.277	0.342
2011	0.710	0.610	0.847	0.695	0.388	0.280	0.341
2012	0.715	0.610	0.849	0.706	0.391	0.281	0.338
2013	0.719	0.610	0.851	0.716	0.393	0.282	0.335

Figure 2: China HDI and Its Components

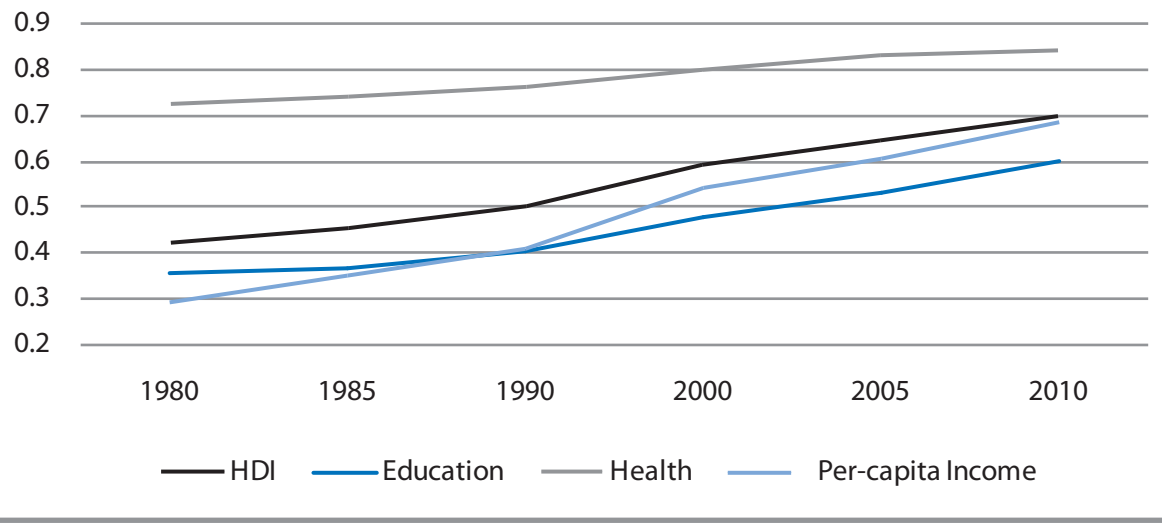
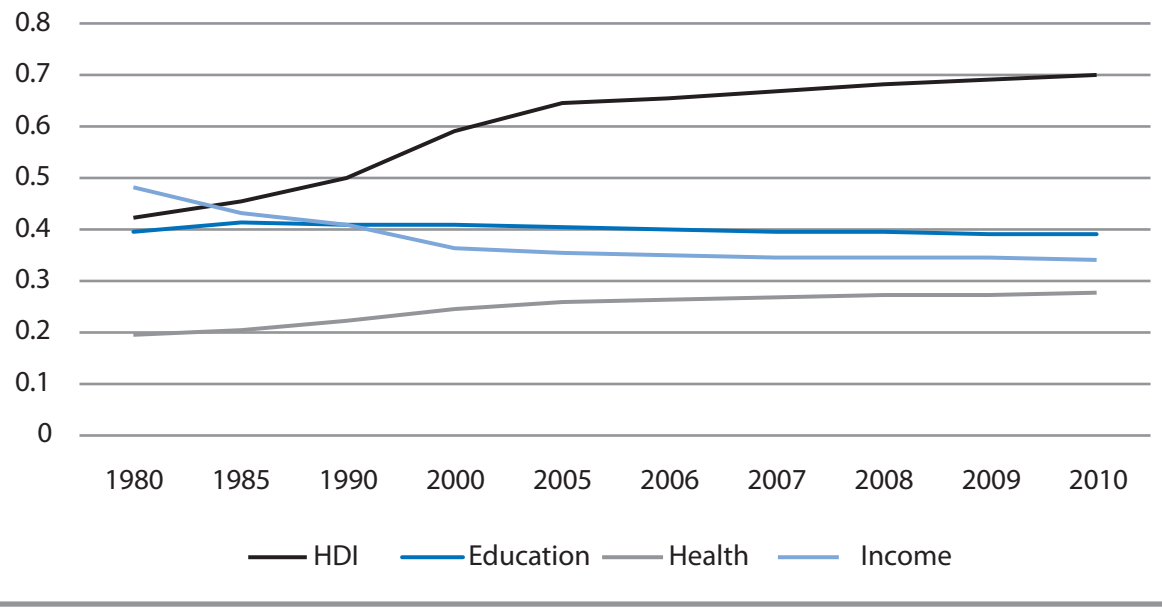


Figure 8: Marginal Contribution to HDI of Its Components, China



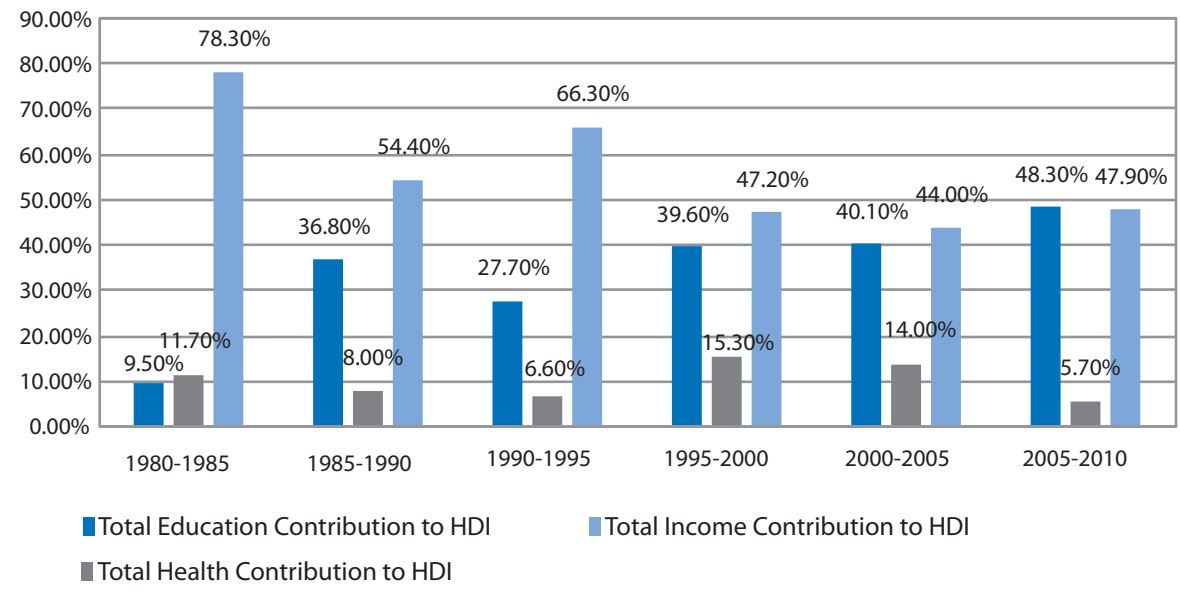
from education increased almost four folds. Bear in mind that China issued its Compulsory Education Law in 2006[1]. Contribution from health declined, largely due to the fact, that the health financing system collapsed because the collective economy was transformed to a market-based economy, China's cooperative medical system (CMS) collapsed and its coverage rate dropped to less than 10 percent 20. Between 1990 and 1995, income contribution kept raising as China started a new round of economic reform with a focus on urban development. Health contribution kept declining. Contribution from education also decreased from 36.8 percent to 27.7 percent. Between 1995 and 2000, a big increase in health contribution from 6.6 percent to 15.3 percent, and also education contribution increased from 27.7 percent to nearly 40 percent at 39.6 percent. Income contribution decreased from 66.3 percent to 47.2 percent. Between 2000 and 2005, health contribution decreased a little, and the income

1 http://baike.baidu.com/link?url=vlAQYTn8b-GYLiR6G4VsmK6EUncs_eOuMZn2oC2ZxLkulpA_M8s8K-DrS08iJmHT891Ive6U76FF0fPcz3QOiK, accessed April 30, 2015.

Table 11 Total Contributions of Education, Health and Income to HDI between 1980 and 2010

Year	HDI	Education Index	Health Index	Income Index	Period	Total Education Contribution to HDI	Total Health Contribution to HDI	Total Income Contribution to HDI
1980	0.423	0.358	0.724	0.292				
1985	0.457	0.366	0.744	0.350	1980-1985	9.5%	11.7%	78.3%
1990	0.502	0.406	0.761	0.408	1985-1990	36.8%	8.0%	54.4%
1995	0.547	0.436	0.774	0.484	1990-1995	27.7%	6.6%	66.3%
2000	0.591	0.478	0.802	0.540	1995-2000	39.6%	15.3%	47.2%
2005	0.645	0.531	0.832	0.606	2000-2005	40.1%	14.0%	44.0%
2010	0.701	0.599	0.844	0.683	2005-2010	48.3%	5.7%	47.9%
					1980-2010	35.3%	10.1%	55.6%

Figure 9 Contributions of HDI Components to HDI Gains over 1980-1990, 1990-2000, and 2000-2010



and education almost matched in their contribution to China human development. Between 2005 and 2010, education contribution exceeded income contribution, but a big drop in the health contribution.

During the whole three decades period, we have observed the education and income changed the places in their contribution for human development, and education exceeded the level of contribution from income. China's health contribution remained around in the 10 percent range throughout the three decades, but varied significantly from a low of 5.7 percent to high of 15.3 percent.

ROLE OF INCOME GROWTH IN CHINA HDI

124 Countries have complete data between 1980 and 2013. In 1980 and 1985, 124 coun-

tries had data on HDI and its components. 141 countries recorded data in 1990, 158 countries recorded data in 2000, 174 countries had data in 2005 and 187 countries have complete data in 2010 and after.

Figure 10 presents the graph of the relative ranking of China HDI and its Components. The improvement of health index occurred after 2000, and the improvement of income happened during the whole period, and the improvement of education was observed after 2005.

Table 14 presents increases of HDI and its components over time. Between 1980 and 1990, China ranked 10 for the HDI gains among all countries with data. Between 1990 and 2000, it ranked 4, and between 2000 and 2010, it ranked 3. For the whole period between 1980 and 2013, it ranked 2, this is to say, China is the second largest HDI gainer.

Among the three components, income gain is the most significant phenomena. Between 1980 and 1990, it ranked 1, and between 1990 and 2000, it ranked 2. Between 2000 and 2010, it ranked 2, and in the whole period, China is the 1st gainer in its income index.

Increases in education index ranked 67 in 1980 and 1990, again 67 in 1990 and 2000, 11 in 2000 and 2010, and 39 in 1980 and 2010. The big gain was between 2000 and 2010.

Increases in health index are not as impressive as income index, it ranked 75 between 1980 and 1990, 42 between 1990 and 2000, 45 between 2000 and 2010, and 53 between 1980 and 2010.

Table 12 Presents the HDI Ranking of China between 1980 and 2010 in 124 Countries with Complete Data in the Period.

Year	Sample Size	HDI		Education Index		Health Index		Income Index	
		Absolute Ranking	Relative Ranking	Absolute Ranking	Relative Ranking	Absolute Ranking	Relative Ranking	Absolute Ranking	Relative Ranking
1980	124	92	74	73	59	52	42	122	98
1985	124	92	74	80	65	54	44	114	92
1990	124	86	69	79	64	56	45	103	83
2000	124	79	64	81	65	51	41	86	69
2005	124	72	58	80	65	46	37	79	64
2010	124	68	55	72	58	45	36	67	54

Table 13 Presents the HDI Ranking of China between 1980 and 2010 in All Countries with Complete Data in the Period.

Year	Sample Size	HDI		Education Index		Health Index		Income Index	
		Absolute Ranking	Relative Ranking	Absolute Ranking	Relative Ranking	Absolute Ranking	Relative Ranking	Absolute Ranking	Relative Ranking
1980	124	92	74	73	59	52	42	122	98
1985	124	92	74	80	65	54	44	114	92
1990	141	102	72	95	67	64	45	120	85
2000	158	100	63	104	66	58	37	107	68
2005	174	100	57	111	64	56	32	105	60
2010	187	98	52	112	60	60	32	99	53

Figure 10 The Graph of The Relative Ranking of China HDI and its Components

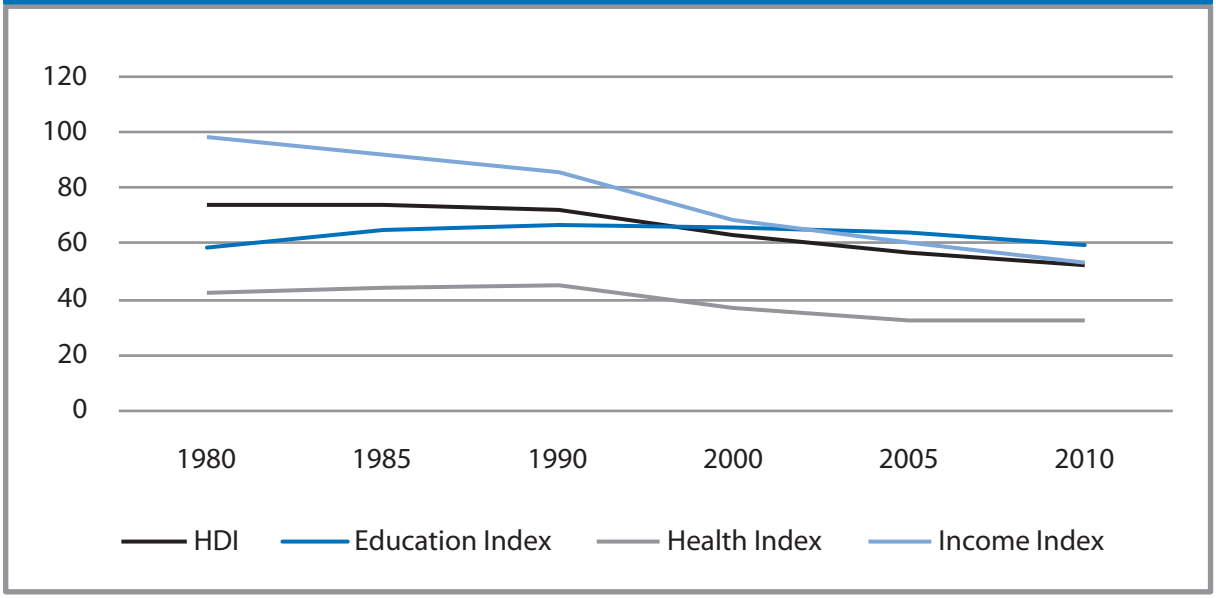


Table 14 Ranks of Gains in Human Development Index

Index	1980—1990	1990—2000	2000—2010	1980—2010
HDI	10	4	3	2
Education Index	67	67	11	39
Health Index	75	42	45	53
Income Index	1	2	2	1

Table 15 presents the simulation results for China human development for the 124 countries with complete data during the whole period, by controlling income index. The first set of the table reports the real HDI changes over time. In 1980 and 1985, China ranked 92. In 1990, it ranked 86, 79 in 2000, 72 in 2005 and 68 in 2010. Taking a relative ranking with 100 percentile, which means the denominator is the countries with data and the numerator is China's rank, we obtained the relative ranking. China started at the 74 percent place in 1980, it has not gained much in relative ranking between 1980 and 1985, but by the year 1990, China's position increased to 69 percent, 64 percent in 2000, 58 percent in 2005, and 55 percent in 2010, its relative position was 55 percent. It is about the middle of all countries.

First simulation assumes a constant HDI index, taking the 1980 value. Second simulation assumes the rate of increase of China income index is the weighted average rate of increase of the world income index with 124 countries. Both simulation results show that HDI are at the 70—80 percent range in the world. Its position has not changed between 1980 and 2010. Holding income index constant at 1980 level, China's relative rank decreased 2 percent from 74 to 77, and keeping with the world speed of increase in income index, China gained 3 percent in relative ranking. The UNDP reported history shows that China gained 19 percent between 1980 and 2010, from 74 percent to 55 percent, see table 15.

Table 15 Simulation Results for China Human Development

UNDP Reported HDI History (N=124)						
Year	HDI	Education	Health	Income	Ranking	Relative Ranking (100 percentile)
1980	0.423	0.358	0.724	0.292	92	74
1985	0.457	0.366	0.744	0.350	92	74
1990	0.502	0.406	0.761	0.408	86	69
2000	0.591	0.478	0.802	0.540	79	64
2005	0.645	0.531	0.832	0.606	72	58
2010	0.701	0.599	0.844	0.683	68	55
Simulation One: Hold 1980 Income Score as Constant						
Year	HDI1	Education	Health	Income	Ranking	Relative Ranking (100 percentile)
1980	0.423	0.358	0.724	0.292	92	74
1985	0.430	0.366	0.744	0.292	94	76
1990	0.449	0.406	0.761	0.292	94	76
2000	0.482	0.478	0.802	0.292	92	74
2005	0.505	0.531	0.832	0.292	94	76
2010	0.529	0.599	0.844	0.292	95	77
Simulation Two: Use World Weight Average Rate of Change in Income Score						
Year	HDI	Education	Health	Income	Ranking	Relative Ranking (100 percentile)
1980	0.423	0.358	0.724	0.292	92	74
1985	0.439	0.366	0.744	0.311	93	75
1990	0.467	0.406	0.761	0.330	93	75
2000	0.522	0.478	0.802	0.372	88	71
2005	0.559	0.531	0.832	0.395	88	71
2010	0.597	0.599	0.844	0.422	88	71

Table 15a presents the changes of ranking among all the countries with complete data, by year. The results are similar to the rankings for the 124 countries with complete data by the whole period.

Table 15a The Changes of Ranking Among All The Countries With Complete Data

UNDP Reported HDI History

Year	HDI	Education	Health	Income	Ranking	Relative Ranking (100 percentile)
1980 (N=124)	0.423	0.358	0.724	0.292	92	74
1985 (N=124)	0.457	0.366	0.744	0.350	92	74
1990 (N=141)	0.502	0.406	0.761	0.408	102	72
2000 (N=158)	0.591	0.478	0.802	0.540	100	63
2005 (N=174)	0.645	0.531	0.832	0.606	100	57
2010 (N=187)	0.701	0.599	0.844	0.683	98	52

Simulation One: Hold 1980 Income Score as Constant

Year	HDI1	Education	Health	Income	Ranking	Relative Ranking (100 percentile)
1980 (N=124)	0.423	0.358	0.724	0.292	92	74
1985 (N=124)	0.430	0.366	0.744	0.292	94	76
1990 (N=141)	0.449	0.406	0.761	0.292	112	79
2000 (N=158)	0.482	0.478	0.802	0.292	117	74
2005 (N=174)	0.505	0.531	0.832	0.292	130	75
2010 (N=187)	0.529	0.599	0.844	0.292	144	77

Simulation Two: Use World Weighted Average Rate of Change in Income Score

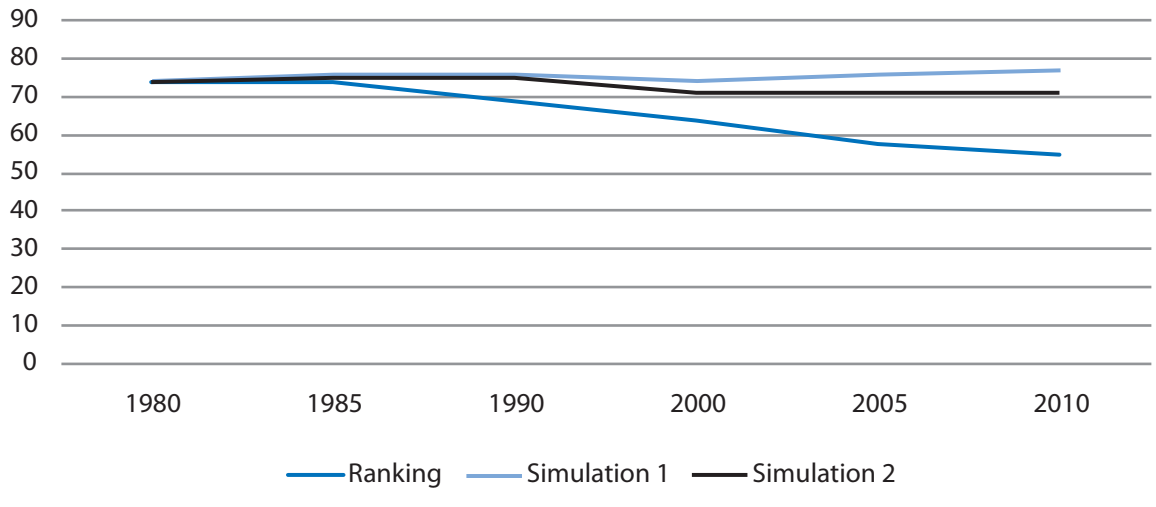
Year	HDI2	Education	Health	Income	Ranking	Relative Ranking (100 percentile)
1980 (N=124)	0.423	0.358	0.724	0.292	92	74
1985 (N=124)	0.439	0.366	0.744	0.311	93	75
1990 (N=141)	0.467	0.406	0.761	0.330	109	77
2000 (N=158)	0.522	0.478	0.802	0.372	112	71
2005 (N=174)	0.559	0.531	0.832	0.395	122	70
2010 (N=187)	0.597	0.599	0.844	0.422	134	72

Table 16 Changes of Relative Ranking in China HDI, 124 Countries

Year	Ranking	Simulation 1	Simulation 2
1980	74	74	74
1985	74	76	75
1990	69	76	75
2000	64	74	71
2005	58	76	71
2010	55	77	71

Figure 11 presents the graph of table 16. China real HDI increases accelerated after 1985.

Figure 11 Changes of Relative Ranking in China HDI



PREDICTED HDI AND ITS COMPONENTS 2015–2035

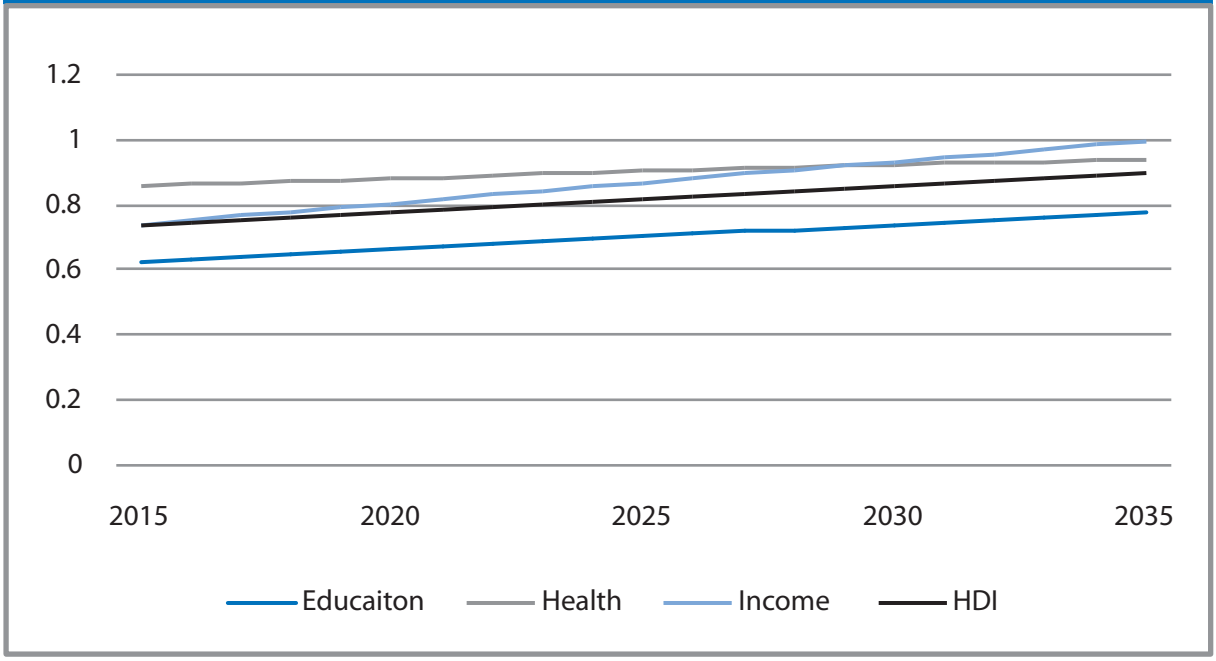
The purpose of this section is to make HDI and component projections, 2015 through 2035 based on models of China's HDI and components that took account of the policies that China had enacted. As the HDI and its components are standardized measures with minimum and maximum values changing over time, these projections are based on the standardized values derived by UNDP.

The data calculated for the projections required predicting the HDI components, calculating their deviations, observed minus projected, for each component for the last year of the observed data, calculating the corrections to the projected values due to the fact that they are correlated with the observed period values[21], adding the correction value to the projected value, and censoring the projected value to an upper limit of one.

Table 17 Projected HDI and HDI Components, as well as Projected Marginal Effects of Components, 2015–2035.

Year	Projected Education Index	Projected Health Index	Projected Income Index	Projected HDI	Marginal Effect of Health	Marginal Effect of Education	Marginal Effect of Income
2015	0.625	0.861	0.741	0.736	0.189	0.261	0.220
2016	0.632	0.865	0.754	0.744	0.193	0.265	0.222
2017	0.640	0.869	0.767	0.753	0.198	0.269	0.224
2018	0.648	0.874	0.780	0.761	0.202	0.272	0.226
2019	0.655	0.878	0.792	0.770	0.206	0.276	0.228
2020	0.663	0.882	0.805	0.778	0.210	0.280	0.230
2021	0.671	0.886	0.818	0.786	0.215	0.284	0.233
2022	0.679	0.890	0.831	0.795	0.219	0.287	0.235
2023	0.686	0.895	0.844	0.803	0.223	0.291	0.237
2024	0.694	0.899	0.857	0.811	0.228	0.295	0.239
2025	0.702	0.903	0.869	0.820	0.232	0.299	0.241
2026	0.710	0.907	0.882	0.828	0.237	0.302	0.243
2027	0.718	0.911	0.895	0.836	0.241	0.306	0.245
2028	0.725	0.915	0.908	0.845	0.246	0.310	0.248
2029	0.733	0.919	0.921	0.853	0.250	0.314	0.250
2030	0.741	0.923	0.934	0.861	0.255	0.317	0.252
2031	0.749	0.927	0.947	0.869	0.259	0.321	0.254
2032	0.757	0.931	0.959	0.877	0.264	0.325	0.256
2033	0.765	0.935	0.972	0.886	0.269	0.328	0.258
2034	0.772	0.939	0.985	0.894	0.273	0.332	0.260
2035	0.780	0.943	0.998	0.902	0.278	0.336	0.263

Figure 12 Projected HDI Component Values, 2015—2035



We graph this table below. It shows the income index increases faster than either the health or the education indices.

However, the marginal effect of the components of HDI on the increase of HDI is highest for education. The marginal effect of health exceeds the marginal effect of income after year 2029. This means, after the year 2029, China's HDI health component will have bigger impact on China's HDI than will other income component. In the next 20 years, the education component keeps having the biggest impact on HDI gains.

CONCLUSION AND DISCUSSION

MAIN FINDINGS

Between 1980 and 2013 China made significant gains in human development, as measured by the UNDP human development index. All HDI components, education, health, and income, rose during the past three decades, with varying rates. During this period, the total contribution to HDI mainly comes from income and education, while health has maintained about a 10 percent contribution over the thirty years. The contribution of education to the growth in HDI became more with time. During the period of 2000 and 2010, it reached almost the same magnitude with income.

Our projections show a 16.6 percent increase in HDI over the 2015 to 2035 period. This HDI rise is projected to be caused by a 15.5 percent rise in the HDI education component, an 8.2 percent rise in the HDI health component, and a 25.7 percent rise in the income component. In essence, the projected economic growth, based on data where economic growth was the primary objective, will not lead to significant increases in government investments in health and education. If the human development is to be accelerated, changes in priorities, emphasis, policy, and public action is required.

The marginal contribution of the growth in education to HDI growth rose to almost the same as the marginal contribution of the growth in income to HDI growth over the 2000—2010 periods. Our projections show the marginal contribution of education growth to HDI growth exceed the marginal contribution of income to growth in over the entire 2015—2035 projection period. Moreover, education's marginal contribution in excess of income's contribution continues to grow. Education is projected to have the highest marginal contribution among the three indices. Additionally, the marginal effect of health will exceed the marginal effect of income after year 2029.

We found that changes in the income component historically led to changes in the education and/or health HDI components. However, the magnitude of the induced change — changes in the income component leading to changes in other components — is very small. This finding leads us to suggest that economic growth in China has generated resources for its health and education systems, but the growth in health and education is mainly determined by its social policy.

SOCIAL POLICY AND HDI

China started its economic reform in the end of 1970s. In 1980, the average value of countries with very high HDI was 0.757, high HDI was 0.534, medium HDI was 0.420, and low HDI was 0.345. China's score was 0.423, about the average value of HDI in the medium human development countries. China's income index value was 0.292, lower than the average score of the low human development countries. However, its health index score was 0.724. The average score of very high human development countries in 1980 was 0.820, high human development was 0.710. China's health score was higher than the average score of the high human development countries.

The international comparison of HDI over the 1980 through 2013 decades indicates that each country's unique changing pattern. China's case, and the findings from the international comparison suggests that social policy has significant impact on each country's human development, and the income-induced growth in health and education has limited impact on human development in China.

China has its own social policy history. While the planned economy did not help many Chinese people out of poverty, the health and education systems developed during the planned economy have enabled the Chinese people to live healthier and longer lives. During most of the years in the past three decades China has maintained high economic growth, but the expansion of public spending on its welfare system came in the new century, as the Chinese government has strengthened its tax and public finance system with a strong central government control over public revenue. Resources generated in the market have been transformed into government revenue to support the human system development, such as the health, education and social protection.

LIMITATIONS IN BASING SOCIAL POLICY DECISIONS ON HDI

In this report, we have emphasized the comparative nature of HDI, country to country, put forth an explanation for its pattern in China, from 1980 to 2013, projected a future pattern 2015 to 2035, and began to suggest what changes would cause the greatest gains to HDI. In the introduction of this report we stated that there have been a plethora of criticisms and suggestions for improvements in the measurements of human development[22,23,24,25]. Here, we would like to make a criticism of the last portion of this discussion, the part where we are suggesting social policies to affect the growth of HDI.

There is a fundamental criticism on basing social policy decisions on the contributions of HDI components to HDI. While the marginal contributions tell us how HDI will change when an HDI component changes, in fact, marginal contributions change as income rises. For the first example, consider the rate of change in the marginal contribution of education as income changes. The education margin is given by the expression health^(-1/3)/(9 (education income)^(-2/3)). Whatever the value of health, the change in the education marginal is multiplied by the fraction 1/(9 income^(-2/3)). With the exception of the value of zero for the income component, this fraction is always less 1. This implies that as income rises the marginal contribution of education declines. The growth in HDI's income component lowers the measure of the contribution of education to HDI. The argument is exactly the same for the effect of the growth income on the marginal contribution of health. Any growth in income lowers the measure of the contribution of health to HDI.

This argument applies to how the growth in income affects the marginal contribution of income. The marginal contribution of income to HDI is the expression (education health)/(3(education health income)^(2/3)). The change in this marginal when income rises is the expression (-2 (education health)^(1/3))/(9 (income^(5/3)). Independent of the values of education and health, the fraction -2/(9 income^(5/3)) is always negative. It is less than -1 for income less than 0.405 and between -1 and -0.222 for income greater than 0.405. Hence the growth in income lowers the marginal contribution of income to HDI. Exactly the same argument applies to how the growth in education effects the marginal contribution of education and how the growth in health effects the marginal contribution of health.

The bottom line to this set of criticisms, which are based on the HDI definition, is two-fold. First, while HDI can be quite useful for international comparisons, if interest is in where resources are to be expanded and where they are to be contracted, it is better to make cost-benefit analysis of the direct investments under consideration and to compare these results.

Second, if one is interested in the comparisons of HDI components within a country, it is better to measure the components in the units of the national currency of the country and analyze that data over time in much the same way we have analyzed the HDI standardize units in this report.

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