Will economic reform lead to a decline in the social welfare net in China?

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Abstract
The concept of social welfare in China differs from the Western conceptual framework in its basic tenets. After 1949, health and social welfare systems were set up in China to cover aspects such as health delivery, labour insurance (Labour Insurance Decree 1951), housing and pensions. Even though the provision of social welfare and health delivery to the population at large was central to socialism, people living in cities were much better supplied with welfare (though they had low wages). The bulk of the population living in rural areas was less well covered though the Great Leap Forward, the commune system and the Cultural Revolution all contained elements that were designed to try to alleviate this difference. As a result, peasants continued to rely on the traditional system of family and community assistance in times of need.

Economic reform and the open door policy which commenced in 1978 have led to substantial changes in the fields of health and social welfare in terms of policy, nature and scope. In general, however, changes in this area have been less dramatic than in other areas such as economic reform and international relations. Social welfare provision has often been overlooked in the process of economic reform.

Changes in rural areas as a result of implementation of the household responsibility system and the growth in Township and Village Enterprises (TVEs) will be discussed. The attendant rise in rural-urban and other forms of internal mobility are posing challenges as people forego access to services that are available only at their place of household registration.

In urban areas, the threatened decline in State Owned Enterprises (SOEs) has been stalled due to fear about the consequences for political and social stability. At the same time, the growth of both private and self employment have introduced new elements.

Chinese socialism with market characteristics has already lead to a decline in health and welfare coverage for a range of people. Some argue that rural residents have been most affected but urban employees are the most politically volatile and are attracting the attention of policy makers.
Introduction
The concept of social welfare in China differs from the Western conceptual framework. The differences need to be understood when comparing systems and proposing policy solutions. Judeo-Christian and humanitarian motives led to the development of social welfare services as a normal function of government in the Western world, though subsequently these services have been under constant attack and threat of erosion by particular forms of government.

China, by contrast, had a different philosophy guiding the development of social welfare. Three crucial socio-political factors influenced this process, according to Lu Mouha (1984). First, the 1949 Revolution purportedly eliminated social evils (such as prostitution, child labour and begging), and other than for victims of industrial accidents, natural disasters, automobile accidents, etc there should be no obligation for the government to provide services for people. Second, the active involvement of all citizens in mutual help to solve social problems or give direct assistance is widely promoted by the state. Third, the meaning of ‘welfare’ incorporates not only the organisation and delivery of services but also the provision of education programs to prevent the development of social problems. Teaching everyone to revere the elderly and about child rearing, assisting people with disabilities through work programs, providing schools in remote and poverty stricken areas, etc were given high priority. The mobilisation of large numbers of people to be responsible for helping to mitigate against problems developing was and continues to be an important part of the welfare system. It was much easier, however, to sustain this in the pre-reform period from 1950 to 1978 than it has been since then.

Thus social security is viewed as a last resort and there is differential treatment for different groups. A wide discrepancy emerged in terms of access to social welfare benefits between rural and urban areas after the Revolution. Depending on geographical location and various other factors, such as employment and ethnicity, different levels of social welfare became available—ranging from no support to a maximum 60% of weekly wage as a pension on retirement.

Social welfare system before economic reform
The provision of social welfare and health delivery to the population at large is supposedly central to socialism. After 1949, health and social welfare systems were set up in China to cover aspects such as health delivery, labour insurance, housing and pensions. Welfare services in China are generally organised and administered under the Ministry of Civil Affairs. Functional categories of services are usually grouped under three main headings:

- direct assistance
- social security
- emergency relief
- veterans and dependents services

- enabling services
- burial service
- marriage registration service

- preventive and constructive services
- civil education
China initiated her welfare system in early 1950s soon after the Communists came to power. In 1951, the State Council issued the Labor Insurance Decree (*Laodong Baoxian Tiaoli*), which was amended in 1953. This Decree formed the major part of Chinese welfare legislature which is still valid today. Many other regulations can be seen, all dealing with relatively specific problems and issued by government departments—such as those establishing work injury, maternity, sickness and retirement benefits for public employees in 1955, and those raising benefits for the insured under Labor Insurance in late 1970s.

There were three groups of welfare recipients with very clear boundaries: state employees, collective workers in cities, and peasants in rural areas. The first group included those working in State Owned Enterprises (SOEs) or government organizations. In mid-1965, SOEs together with other state organizations employed about 80% of urban labourers. This group enjoyed a full range of welfare with good benefits. For old age, workers could retire at 60 (men) or 55 (women) and get a pension equivalent to about 85% of their wages. This amount was usually higher than the average payment for working persons. In the event of sickness, workers received full pay for up to 6 months and they, as well as retirees, would get medical aid freely from clinics run by the *Danwei* (work units). Those with serious illnesses would be referred by the clinic doctor to hospitals run by the government. Hospitals charged but at a price lower than cost and patients could have the full charge reimbursed by their employer. For maternity, female employees enjoyed 56 days full paid leave and free medical service. For an industrial injury, the insurance provided short term full pay and a long term disability pension, as well as free medical benefit. For housing, the *Danwei* invested in houses and rented them to employees at very low rent. Usually a 4-person family rented a 30 square metre house at a cost less than 2% of its income. There was no unemployment benefit because the state owned sector followed a life employment policy and nobody lost their job.

SOE workers did not make any contribution to labor insurance and the employer paid the lot. The system was originally run by trade unions—70% of the contribution would be kept in the hands of the grassroots union set up in every enterprise and the union took responsibility for delivering benefits to the insured. The remaining 30% of the contribution would be forwarded to the Trade Union Federations at the county, municipal, province and state levels. They took responsibility for redistributing the money in different regions. If the grassroots union had money left after paying all benefits, it was handed to the Union Federation for redistribution. In 1969 there was a basic change in the management of the funds—the union lost their role and employers took responsibility for paying benefits at their own cost. The social redistribution mechanism no longer worked and in its place was government redistribution. In the planned economic system, enterprises losing money would get funds from the government so that they could pay benefits—at the cost to the government.

The second group, collective workers in cities and towns, were treated differently. In the city, enterprises administered by municipal and district governments were defined as state owned but those administered by street offices were defined as collectives. In the county, enterprises administered by county government were state owned while
those run by town governments were collectives. The collective economy appeared in 1950s by gathering former self-employeds into one enterprise but they developed later as a result of local governmental investment. In the mid-1960s, this sector employed about 20% of the urban labour force.

Collective enterprises did not follow the Labor Insurance Decree rules. They did not have to provide welfare to workers. In the 1970s, local governments started to consider the welfare of this sector and they set local regulations for welfare provision. Usually the regulations provided for old age, sickness, maternity, industrial injury benefits, but at a much lower stander than that of the state owned sector. For example, for medical services the employee would usually get only half of the cost reimbursed by their employer.

The third group, peasants, comprised a very large population. Until the 1970s, more than 75% of Chinese people lived in rural areas. They were organized into Production Teams with about 100 people, then into a Production Brigades with about 2,000 persons, and then into People's Communes with about 20,000 persons. These rural organizations did not provided any welfare—with a few exceptions. One exception was the Corporate Medical Service run by the Production Brigade. It pooled money from the Production Brigade, Production Team and peasants, set up a clinic to provided primary medical aid at a very low charge, and reimbursed the patients getting service in the township hospital with about half of the cost. Another exception was the so call ‘five guarantees’ (wu bao) for ‘the Three None People’ (san wu ren yuan). The Production Team would provide food, clothes, house, health service cost and funeral cost for those who were incapable of working, had no family member as a breadwinner and had no other resources for daily life.

Thus, people living in cities were much better supplied with welfare (though they had low wages). The bulk of the population living in rural areas was less well covered even though the Great Leap Forward, the commune system and the Cultural Revolution all contained elements that were designed to try to alleviate the difference. Consequently, peasants continued to rely on the traditional system of family and community assistance in times of need.

**Economic reform and welfare**

Economic reform and the open door policy which commenced in 1978 have led to substantial changes in the fields of health and social welfare in terms of policy, nature and scope. In general, however, these changes have been less dramatic than those in areas such as economic reform and international relations. The gradual opening up of the economy has created a new and burgeoning private sector and alternate sources of employment to the state. In addition new forms of employment, such as contract work, have developed as opposed to the old system of lifelong employment.

The main focus of this paper, social welfare provision, has often been overlooked in the process of economic reform. Nevertheless, there are changes afoot and these will be described before moving on to a discussion of the current context for policy makers. The focus narrows even further to be largely one of health services and support for the elderly as this is emerging as the pre-eminent social welfare issue in China for the next century.
The rapidly ageing population and the projections for 2030 (when 21.1% of an estimated population of 1.55 billion will be 60 and over) have made this the priority for policy makers (Stanton & Whiteford 1998a:27). The increase in the number of pensioners since 1978 has changed the ratio of pensioners to members of the workforce dramatically. In 1978, there were 30.3 workers per pensioner but by 1988 the ratio had fallen to 6.4:1 (Chai 1992).

Figure 1 is an age-sex pyramid for China at 1990. The figure shows the rapid decline in fertility from 1975, though an echo effect of the high fertility of the 1960s and 1970s is evident in 1985-90. The proportion over 60 is markedly lower than the anticipated proportion in 2030.

**Figure 1: Age-sex pyramid for China, 1990**

*Peasants in rural areas*
There is no question that under pre-economic reform schemes, health service provision improved dramatically in China. Between 1955-60 and 1990-95, the mortality rate dropped from 20.6 to 7.2 per 1,000, the infant mortality rate declined from 179 per 1,000 to 44 per 1,000 and average life expectancy rose from 44.6 to 68.5. Under the rural collective system people were entitled to the ‘five guarantees’ in their old age but few people (mostly the childless) tended to draw on these entitlements as this would entail too much shame for most people. Instead, most people continued to rely on family members for such support and this was enshrined in the *Marriage Law of 1980* which required children to care for their parents in their old age. The *Inheritance Law of 1985* rewarded those who did and this meant a continuation of favouring sons (as only sons could inherit) (Brugger & Reglar 1994:292).

The establishment of the household responsibility system in 1984 in rural areas, in place of communes and collectives, placed the responsibility for social welfare more firmly back with families than ever before. There has been a trend to privatisation of health delivery and an abandonment of the ‘barefoot doctor’ and rural collective insurance schemes spawned by the Cultural Revolution. Universal free health coverage is ‘no longer conceived as even desirable in rural areas and is implemented only in a few places, most notably Tibet. At the same time, the system which prevailed in the 1960s, by which it was necessary to go through commune clinics to particular referred hospitals in county towns or cities, has been changed in such a way that those who can afford it may patronise whichever hospital they choose’ (Mackerras, Taneja & Young, 1993:183).

The market economy is increasingly embracing the health-care system. Hospitals are becoming cost conscious and are willing to find the cheapest suppliers of items such as needles, even to the extent of purchasing used needles that have not been properly sterilised. Kristof & Wudunn (1998:358-9) provide a case study of a young woman from Hainan who was treated at her local hospital for a tumour in the back but when the doctors could not cut it all out they sent her to Beijing with a letter of introduction. Her parents gave her 500 yuan for fares and food and when Wudann met her on the street in Beijing. Wang had attended the Peking Union Medical College and the doctors agreed to treat her but only after she put down a deposit of 10,000 yuan and once her bill approached that sum, ‘she would have to put down more money or else be ejected onto the street’. The outcome
was that she could not even commence the treatment. According to Kristof & Wudunn, an increasing number of people are dying on the streets after being refused admission to hospitals in Beijing.

Table 1 shows the percentages of elderly receiving income from various sources by urban-rural location and gender. This survey conducted in 1992 found that only 11.3% of elderly men and 0.7% of elderly women in rural areas were covered by pensions (Yan Hao, 1997:208).

Table 1: Percentages of the elderly receiving income from specified sources by urban-rural location and gender, 1992

On the whole, most rural people work as long as possible and provide for their own old age or rely on their children for support when they can no longer work. This is difficult in a society that has been so effective in reducing its fertility rate in recent decades (from a total fertility rate of 5.8 in 1970 to 1.95 in 1990-95). The decline of the average family size and the reduction in the prevalence of extended families (from 48.5% in 1930 to 17.1% in 1990) are now very pronounced. The situation is even more difficult for childless couples. As shown in table 1, the 1992 survey found that rural old people and women were disadvantaged compared with the rest of China’s elderly who were still relatively well cared for.

While in general many people in the countryside have done well from reform, others have not participated in the process and as a result their social welfare has suffered. For example, the Beijing Review (1992) reported that an underclass is developing that consists of farmers who fall ill and have no means of sustaining their livelihood or paying for health care. In poverty-stricken regions of China, poor farmers have few or no health services and have reverted to reliance on prayers and home remedies or to sending young people away to work elsewhere to earn additional income for the family to cover such expenses.

Many villages have become wealthy enough to develop their own community pension schemes. In 1991, a social pension insurance plan for rural residents was launched and by the end of 1995, nearly 50 million peasants and rural labourers (out of 900 million) had joined (Yan Hao 1997:205). Contributions are paid into individual accounts managed by local social insurance funds and invested in banks and government bonds at set rates of return. Pensions are payable from age 60 but the low contributions and lack of pooling of resources means that payments are low. The disparity in regional economic growth is reflected in the pension system, perpetuating rather than reducing inequality’ (Stanton & Whiteford 1998b:73).

Map 1 shows the regions of China where net income for people living in rural households is less than 75% of the national average. These areas are all located in the western part of China. People living in coastal rural households, by contrast, have above average per capita incomes. The trend is towards widening regional income disparities so this problem can be expected to increase.
Old people’s homes are now springing up to cater for childless couples and for people who have no personal means of subsistence. The Chinese government has also introduced a variety of programs, such as associations for the aged, activity centres, and hobby clubs, to provide more opportunity for the elderly to meet friends, exchange ideas, talk about their problems and learn new skills (Yan Hao 1997:215). So there is the beginning of a social welfare net in rural areas.

Township and Village Enterprises
Township and Village Enterprises (TVEs) originated from the collective units within towns and villages. This non-subsidised section of the public economy has not been governed by state plans and did not provide housing, health care, pensions or education as a formal right, in the same way as the state sector. The consequent lower overheads have meant that TVEs were able to respond rapidly to changing market forces and thus they have become a major force in economic development. Their position mid-way between state and private enterprises means that they do not have to provide the full range of social welfare. However, they do provide some forms of welfare for their employees and this falls outside the ambit of state planning.

TVEs began as small-scale agriculture-related enterprises, such as the production of textiles and agriculture machinery. Many have grown into large factories and conglomerates. TVEs now contribute more than 50% of the country’s exports. Figure 2 shows the growth in the number of TVEs from 1978 to 1996. Growth was slow till 1983 and from then it escalated rapidly for about 10 years. Since then, however, considerable problems have affected the viability of existing and future TVEs.

Employment was mainly of surplus rural labourers. These enterprises offer considerable incentives in terms of employment opportunity, however, the benefits come at a cost of reduced welfare security. The level of long-term security is compounded as issues of ownership, environmental degradation and technology piracy are placing the viability of some TVEs at risk. Some enterprises, such as paper making, leather and furniture enterprises, have been forced to close because of stricter environmental monitoring by local officials (Huang 1997). In the past the bankruptcy rate was less than 7% but the rate is now 20% (Bai 1998).

Another major problem has become that of asset rights. When a township-run enterprise (TREs) or a village-run enterprise (VREs) is owned by local government and worked by local farmers there is little dispute over ownership. According to Bai (1998), ownership problems have occurred since rural labour began to move to work in TVEs in other regions. Moreover, an increased number of rural enterprises are owned and run by groups of households who pool their resources together for production, joint household enterprises (JHEs), as well as by private individuals.
(POEs). JHEs are a fertile ground for disputes over ownership. TREs and VREs have decreased from accounting for 85.7% of ownership in 1984 to 67.7% in 1994 with much of the decline in local government ownership occurring in 1985 and 1986.

TVEs also developed in urban areas but somewhat later. They often emerged as rural entrepreneurs saw an opportunity for an enterprise, such as a garbage collection service or a retail or export distribution outlet for products produced in the countryside. In urban areas it is more expensive to set up as the TVE may have to provide welfare.

Over 70% of TVEs have debts. In the past they relied on a lot of labour and the goal of TVEs was to maximise employment. Now under the market system and as TVEs privatise the goal has changed to one of making profits. Many TVEs are supported by local governments to protect them and keep them going for employment purposes. Thus, changes in farming activities and the nature of TVEs is due to privatisation.

Table 2 shows that in 1996, TVEs employed 135 million people. This is a very significant number and the problem of rural unemployment would be much greater without this category of industry and employment. TVEs are concentrated in the richer eastern areas where there is greater access to markets, capital, skills, transport and new technologies. Shandong and Guangdong had the largest number of TVE employees in 1996, though Hunan had the largest number of enterprises. However, there is still a rural surplus in these areas and from the late 1980s peasants began to move to other places, usually the cities, in search of jobs. Many of the jobs they sought were created by the official endorsement in 1983 of private enterprises.

Employees of TVEs in rural areas are also able to join the new old age social insurance schemes. Individuals make monthly or annual payments at one of 10 levels (between 2 yuan and 20 yuan a month) according to the member’s financial capacity. This represents 80% of the total contribution, with the member’s employer (rural collective or TVE) paying the remaining 20% (Stanton & Whiteford 1998b:72). But given that TVEs are both unevenly distributed and unevenly productive, this situation will naturally lead to people in coastal areas being better able to provide for their old age than people in other areas. Map 2 shows per capita output of TVEs by province in 1995. It is clear that provinces in the northwest, west, centre and south are all disadvantaged in terms of TVE activity.

Map 2: Per capita output of TVEs, by province, 1995

Labour migrants and welfare provision
One of the consequences of economic reform is a rising tide of out-migration from rural areas both to cities and large towns and to other rural areas. Low incomes or poverty, absence of opportunities and greater access to information about opportunities and life styles (including better health and education) available elsewhere are behind the estimated 100 million people who are on the move—many as part of the ‘floating’ population. Some of these move seasonally and return to their place of registration at times of heavy work on the farms. Data for the ‘floating’ population or temporary migrants, mostly farmers, are patchy and often guesstimates. Goldstein (1990) estimated China’s total floating population...
to be 50 million in 1990 but by 1996-98 it had reached 80 to 100 million (Karmel 1996, Bu Zhang 1998). Shanghai had a floating population of 1.6 million in 1986, representing a tripling of the 1984 figure but by 1996, the figure had climbed to 2.3 million. Beijing, a city of 6 million in 1985, had 700,000 temporary migrants but by 1997 this figure had climbed to 2.86 million.

Some of these become permanent migrants and may eventually gain temporary or permanent registration in the destination. Wu (1994) and Chan (1994) have used the residual method technique to estimate permanent rural-to-urban migration. This technique is based on the total and natural growth of an urban population, with the difference between the two being attributed to rural-urban migration. Based on this method, Wu’s average annual rate of net rural-to-urban migration was 4.7 million for 1978-83 and 8.7 million for 1984-90. Chan’s annual estimates were 7.3 million and 8.4 million, respectively.

Once people leave their place of permanent household registration or *hukou*, they cannot gain access to the welfare services that they were entitled to in their place of origin. They must now either purchase services privately or policy changes need to be made to cover this component of the population. Depending on the local administration of regions, since 1985 it has been possible to grant them temporary *hukou* which enables access to some services. Employees on building sites and contract workers in enterprises all fall into this category but the situation varies by type of enterprise and by region.

Shenzhen region in southeast China, for example, is characterised by a very high level of service provision to temporary migrant workers. The local officials in this region have tried to minimise the development of problems associated with temporary migrant workers by insisting on a guarantee of welfare services by employers. Under a plan introduced in 1995, fixed migration rather than a floating flow is encouraged as this can be more easily managed and controlled (Shi Xian 1998). But fixed migration requires the provision of better services and these changes are having the effect of raising the relative cost of hiring migrant workers. Nevertheless, employers are finding the change beneficial and this pattern is likely to spread to elsewhere. Shenzhen was one of the first regions in China to open to the outside and has often led the way in industrial reform.

In Urumqi, in Xinjiang Uygur Autonomous region in northwest China, recent research has shown that local education officials have been proactive in setting up schools and enrolling children of migrant households, even though many do not hold even temporary registration in the city (Iredale, Naran & Wang fieldwork 1997). Schools were initially built for the large number of Han Chinese children who have moved with their parents to this area in recent years but these were soon followed by schools for minority migrant children.

Other less developed and less experienced (in terms of migration) regions do not have similar requirements and regulations and consequently migrant workers and their families are not well provided for. This situation is beginning to change, however, as evident in the announcement by the central government in March 1998 that the children of temporary migrant workers should be admitted to local schools, even without *hukou*. Previously the only way that these children could be enrolled was at the discretion of the principal and often at a high cost (fees) to parents.
Urban areas
Employees of State Owned Enterprises (SOEs) have been the most privileged in terms of welfare services, especially pensions. SOEs in urban areas of China have been and still remain a significant employer of labour—112,440,000 in 1996. However, many of the enterprises are non-competitive and the reform of enterprise management has to ‘some extent forced the state-owned enterprises to face market competition, making some SOEs turn to low-pay, hard-working and obedient migrant workers’ (Wu & Li 1996:23). Others have closed down and sold off or rented out their plant to private operators. The distribution of SOEs and TVEs, by province and autonomous region, is shown in table 2 as well as the employment figures.

Table 2: State Owned and Township Village Enterprises & personnel by region, 1996

Table 2 shows that there is wide variation by region. Most SOEs are concentrated on the coast with the exception of Sichuan, which is in the interior and has a large population of 130 million. Historically, a lot of SOEs were established in Sichuan as part of the Central Government’s attempts at decentralisation in the 1960s and early 1970s. This means that if reform of the SOEs proceeds large numbers of people in these regions are likely to be displaced.

Nevertheless, 25% to 33% of the people in this work force is estimated to be ‘surplus’ and full reform of the sector was announced in early 1997 (Karmel 1996:114). The problem is most severe in central and western China and in medium and small-sized cities. As these enterprises restructure or go out of operation, the shedding of labour will add to the unemployed and potential number of labour migrants. By August 1998, however, Premier Zhu Rongji appeared to have slowed down the rate of reform of this sector in response to fears of rapidly increasing unemployment in urban areas.

Figure 3 shows the relative importance of SOE employment, compared to TVE employment, by region. The five areas with the highest ratio of SOE employees to TVE employees are Shanghai, Beijing, Heilongjiang, Tianjin and Jilin. These regions are all concentrated in the northeast of China and politically they are very sensitive regions in terms of the stability of the Central Government. Four other areas also have high ratios but the numbers are small (Guizhou, Tibet, Qinghai and Xinjiang). They have been gaining rather than losing SOEs in recent years as the State embarks on large scale enterprises in all but Guizhou.

Figure 3: Percentage of total of SOE & TVE employees in SOEs, 1996

Social security, including the old age pension, has been the full responsibility of SOEs and this has had major detrimental effects on their financial and operational capabilities. In 1986, the Chinese government introduced regulations requiring all new employees of SOEs to make labor insurance contributions of up to 3% of their basic wages along with employer contributions of 15% of the enterprise’s pre-tax wages bill (Stanton & Whiteford
1998b:72). The funds were to be managed by agencies independent of employing agencies. Two thirds of SOE employees were covered in this way by 1991 and in 1992 the scheme was extended to collectively-owned enterprises. Two important principles were thus put in place: employee contributions to old age pensions and the separation of management of age pensions from enterprise management.

What has subsequently emerged is a very diversified system where provinces and cities have developed their own hybrid schemes. Some are restricted to state employees but others incorporate employees in private and point venture enterprises and even self-employed (Stanton & Whiteford 1998b:73). The 1997 State Council Document approved a plan to finally try to establish a unified nation-wide basic pension insurance system to replace all pilot programs in each province by the end of this century (Asian Development Bank 1997).

The reform of SOEs remains a top priority for the government but attempts in the late 1990s to reduce the number of SOEs and the size of this component of the workforce have consistently been scaled down as officials fear the outcomes, in terms of social and political unrest (Karmel 1996). At the 15th Communist Party Congress in 1997, Jiang Zemin outlined the plan to effectively privatise most of China’s 300,000 SOEs—with the possible exception of about 1,000 of the largest ones that are concentrated in strategic key industries and which will be transformed into modern ‘Korean-style’ conglomerates (shipping, telecommunications, transport and banking). Pressure is also being exerted from the TVE sector which sees the SOEs as highly protected, less efficient and monopolising markets.

Until alternate employment or a comprehensive pension plan is introduced to cover these employees, and thus take the burden for payment off the SOEs, the Government will be reluctant to go ahead with promised reforms in this area. In the meantime there have been some sell-offs and mergers and the formation of enterprise groups and holdings. Many SOEs have been leased or sold to workers or private buyers and the money from the rent or sale is used to pay pensions to retrenched workers.

Non-state sector
The rise of the non-state/collective owned sector in urban areas since the late 1970s has introduced a new element. Joint Ventures, introduced from 1979, do not require permanent hukou, only temporary registration (same as for TVEs). Village and township committees became involved in the 1980s in exporting surplus rural labourers on a temporary basis to Joint Venture firms in other parts of China. Out-migration continues to be used as a development strategy to improve the local economy and help alleviate poverty in rural areas.

Employees of private firms may be protected by their employer depending on their hukou status. Tan’s work (1998) among women migrant workers in Guangdong shows that many live in poor conditions, have little contact with the surrounding community, have poor access to services and are cut off from family and friends. Most do not relish the experience but stick it out to send home money to their families and most return home to get married.

Another form of non-state welfare is emerging in response to market driven reforms. For example, new modes of collaboration between universities and industrial enterprises are leading to special agreements for education and training. For example, some enterprises are
signing contacts with higher education institutions where the enterprise provides funding for training and scholarships to the institution and the institution provides personnel for the enterprise. This model is increasingly being used by large or medium sized enterprises that are finding it difficult to recruit skilled personnel. Some enterprises are located in remote areas or industries where there is a dirth of skilled professionals (Li 1996).

There is a growing band of self-employed workers who have neither pension for their old age nor medical insurance for when they are ill. They also often the least educated and least able to cater for their own needs. More and more men and women are self-employed as street vendors selling vegetables, kebabs and other products or as peddlers—repairing shoes or bicycles, as hairdressers, or a range of other services. They may emerge at night as part of the illegal ‘ghost markets’ or they may have official approval and pay taxes.

The actual size of the private sector is difficult to quantify for a variety of reasons. The situation is compounded in China because there is evidence that some private sector firms pay an administrative fee to achieve ‘collective’ status (‘red hat firms’). Others are using offshore relatives to provide their otherwise domestic status firms with foreign joint venture status. The motivation for both of these practices is to benefit from various state incentive schemes. Both practices lead to underestimation of the size of the private sector (Parris 1999).

The welfare restructuring process
There was a turning point for the Chinese welfare system in 1984, when the Employment Ministry initiated a program to restore a social insurance system. A new kind of management body called the Social Insurance Bureau was set at the county, municipal, province and state levels. It took responsibility for pooling contributions and delivering benefit to the insured. Until now, all employees in the state owned sector had joint social insurance for old age pension but for sickness, and maternity welfare, most of them continued to rely on Danwei welfare. Other major changes can be seen: the emergence of unemployment insurance and the introduction of poverty relief in some cities.

The changes outlined present a picture of welfare decline. Under the old system, workers of the state sector enjoyed all benefits at no personal expenses but now they must contribute a portion of their wage to the social insurance fund. The contributions by employees is 3% of earnings for old age insurance at the moment with a future target of 8%; and 2% for medical insurance at present, with a future target of 5%. A second feature of the decline is that benefits are much lower in the new program. Old age pensions are 55-60% of the average social wage. Medical services are no longer free and there are ceilings on the refundable amount. Recipients must now contribute about 15% of hospital charges. Third, housing benefits have declined. The rent of Danwei and local government houses has been raised to cover the cost of building and management. What has emerged as a new gain, unemployment insurance, is at the expense of job security. This signifies the breaking of the ‘iron rice bowl’.

A decrease of welfare has also been experienced in the rural sector. The Cooperative Medical Service was eroded following the introduction of the ‘household responsibility’ ‘system’ in the early 1980s. The reform led to Production Teams
losing their role of producing goods and distributing income. Therefore, the Cooperative Medical Services no longer had sufficient contributions from the Production Teams and only some Production Brigades in wealthier areas continued to finance clinics.

For the non-state owned sector in cities, an increasing number of people are not covered by social security. In some cities, collective enterprises have either developed their own social insurance or have purchased insurance coverage for their employees from private companies. However, the benefits from both of these schemes are not usually as high as in the state sector. Moreover, many collectives have not instigated such schemes.

More serious is the problem of social welfare for self employees and employees of private and joint venture companies. Most still lack any social insurance coverage. In addition the ‘floating population’ in cities and towns mostly have no coverage. Their hukou generally remains at their place of origin.

Labour migration is one of the major labour market dilemmas facing Chinese authorities. The retention of hukou is leading to a segmented labour market with at least two tiers of workers—those with permanent registration and those without. There is consistent debate as to whether hukou should be retained. Some argue that it is the best way to keep some form of discipline and control over mobility and that it will be a long time before it can be eliminated. Hukou is still seen as slowing down the rate of urbanisation and the development of some of the social, economic and environmental problems attendant on the growth of large cities. Others argue that it should be retained from a welfare and income distribution effect. They maintain that the hukou system encourages saving by migrants so that they can send home remittances—thereby cutting down on wasteful consumption (and participation) in cities—and discourages investment in cities. Migrants also return home with money and new skills and ideas which benefit the rural economy. It is argued that these processes help to reduce the urban-rural differential.

In the late 1970s, about 80% of urban labourers enjoyed the full range of welfare benefits, and the rest could also get some welfare. After economic reform, the non state owned sector grew rapidly and it now employs about one third of urban labor force. Now, only approximately 66% of urban workers are covered by social insurance, the others have no protection.

The old welfare system worked in a planned economy and under the condition of a young population structure. In the early 1980s, the ratio between employee and retiree in the state owned sector was 7:1, so it was relatively easy to pay benefits for the elderly. In 1999 the ratio is 5:1, and is expected to reach 2.5:1 in 2030. Thus population aging will make it more difficult to provide adequate welfare for the elderly in the future. This and other pressures are prompting changes in the system.

In the past few years, the Chinese government has taken the following measure to improve people's welfare: the 1997 Pension Reform Decree; the 1998 Medical Insurance Decree; and the 1999 Unemployment Insurance Decree. These decrees all require the non-state sector to participate in the provision of welfare, but until now
few have complied. The major reason for non-compliance is that local governments have not been active in implementing the Decrees. They are in a dilemma as on the one hand local governments are concerned to improve workers’ welfare, but on the other hand, they realise that implementation will lead to a 30% increase in labour costs. This will act as a serious deterrent to foreign investment.

A further initiative has been the introduction of social assistance for families in poverty. Beginning in 1994 cities began to set up programs to aid families in poverty. All cities and county towns must now institute such programs by 2000, according to the requirements of the Civil Affairs Ministry.

**Conclusion**

Under the pre-1978 regime, service provision was universal but was strongly biased in favour of urban residents. Nevertheless, demographic indicators show that rural residents also benefited from improved health services with welfare provision relying heavily on family and community networks. The changes outlined above spell major problems for the delivery of social welfare. First, some benefits such as unemployment and medical coverage have been reduced. Second, the growth of the non-state sector has led to a cohort of people with little or no coverage. Third, the doubtful continued viability of the state owned enterprises suggests that a significant number of workers will retire without being covered by a *Danwei* pension. The ability to pay is increasingly becoming the determining factor in terms of access to health, education and aged care services.

The continued protection of the state work force is a matter of ongoing debate. The sacking of 15 million ‘surplus’ urban labourers currently employed in SOEs would add considerably to the pool of unemployed and could be very destabilising. Two-thirds of all state enterprises are experiencing financial difficulties and central government deficits are rising. The government continues to offer subsidies to state enterprises but it may soon have no choice but to close down many state enterprises. The government also has the problem of increasing corruption that has come about as a result of decentralisation of decision-making from the national to local levels and the opportunity for asset removal by managers and employees of state enterprises, often ‘aided and abetted by local government officials’ (Hughes, 1998:75). However, state-enterprise workers are the privileged elite of China, along with civil servants. And if they lose their jobs, they also stand to lose their welfare services—unless as has happened in a few instances the enterprise is bought out and ex-employees are paid a pension and continue to be supported.

At the same time, there is a debate in China about the maintenance of the *hukou* system. As argued above the conservative element still sees advantages in maintaining the household registration system, albeit with changes such as the introduction of temporary registration and identity cards. On the other hand, other Chinese social scientists are pressing for a freeing up of the system and the elimination of *hukou*. They argue that the system is outdated, discriminatory and runs counter to development. The Chinese Government is becoming increasingly aware of the long term social effects of temporary labour migration, as demonstrated in the March 1998 Central Government decision to enable the children of floating migrants to gain easier access to schools.
A process of welfare decline can be seen in China, both in terms of benefits and coverage reducing. The process may have reached its lowest point as it will be more difficult to reduce benefits furthermore. A turning point may appear in the coming years, with new efforts by government to enlarge coverage. Outside commentators such as Karmel (1996) and Hughes (1998) argue for rapid change — the ‘iron rice bowl’ will be broken and the only question is whether China will be ready. Within China, however, many are arguing for gradual change as a better choice for the country. Recent developments have shown that the leaders are afraid of instability and are unwilling to promote dramatic reforms, even though they may regard them as necessary.

What is clear is that the government must act to create a national welfare system the cost of which is shared by enterprises, workers and national and local governments for the benefit of all workers. Elimination of the dual social structure that currently exists in employment and social security, between the city and the countryside, is imperative and may help stem the outflow from rural areas.

Under Chinese ‘socialism with market characteristics’ there is no clear answer as to whether the new social welfare net will be more or less complete than before. The old system had the semblance of an almost complete coverage but this relied heavily on a high level of welfare provision by communities, especially families. The challenge now is to provide a welfare net that is more universal, more equitable and sustainable throughout the social and economic upheavals that are taking place.

References


Huang, P. 1997, Personal Communication, Institute of Sociology, Chinese Academy of Social Sciences, Beijing.


Table 1: Percentages of the elderly receiving income from specified sources by urban-rural location and gender, 1992

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Source: Yan Hao 1997, Table 3.
Map 1: Per capita net incomes for people living in rural households, by province, 1996

Source: Davin 1999:60.
Figure 2: Growth in the number of Township Village Enterprises in China, 1978-1996

Source: China Statistical Year Book, 1997
Map 2: Per capita output of TVEs, by province, 1995

Source: Davin 1999:61.
Table 2: State Owned and Township Village Enterprises & Personnel by Region (1996)

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Source: China Statistical Yearbook (1997)
Figure 3: Percentage of total of SOE & TVE employees in SOEs, 1996