

# **New Urban Space in China: Towns, Rural Labour and Social Inclusion**

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- County boundary
- ▬▬▬ Great Wall
- ▬▬▬ Yellow River
- ▬▬▬ Provincial boundary
- ▬▬▬ River



**Shanxi Province**

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## Abbreviations

BOLSS	Bureau of Labour and Social Security
CASS	Chinese Academy of Social Sciences
CCP	Chinese Communist Party
CMS	Cooperative Medical System
EBR	Extra-Budgetary Revenue
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GVIO	Gross Value of Industrial Output
HDI	Human Development Index
HPF	Housing Provident Fund
HRS	Household Responsibility System
LAL	Land Administration Law
MOE	Ministry of Education
MOH	Ministry of Health
NBS	National Bureau of Statistics
NHSS	National Health Services Survey
NSSF	National Social Security Fund
PAYG	Pay-as-you-go pension system
PLA	People's Liberation Army
PRC	People's Republic of China
PSU	Public Service Units
SARS	Severe Acute Respiratory Syndrome
SOE	State Owned Enterprise
TSS	Tax Sharing System
TVE	Township and Village Enterprise
VAT	Value-added Tax
WHO	World Health Organization

## Glossary of Chinese terms

*baojia zhidu* 保甲制度 system of mutual community supervision used in late Imperial China

*baomu* 保姆 women working as nannies and cleaners in private homes

*baoxianfei shouru yanglao nianjin* 保险费收入养老年金 The old age pension insurance fund

*chengguanzhen* 城关镇 city-based-town

*chengjian ju* 城建局 Urban Construction Department

*Dahuaishu genjizuyuan* 大槐树寻根祭祖园 Dahuaishu ‘Ancestral Park’

*danwei* 单位 work unit

*dazhuan* 大专 college degree

*dingti* 顶替 position replacement scheme used mainly during the Maoist period

*diqu* 地区 district

*ganbu* 干部 cadre

*gangwei zerenzhi* 岗位责任制 cadre responsibility system

*geren suodeshui* 个人所得税 personal income tax

*getihu qiye* 个体户企业 individually owned enterprise

*gongban laoshi* 公办老师 public teacher

*gongshang baoxian* 工伤保险 work injury insurance

*gongye xiangzhen qiye* 工业乡镇企业 industrial TVE

*gu cheng* 古城 old part of the town

*guanxi* 关系 interpersonal relations

*gufen qiye* 股份制企业 share holding enterprise

*Guhuai* 古槐 old scholar tree

*guotu siyuanchu* 国土资源处 Department of Land and Natural Resources

*Guowuyuan yanjiujigou* 国务院研究机构 State Council Research Organization

*guoyou danwei ren yuan* 国有单位人员 state sector employees

*jianzhizhen* 建制镇 administrative or statutory towns

*jimao shichang* 集贸市场 trade markets

*jingji shiyong fang* 经济适用房 ‘affordable’ or ‘economy’ housing

*jinxiu xiao* 进修校 training school

*jizhen* 集镇 market towns

*huanbao fei* 环保费 fee to protect the environment

*hukou* 户口 household registration booklet

*hutong* 胡同 narrow dirt alleyways

*keji gongzuorenyuan* 科技工作人员 professional staff

*laodong he shehui baozhangju* 劳动和社会保障局 Labour and Social Security Department

*laoxiang* 老乡 fellow native

*litu bulixiang* 离土不离乡 leave the land but not the countryside

*lixishui* 利息税 interest tax

*meikuang anquan jianchaju* 煤矿安全监察局 Coal Mine Security Supervision Department

*minban jingji* 民办经济 society-run economy

*minban laoshi* 民办老师 community teacher (village teacher)

*minyingshi qiye* 民营企业 people-run enterprise

*mubiao zerenzhi* 目标责任制 target responsibility system

*nongcun jingying guanli zhongxin* 农村经营管理中心 Centre for Rural Management and Administration

*nongcun shehui yanglaobaoxian* 农村社会养老保险 The rural old age insurance scheme

*nongji fazhan zhongxin* 农机发展中心 Centre for Agricultural Mechanization Development

*nongye Xinyong Hezuoshe* 农业信用合作社 Agriculture Credit Cooperative

*nongzhizhe zhongxue* 农职业中学 vocational junior secondary school

*pinkun zhi Gong* 贫困职工 impoverished staff and workers

*renkou suzhi* 人口素质 population quality

*shang ping fang* 商品房 commodity housing

*shehui baozhang buzhu zhichu* 社会保障补助支出 social insurance system subsidy

*shengyu baoxian* 生育保险 childbirth insurance

*shi* 市 city/prefecture

*shiye danwei* 事业单位单位 public service units [PSU]

*shiye baoxian* 失业保险 unemployment insurance

*shiyebaoxian guanlifuwu zhongxin* 失业保险管理服务中心 Unemployment Insurance Service Centre

*silashui gongsi* 自来水公司 Urban Water Company

*siying qiye* 私营企业 enterprise privately owned by more than one person

*Susan qijie* 苏三起解 ‘Susan under escort’ (Peking Opera)

*waiyusuan* 外预算 extra-budgetary revenue

*waidiren* 外地人 outsider

*weisheng fei* 卫生费 public health fee

*weishengyuan* 卫生院 public health centre

*xiang* 乡 townships

*xiaochengzhen* 小城镇 small town

*xiangzhen zongrenkou* 乡镇总人口 total population

*xiagang zhizai jiuye zhongxin* 下岗职再就业中心 Laid-off Workers Re-employment Centre

*xiangcun dushihua* 乡村都市化 rurbanization

*xianzhi* 县志 county gazetteer

*xiaokang* 小康社会 all-round well-off society

*xingzhengshiye yanglaobaoxian* 行政事业养老保险 pension insurance for public servants

*yanglao baoxian* 养老保险 old-age pension insurance

*Yichang liangzhi* 一厂两制 ‘one factory, two systems’ campaign intended to channel those workers employed in the TVE sector holding urban registration to the old age insurance scheme for urban workers, and those with a rural registration to be incorporated into one of the local rural pension schemes

*yiliao baoxian* 医疗保险 medical insurance

*yingyeshui* 营业税 business tax

*zaijiuyefuwu zhongxin* 再就业服务中心 Re-employment Service Centre

*zhandao fei* 站道费 fee on street vendors

*zhen* 镇 town

*zhenqu* 镇区 a town’s urban built up area

*zhenqu qiye* 镇区企业 enterprise within the town’s urban built up area

*Zhongguo renshoubaozhang gongsi* 中国人寿保障公司 China Life Insurance Company Limited

*zhongxiao qiyeju* 中小企业局 Department for Small and Medium Enterprises

*zhongzhuan* 中专 technical degree

*zhuada fangxia* 抓大放小 grasp the large and release the small

*zhufang gongjijin* 住房公基金 housing provident fund [HPF]

*zi jian fang* 自建房 self-built housing

*zuidi shenghuo baozhangjin* 最低生活保障金 minimum living standard insurance fund

## **Abstract**

Since the late 1970s internal migration has become a fundamental feature of economic and social change in the People's Republic of China. So has rapid urbanization as the rural population moves to the cities and towns in search for work. In the process, new urban spaces have been created that not only provide the springboard for economic development but also present challenges for social coherence and stability. Considerable attention has been focussed on the impact of this migration on the larger cities and on the migrants to those cities; processes that inevitably highlight the difficulties of China's socio-economic transformation. Nonetheless, the experiences of those cities represent but one of the country's urban realities. In fact, the majority of China's urban population live in a highly dispersed system formed by thousands of small cities and towns.

Through the examination of a county in North China (Hongtong County, Shanxi Province) and its county town (Dahuishu Town) this study suggests that outside the larger cities there may be alternative accounts of urban social change and the integration of rural migrant workers. Empirical findings point to greater openness and flexibility in the incorporation of rural workers. Though shortcomings are still observed, there is also considerable governmental and social awareness of the problems brought by rural-urban migration and urbanization processes; a willingness to act and a capacity to promote and deliver greater social inclusion. Dahuishu Town's distinct development experience has allowed for the construction of a more inclusive social environment, one which provides all inhabitants, including rural workers with a platform towards advancing their economic and social well-being.

Impossible as it is to be representative of town development throughout China, this study provides an example of and a guide to alternative development processes to those documented in large urban centres. Small town urban development in Hongtong County is not a resolved issue, but it suggests that China's transformation may not necessarily result in dysfunctional and socially polarized urban environments.

## Introduction

Since the late 1970s internal migration has become a fundamental feature of economic and social change in the People's Republic of China [PRC]. So has rapid urbanization as the rural population moves to the cities and towns in search for work. In the process, new urban spaces have been created that not only provide the springboard for economic development but also present challenges for social coherence and stability. Considerable attention has been focussed on the impact of this migration on the larger cities and on the migrants to those cities; processes that inevitably highlight the difficulties of China's socio-economic transformation (Ma and Xiang 1998; Solinger 1999; Roberts 1999). Nonetheless, the majority of China's urban population live in a highly dispersed system of smaller cities and towns.

The example of one county town in North China (Hongtong, Shanxi) suggests that outside the larger cities there may be alternative accounts of urban social change and the integration of rural migrant workers. Empirical findings point to greater openness and flexibility in the incorporation of rural workers. Though shortcomings are still observed, there is also considerable awareness of the problems brought by rural-urban migration and urbanization processes; a willingness to act and a capacity to promote and deliver greater social inclusion. Without attempting to be representative of town development throughout China, this case study provides an example of and a guide to alternative development processes to those documented in large urban centres. Small town urban development in Hongtong County is not a resolved issue, but it suggests that China's transformation may not necessarily result in dysfunctional and socially polarized urban environments.

As economic transition advances in the PRC, it has become more evident that the gains of rapid economic growth are not being equally enjoyed in the different regions or among different social groups. Concerns over growing regional inequalities (Wang, S. and Hu, A. 1999) have pushed the Centre <sup>1</sup> to redirect its emphasis on the economic development of the east coast, towards development policies that include

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<sup>1</sup> The Centre will refer hereafter to the institutions of the Party-State, while Central Government will be used to refer to the country's administrative authority responsible for formulating and implementing national policies. The term is also used in contradistinction to provincial and local governments.

the central and western regions (Goodman 2004). Furthermore, government awareness of growing social problems such as rural-urban inequalities (Knight and Song 1999; Kanbur and Zhang 1999; Wu *et al.* 2004); persistent rural poverty (Reddy and Minoiu 2006); urban unemployment (Nakagane 1999; Solinger 2001; Giles *et al.* 2005); and the surge of urban poverty (Khan and Riskin 2001; Fang *et al.* 2002; Hussain 2003; Liu and Wu 2006)<sup>2</sup> has moved social issues to the fore on the PRC's domestic agenda. Considered to be a prerequisite for smooth economic transition and the continuation of political supremacy by the Chinese Communist Party [CCP] social stability has so far carefully – and at times in a repressive manner<sup>3</sup> – been maintained in the PRC.

To tackle emerging social issues the Central Government has embarked on the reform of the social security system and the institutions that support it. As part of this reform effort, the government has implemented a wide range of changes; they include reductions to the previous social security and welfare package for urban workers, followed by an extension of basic coverage to those outside the public sector. The biggest challenge to the implementation of the new social security system has been the limited financial resources available. Budget reforms and the transfer of financial responsibility for public service and social security provision to the localities have resulted in great disparities in the availability and quality of services among regions. At the county and town levels, the responsibility to fill in the provision gap has fallen mainly on local residents, who are at the same time spending larger shares of their income on health and education services.

Scale and spatial hierarchies have been and remain extremely important for the development of the local in the PRC (Fan 1999; Ma 2002, 2005; Shen 2005; Cartier 2005). Apart from the large rural-urban divide, urban hierarchies are also an important feature of China's city system. Larger urban entities have generally better

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<sup>2</sup> Poverty, which was considered to be mainly a rural problem, is now affecting urban household as well. Those most vulnerable to poverty are households whose members have been laid-off from State Owned Enterprises [SOEs], and those who have no work insurance. One estimate stated that in 2002 only 20 per cent of laid-off workers would be able to find a new job. Ma Rong cited in Fewsmith 2003.

<sup>3</sup> Social movements that have been perceived by the Centre as threatening social stability have been severely crushed. The two best-known examples are the Democracy Movement of 1978-79 that was forced to go underground (Goodman 1981), and the demonstrations that lead to the Tiananmen Massacre of 1989 (Barth 2002).

infrastructure and enjoy much better services than small cities and towns. The large municipalities of Shanghai, Beijing, Tianjin, and Chongqing are situated at the higher end, followed by provincial capitals and other large cities. Next come medium and small cities, followed by towns.<sup>4</sup> Designation and promotions up the urban hierarchy during the reform period have been based both on the politico-administrative status of a place (its economic development and power) and on the size of its urban non-agricultural population (Song and Zhang 2002, p. 2321). Nevertheless, the economic capability of an urban centre has increasingly proved significant when urban upgrading decisions are concerned. At the same time, the proportion of the urban non-agricultural population has become less relevant due to the increasing number of migrant workers living and working in the cities.<sup>5</sup> Moving up in the urban hierarchical system permits the upgraded town or city to retain a larger share of its tax revenue, which allows its government to improve the local infrastructure and to provide better public services and welfare benefits.

Increased population mobility has been one of the processes unchained by reform with far greater consequences than originally envisaged. During the reform period urban growth has been intrinsically linked to rural-urban migration. From 1980 until the early 1990s, migration contributed to about 78 per cent of total annual urban growth (Wu 1994, p. 694). Migrant presence in urban areas has become increasingly important and is rapidly changing the economic and social environment of Chinese cities and towns. Nevertheless, rural migrants have not been included as full members of the urban society and have therefore remained mostly outside of social security coverage extension efforts. It has been only with the introduction of more flexible residence policies in some cities (Qiang and Fok 2002; Zheng *et al.* 2005) and in a growing number of towns (Lin 1993; Tan 1993; Wang 2002) that there has been an opening for migrant workers to become recipients of social security and welfare. In general, however, institutional and social barriers still hold back migrants' integration into their urban communities. Nonetheless, as the number of rural migrants living in

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<sup>4</sup> A metropolis usually has a population of more than 4 million; large cities have between 1 and 3 million people; medium-sized cities have a population of fewer than 1 million to more than 300,000; small cities have between 100,000 and 300,000 people; towns (*zhen* 镇) vary in size. Lu 1993, p. 175. The town is the lowest urban administrative centre.

<sup>5</sup> The large majority of migrant workers holds rural registration and are hence not counted as part of the official population of cities, but classified as part of the floating population.



urban areas increases, inclusion of migrant workers has become a necessary step towards maintaining social cohesion and stability in China.

### **Socialist legacy and population mobility**

By the mid-1980s, when millions of peasant workers started to enter the coastal cities, the government and the media began to raise concerns about this ‘wave of blind drifters.’ Ever since, the Central Government has had to acknowledge the important role migrant workers have played in the development of Chinese cities, while still denouncing them as being the source of heightened social problems. This ambivalent approach towards internal migration reflects the government’s attempt to hold on to at least a certain degree of control over the population, which can allow it to maintain the reins over the pace and direction of economic transition.

Rural reforms and the introduction of market mechanisms were responsible for triggering the large labour flow out of agriculture. This massive rural to urban migration process, however, has to be set against the backdrop of a previously restrictive migration regime and rural-urban dichotomies. Large-scale population flows had been a common phenomenon in Chinese history, but these came to an end in 1954, shortly after the foundation of the PRC. In the aftermath of the Civil War millions of people were relocated to their home villages, while others entered the cities in search of employment. Cities became magnets for peasants who looked forward to becoming recipients of state benefits. Soon the government became aware of the increasing number of peasants entering the urban areas and the problems this posed for the construction of socialism, particularly in relationship to employment provision (Cheng and Selden 1994, p. 650). By 1954 restrictions on mobility became a reality and stayed in place for most of the following three decades.<sup>6</sup>

One of the most important mechanisms used by the government to check population movement was the household registration or *hukou* (户口) system.<sup>7</sup> This registration

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<sup>6</sup> That same year the new Constitution established in its Article 90 that both freedom of residence and freedom to change residence were to be guaranteed. This freedom of movement and of residence was not mentioned again in official documents after 1955. Cheng and Selden 1994, p. 646.

<sup>7</sup> The *hukou* system was established in 1958. Each household had a registration booklet where all its members were listed. Besides being related to the place of residence (rural or urban), registration was

system drew a clear distinction between the agricultural labour force and that of the cities, creating spatial hierarchies between city and countryside, which continue to be important determinants of local development in the PRC. The household registration system not only kept peasants attached to the land but had wider socio-economic implications (Zhang 2001a; Liu 2005). Chan and Zhang (1999) have described it as one of the major tools of social control used by the state to regulate population distribution, while consolidating the socialist system (pp. 819-21). By controlling the number of those residing in urban areas, the Central Government could limit the number of recipients of state benefits, which included lifetime employment, housing, and welfare.

Restrictions on population mobility resulted in low rates of urbanization between 1952 and 1977, which grew at an average of 2.7 per cent per annum. At the outset of economic reform China's urban population accounted for just over 17 per cent of the total population (Wu 1994, p. 691). State control over most economic and social activities helped maintain *hukou* differentiation and kept migration at low levels. Its monopoly over job and housing allocation, grain rationing, and a strict enforcement of the *hukou* system in urban areas hindered peasants from moving into the cities. By securely closing the cities from rural in-migrants the government was able to guarantee a series of social privileges – free access to health care and education, grain rations, subsidized housing and lifetime employment – to city dwellers. Meantime, peasants were left to depend on the communes for their subsistence and received little direct economic help from the Central Government. The rural household became the main welfare provider in the countryside. Social security, education and health care services were financed within the commune, while housing provision was the responsibility of each household (Davin 1999, p. 66).

Population mobility again became a reality in the early 1980s, enhanced by the implementation in 1982 of the Household Responsibility System [HRS], which dismantled the communes and had provisions for rural households to have individual

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tioned to the workplace. Although implemented as a socialist strategy, this system draws from the *baojia* (*baojia zhidu* 保甲制度), a system of mutual community supervision used in late Imperial China. Zhang 2002, p. 314; Cartier 2005, p. 31.

contracts to farm agricultural land.<sup>8</sup> A more efficient and productive use of resources – including labour – allowed for greater agricultural output and income, as markets for rural products thrived. The household became the main unit of production, at the same time that it acquired greater freedom of labour allocation. Later on, markets and industrial restructuring were introduced in the urban coastal areas, and the economy was gradually opened to foreign trade and investment. A growing labour demand there laid the foundations of an incipient labour market, and acted as a strong pull-factor to the movement of peasant workers. Income differences between rural and urban areas presented the final push-factor setting off the movement of large numbers of people out of agriculture.

### **The role of towns in the process of urbanization and socio-economic development**

A large part of the movement from the rural areas was towards townships and small urban centres – usually those closest to the villages – where rural enterprises started to develop (Rozelle *et al.* 1999; Guldin 2000; De Brauw *et al.* 2002). Township and village enterprises [TVEs] provided peasant workers with jobs and extra income to contribute to the household budget and farming expenditures. At the same time, TVEs promoted rural urbanization and reinforced the function of towns as centres of economic and business transactions, as well as service providers for the rural sector (Zhu 1999; Gu and Li 2000; Kirkby *et al.* 2000). This ‘townization’ development was actively promoted by the Centre from early on in the reform. Its commitment towards the development of small urban centres was made into national policy at the 1980 National Conference on Urban Planning. The main policy objectives coming out of that conference were: to strictly control the development of large cities; to rationally develop medium-sized cities; and, to vigorously promote the development of small cities and towns (Cannon and Jenkins 1990, pp. 216-9).

Active promotion of towns and the rapid development of TVEs gave a boost to rural urbanization around the country, and also became an important strategy for diverting large rural population flows from entering the big cities. Policy formulation favouring the growth of towns was spearheaded by sociologist Fei Xiaotong, who criticized

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<sup>8</sup> The household responsibility system [HRS] was implemented after four years of pilot experiments, while the commune system was officially abolished in 1984. Lei 2001, pp. 483-4.

restrictions hindering rural workers from entering urban areas, and argued in favour of allowing peasants to conduct business and establish enterprises in towns (Kirkby *et al.* 2000, p. 7). Many policy makers shared Fei's enthusiasm for the development of small cities and towns, considering it the best alternative for creating the jobs needed to absorb the surplus rural labour. Urbanization patterns in post-reform China have indeed been closely linked to rural-to-urban population movements, which represent the most important element of urban growth in basically all urban hierarchies and particularly in towns. During the 1990s, this bottom-up urbanization process allowed over a hundred million rural inhabitants to become permanent urban residents (*People's Daily Online* August 28, 2001).

Yet, despite the achievements, the sustainability of the small town policy continues to be hotly debated among policy makers and researchers.<sup>9</sup> Throughout the reform process support for this policy has had its ups and downs. The Centre has supported and then distanced itself from the town development strategy, just to advocate it again later on. This policy discontinuity has been the result of a strong lobby from technocrats and economists in government economic research bodies (i.e. the Development and Research Centre, a body under State Council supervision), which – particularly since the late 1990s – have been actively advancing the advantages of the growth of large and medium-sized cities over the expansion of towns (*China Internet Information Centre* 2000).

Certainly, in poor areas – where rural industry is underdeveloped – towns have faced an enormous challenge fulfilling their role as local development centres, due to the lack of a strong and dynamic economy needed to boost local industry, trade, job creation and tax revenue. Those towns have become more vulnerable as a result of national administrative and fiscal decentralization policies, which have had important implications for both policy implementation and financing of government operations and socio-economic development at the local level.<sup>10</sup> While giving localities greater decision-making autonomy, decentralization put greater financial stress on local

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<sup>9</sup> There has been a lack of consensus among policy makers and researchers over the viability of this project. For debates over policy implementation in this area see: 'Prospects for Future Urbanisation: Debates and Policies' in Kirkby 1985; and 'The Small Town and Urban Context' in Kirkby *et al.* 2000. For economists' arguments against the prioritization of small over larger urban centres see: Henderson 2000; Au and Henderson 2002; and, Fu and Gabriel 2002.

<sup>10</sup> 'Local' is used here to apply to county, town and township administrative levels.

governments. Counties – and the towns and townships under their jurisdiction – have been expected to be mostly self-financing, a situation which in less well-off places dramatically reduces local government's capacity to provide public services, social security and welfare (Cook 2000; Wang, R. 2002). Poor counties have consequently experienced a dramatic decline in the quantity, quality, and coverage of services and welfare provision (Hao *et al.* 1998). At the same time, financial constraints at the county level have been worsened by the reduction of resource transfers from the Central Government, which had also been experiencing a decline in its revenue-generating capacity.<sup>11</sup>

### **Reconfiguration of socio-economic relations at the local level**

Contemporary migration in the PRC has been one of the social phenomena more closely followed by social scientists in and outside of China. In domestic politics, information on internal migration and its social, economic and political consequences has become increasingly important for policy formulation. Acknowledgement of the magnitude of population movements since the early 1980s has resulted in various surveys on population movements<sup>12</sup>, and in the inclusion of questions related to migration in the 1990 and 2000 National Population Census (Davin 1999, pp. 23-6; Mallee 1995-1996, 2000; Liang and Ma 2004). It has also produced substantial research on rural industrialization (Oi 1999; Nyberg and Rozelle 1999; Lohmar *et al.* 2000); on the consequences of out-migration on agriculture and the rural society (Croll and Huang 1997; Murphy 2002; Taylor *et al.* 2003); and on the impact of urban sprawl on suburban villages (Li 2002) among other issues.

Research and empirical investigations on population movements, however, have tended to be geographically based on the east coast, and have mainly focused on

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<sup>11</sup> Central Government fiscal revenue in the late 1970s represented 30 per cent of GDP; by the late 1990s it shifted from 10 and 12 per cent of GDP. Nyberg and Rozelle 1999, p. 19. Central revenues from tax began to pick up again in the year 2000, as a result of a new tax sharing system put in place in 1994.

<sup>12</sup> For example: the 1986 Survey of Migrants in 74 Cities and Towns carried out by the Chinese Academy of Social Sciences [CASS]; the 1987 1% National Sample Survey; and the 1988 2/1000 National Sample Survey of Fertility and Contraceptive Use. Goldstein and Goldstein 1991. Other more recent surveys dealing with internal migration and its impact on agriculture include: CASS Five-County Study, undertaken with the collaboration of the Rural Development Research Institute, and; the 1993 Mobility Survey, undertaken by the Institute of Population and Development Studies of the Shanghai Academy of Social Sciences.

migration and related topics as they impact on the larger metropolises in those coastal areas (Ma and Xiang 1998; Roberts 1999; Solinger 1999; Zhang 2001b, Roulleau-Berger and Lu 2005). The more developed coastal provinces have indeed been the greatest magnets of migrant labour, especially from Central and Western provinces. Long distance migration, moreover, has been found to diminish the social and political capital rural workers would otherwise enjoy in their rural communities and within their home counties (Lei and Lu 2005; Shi 2006). Nonetheless, the mostly uninterrupted economic growth of coastal provinces – aided by an important increase in foreign direct investment [FDI] – continues to attract ever growing numbers of migrants from the interior.

Rural migrants are not only entering the large cities but have moved in large numbers into small cities and towns. Although not to the levels of the early 1980s, migration into towns picked up from a low 10 per cent in the 1990-1995 period, to 19.16 per cent between 1995 and 2000; close to the 20.1 per cent mark experienced between 1985-1999, though still much lower than the 39.8 per cent experienced during the first half of the 1980s (Shi 2006, p. 4). Relaxation of migration policies and a more flexible *hukou* system in small cities and towns has aided that trend. A more open environment is said to be forming in those small urban centres for the incorporation of rural labour. In general, rural migrant workers residing in small cities and towns have enjoyed much better work and living conditions than those working in big cities. Nevertheless, small *versus* big is but one variable of the intricate process of inclusion.

Internal migration and non-agricultural employment patterns in China have shown the need to include personal relationships or *guanxi* (关系), the social networks formed through these *guanxi*, and ‘place-of-origin’ as crucial variables in the analysis of rural workers’ likelihood of socio-economic incorporation in the urban environment. Personal and kinship relationships have been found to have a significant impact on an individual’s probability of obtaining non-farm employment and a higher income (Rozelle *et al.* 1999; Zhang and Ruan 2001; Zhang and Li 2003; Lei and Lu 2005). Underdeveloped formal institutions or in some instances the absence of those institutions to channel job information and labour to where it is needed has made the use of *guanxi* indispensable to find and secure non-farm employment. Those informal social connections and networks are then linked to formal institutions (gradually

being consolidated) in order to create economic payoffs for the individual, the household and the community (Peng 2004).

The ‘place of origin’ variable introduces the dynamic of long *versus* short-distance migration, and the effects of place and distance on their social networks. Thus, as argued by Lei and Lu 2005, the rural workers category needs to be further broken down into local and non-local workers. Local workers would be those from within a county; although some may undertake a relatively long journey to get to one of the county’s towns, most are not – strictly speaking – migrants but commuters. The concept of the non-local worker includes all of those from outside the county, but implies a more layered categorization. Empirical findings from this study showed that the notion of the non-local worker gets further differentiated at the local level, creating categories of ‘outsiderness’ whether the rural worker is from within the province or from another province. Migrants from other counties within the province although not considered *laoxiang* 老乡 (fellow native), are also not described as *waidiren* 外地人 (outsider), which is a category only applied to those from other provinces.

Using different approaches, Lei and Lu (2005) and Shi (2006) have analysed various statistical data sets<sup>13</sup> to find out whether or not *locality* creates differences between local rural workers and migrants and their chances of acquiring local non-farm employment and on advancing their economic prospects in the urban environment. Lei and Lu (2005) analysed how individual and household characteristics (and political capital in particular) are linked to non-farm employment, migration decisions and employment type.<sup>14</sup> They concluded that local political power<sup>15</sup> can yield a strong influence on a rural worker’s prospects for off-farm employment, thus making

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<sup>13</sup> Lei and Lu (2005) used the *Chinese Life History Survey* conducted by a team of researchers from UCLA and several universities in China in 1996. The survey consisted of a nationally representative stratified random sample of 6,090 individuals from China’s rural and urban areas (p. 32). Shi (2006) used the *Tabulation on the 2000 Population Census of the People’s Republic of China* published by the National Bureau of Statistics of China.

<sup>14</sup> Apart from the local-migrant analysis, Lei and Lu (2005) further divide rural workers into wage earners and entrepreneurs. In their view, these two categories benefit differently from their political capital.

<sup>15</sup> In general, individuals or households that are considered to hold political capital are those who have at least one member of the family working as a local cadre (Guo and Li 2003, p. 319). Nonetheless, some authors consider personal non-kinship connections with local officials to be another important type of political capital (Lei and Lu 2005).

migration a second-best option, given that distance would ‘dilute’ the political capital held by the individual. Lei and Lu further divide the rural workers category into wage earners and entrepreneurs. According to their analysis, these two categories benefit differently from political capital, with the latter category (particularly private entrepreneurs) benefiting the most from connections with local cadres.

Findings from the study presented here support Lei and Lu’s conclusions of the positive correlation between rural worker’s political capital and their prospects for off-farm employment. Yet, the study also showed evidence of non-local migrants’ ability to build social and political capital locally, and to benefit from it. Hence, social and political capital were not qualities only open to or controlled by locals, but which seemed – at least in this case study – to be available to outsiders as well. These findings are more closely aligned with those of Shi (2006), who found that labour markets in the towns of Henan and Sichuan Province had become more flexible in accommodating skilled in-migrants, in contrast to Zhejiang’s highly segregated labour market (pp. 12-3). In the case study of Hongtong County presented here, outsiders’ ability to accumulate social and political capital was also a reflection of a more open and flexible local labour market for non-local migrant workers.

Another important observation made by Shi (2006) – and which could be an influencing factor in the process of socio-economic inclusion of rural migrants in the various provincial settings – was that while Zhejiang Province had a high percentage (41 per cent) of town in-migrants from other provinces, in Henan and Sichuan only about 8 per cent came from other provinces (p. 8). One hypothesis could be that (actual or supposed) closer cultural traits shared by people from within the same province make it easier for rural workers to be accepted by their urban counterparts. Thus, in the case of Zhejiang Province, a higher intake of migrants from other provinces – with different cultural and linguistic traditions – would make acceptance of outsiders much harder, resembling immigrant societies elsewhere in the world. Furthermore, being a more developed and urbanized province, Zhejiang’s urban



population may find rural migrants from poorer provinces to be of a lower quality or *suzhi* (素质).<sup>16</sup>

In the field of international migration new theories emphasize the importance of explaining migrant integration as a process that depends not only on migrants' characteristics and culture, but which is also determined by the characteristics of the host society (Alba and Nee 1997; Schmitter Heisler 2000). The study of rural migrant incorporation in the PRC usefully draws ideas from that theoretical framework, given that among the various regions, provinces, counties and villages in China dramatically distinct cultures coexist. Culturally distinct migrant enclaves are but one example of how linguistic and cultural differences between migrants and the urban host society influence migrants' social inclusion. Some scholars have also compared China's internal population movements to immigration processes elsewhere in the world (Solinger 1999; Roberts 1997, 2000). They liken the experience of the foreign resident with limited or no citizenship rights to that of the Chinese rural migrant worker residing in a large city. Citizenship – an urban *hukou* in the Chinese case – as stated by Brubaker (1994), has 'a crucial bearing on the basic goods and opportunities that shape life' (pp. 23-4), and hence becomes an important determinant of the economic advancement and social acceptance of the individual.

Zhang (2002) also argues that in the case of internal migration in China the spatial considerations of citizenship<sup>17</sup> (urban vs. rural) create explicit spatial and social hierarchies within the urban society (p. 313). Particularly in large cities, acquiring urban residence thus becomes the only way for rural migrants to lessen their vulnerability from police action, and to gain a more secure space to develop economically and socially (Zhang 2002, p. 329). Yet, as argued before, *hukou* status is but one factor influencing rural migrants' inclusion. Walker and Walker (1997) have

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<sup>16</sup> During the reform period the concept of population quality or value (*renkou suzhi* 人口素质) has been used to refer to the innate and nurtured physical, intellectual and ideological characteristics of an individual. Murphy 2004, p. 2. According to Anagnost (2004), the concept of *suzhi* has been articulated particularly around the dichotomy between the body of the rural migrant (as one absent of *suzhi*), and the body of the urban middle-class only-child (as one with the greatest potential for *suzhi* accumulation) (p. 190).

<sup>17</sup> According to Marshall's seminal writings (*Citizenship and Social Class* 1950) there are three constituent elements of citizenship: a civil element (the rights necessary for individual freedom); a political element, and; a social element (the right to live as a civilized being according to the prevailing social standards). Yu 2002, p. 289.

defined social exclusion as a dynamic process in which the individual or a group is barred 'from any of the social, economic, political and cultural systems which determine the social integration of a person in society' (p. 8). Social exclusion thus consists of 'complex interplays of social relations', thus 'One is not socially excluded by one simple dynamic or dimension' (Jarman 2001, p. 4). In the case of China, both as a result of economic and institutional reform new – sometimes unintended – dynamics of exclusion have arisen in urban areas.

At the same time, migration and new economic opportunities have created openings – though still limited – for rural migrants to achieve a socio-economic status previously denied to them. As stated by Zhang (2002), 'The redistribution of wealth, to a certain degree, has overturned the old social hierarchy that once assigned all urban residents a privileged position over non-urban residents' (p. 324). A large proportion of China's first-generation of rural migrant workers – who were viewed with great animosity by urban residents – has already returned to the countryside. The second-generation of rural migrants currently entering the cities have significantly different characteristics than their earlier counterparts. These new migrants have often had little experience with farming, and are more accustomed to modern facilities and urban lifestyles (*China Information Centre* 2005). Therefore, although they may not yet feel at home in the city, their link to the countryside is also weak.

It is, however, difficult to predict whether or not this new migrant will settle permanently in the city. That decision will continue to depend not only on the policy opening available to them, but also on the (changing) attitudes of rural residents towards them. Assimilation theorists have characterized the initial stage of contact between immigrants and host societies as a period of competition, where groups 'struggle to gain advantages over one another', which gives way to a more stable stage of accommodation 'where a social structure of typically unequal relations among groups and a settled understanding of group position have come into being' (Alba and Nee 1997, p. 828). A similar unequal structure has been in the making in China's large cities, reinforced by the *hukou* system and its legacy of prejudice

against peasants.<sup>18</sup> The changing characteristics of rural migrants is due to transform not only the way they are perceived by the urban host society, but will also influence the ways in which migrants build links among themselves, with the urban community, and with government agents and institutions.

Similar considerations apply to the case of rural migrant inclusion in small cities and towns. It is generally agreed that these have become more open environments for rural migrant inclusion. As evidenced from research findings on *de facto* permanent rural migrants living in urban areas (Li and Siu 1997; Roberts 2002), the particular socio-economic conditions of each individual locality have a strong influence on the type of migrant that settles in them (Li and Siu 1997, p. 79). Fieldwork in Hongtong County, Shanxi Province – in the north central area of China – revealed low levels of in-migrants from other provinces<sup>19</sup>, as in the cases of Henan and Sichuan analysed by Shi (2006). Also, as Shi noted, those in-migrants tended to come from the same region (Central and Western regions). Of the 57 rural respondents in the interview sample of this study, only five were from other provinces, and only one of those five came from a coastal province.<sup>20</sup> Being from another province, however, did not always carry negative connotations. Interview responses and informal conversations with locals during the field research showed that outsiders were usually regarded as having better skills<sup>21</sup> than the local population. Thus, outsiders are not necessarily defined as a second-class social group, but are assigned a certain status related to their (supposed or actual) abilities.

Also crucial to the understanding of the dynamics of inclusion-exclusion of rural workers and migrants in urban areas are the configuration and provision of social

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<sup>18</sup> Chicago School sociologists Shibutani and Kwan have argued that ‘how a person is treated in society depends “not on what he is,” but on the “manner in which he is defined”’. Alba and Nee 1997, p. 838.

<sup>19</sup> Migrants from other provinces coming into Shanxi Province have tended to concentrate in the mining sector, which offers comparatively high salaries, due to the highly hazardous nature of the work.

<sup>20</sup> The five respondents came from Sichuan, Gansu, Henan and Hebei Province. Even though Hebei Province is located in the East Coast, Hebei’s economy has not yet achieved the dynamism of other coastal economies like Zhejiang, Jiangsu or Guangdong. Moreover, the southern part of Hebei Province maintains close socio-economic links with the eastern part of Shanxi Province. The respondent from Hebei was a native of Handan City, in the southern end of the province near the borders with both Shanxi and Henan Province.

<sup>21</sup> In particular, a popular belief in this Shanxi county holds that outsiders are better at doing business than locals. Outsiders are considered to be more innovative and entrepreneurial; often, people from Zhejiang Province were mentioned to hold those qualities.

safety nets. Research dealing with the reform of the social security system in China has pointed out the need to incorporate rural migrant workers into urban social safety nets (Knight and Song 1999; Cook 2000; Wong and Flynn 2001), but its advice on possible mechanisms and strategies to aid that inclusion are limited. The reform of the social security system has allowed and necessitated the entrance of a wide range of private providers – including private-for-profit providers, community organizations, non-governmental organizations, and international organisms – as suppliers of funds and services. Examination of this ‘socialization’ process of social security at the local level sheds light on possible avenues and viable strategies for the socio-economic inclusion of rural migrant workers into the urban society.

### **Shanxi Province as testing ground**

This study contributes to the still limited empirical investigations on both migration patterns in interior China, and on the role of small urban centres incorporating an ever growing number of rural workers. The field research for this study was carried out in Shanxi Province, a province that despite having experienced a certain degree of economic growth has lagged behind the more dynamic coastal provinces. Shanxi, one of the most important mining and energy production centres of China, had during the Maoist era maintained a close relationship with the Central Government and had therefore kept a relatively conservative stand on economic reform (Goodman 1999). Market mechanisms did not begin to permeate Shanxi’s economy until the early 1990s, more than a decade after economic reform was introduced on the east coast. Shanxi’s provincial economy had also been largely dominated by the state sector, which has been in decline since 1997 with the implementation of the industrial restructuring program of the ex-Premier Zhu Rongji.

Another relevant characteristic of this province is the extreme disparities found between the urban areas and the countryside, with at least 12 per cent of the rural population living in poverty.<sup>22</sup> Towns have become oases in the middle of the rural desert, serving as economic centres where coal and agricultural produce are traded. Economic activities there have also attracted many peasant workers, who come to the

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<sup>22</sup> Goodman 1999, p. 211. 54 out of 110 counties in the province are designated national or provincial poverty stricken counties.

towns to engage in small businesses, to work in coal processing industries, or in the rapidly expanding service sector. As already noted, for the most part, population movements in Shanxi have been intraprovincial, even though the coal mining sector does attract a relatively large amount of migrant workers from other provinces.<sup>23</sup> Yet, there has been no systematic research on the general situation of population movements within the province; on its migration patterns; or on the presence of rural and migrant workers in its urban areas – particularly in towns. The economic, political, and social characteristics of Shanxi Province continue to be significantly different from those of the coastal areas, where most of the empirical investigations on migration issues have been carried out. Studying the case of Shanxi Province thus allows for a different perspective in the analysis of institutional and economic transition in the PRC, and builds a comparative model for the examination of the dynamics that economic reform is triggering in the different urban geographies of China.

### **Particularities of the case study**

Using the case of Hongtong County and its county town – Dahuaishu Town – this study analyses the changing socio-economic reality at the town level since the start of China's economic transformation in late 1978, but focusing in more detail on the developments taking place from the late 1990s. Hongtong County is located about 350 km south of the provincial capital of Taiyuan City, and around 30 km north of Linfen City. Situated in one of the valleys of the Fen River (*Fenhe* 汾河), a large proportion of the county consist of flat land, apart from the western part of the county, which lies within the Liang Mountain range (*Liangshan* 梁山). Hongtong County falls under the jurisdiction of Linfen City (*shi* 市) (previously Linfen District *diqu* 地区, also referred to as a prefecture).

In 2003 the county had a permanent population of 720,043, making it the most populous county in Shanxi Province. Its economic activities are closely linked to coal, which is a major industry in the county, together with electric power production, machinery, chemicals, construction materials, and papermaking industries. Given its

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<sup>23</sup> In 1996 around 800,000 workers from other provinces were residing in Shanxi Province (Goodman 1999, p. 230).

large population and its fairly successful economic and industrial development, the county has experienced an important expansion of its towns and townships. One of the goals of this study is to examine urban development, particularly the changes brought by rural-urban migration into those urban entities.

Another important part of that analysis involves the examination of transformations in the relationship between the County Government and upper and lower governmental levels, and their impact on policy implementation at the local level. As the seat of the County Government, Dahuaishu Town falls directly under the administrative realm of Linfen City (prefecture), while managing other towns, townships and administrative villages within the county. For practical purposes government structures will in some instances be dealt with as separate entities from other social and economic actors. Yet, the analysis of the empirical findings in this study aim to articulate the interconnectedness of government and social institutions, and the intricacies of vertical and horizontal links between them. Moreover, it will also identify the ways in which the market is becoming an increasingly important element in the relationship between state and society. Research on local governments and governance in China has observed an overlap of official (government) and social (private) realms, particularly in the promotion and use of market mechanisms and opportunities (Duckett 1998; Oi 1999; Unger and Chan 1999; Yang 2001; Goodman 2001).

Migdals' (2001) 'state-in-society' approach and Gupta's (1995) 'blurred boundaries' between state and society, have led Pieke (2004) and Li (2006) – as well as others – to put forward the need to avoid looking at the state solely as an autonomous entity superimposed on society. Instead they propose to view the state as the result of 'Day-to-day interactions between the multitude of petty officials, local service-providers and social groups in the community' from which a discourse of the state arises that informs subsequent practices (Li 2006, p. 1). Similarly, Pieke (2004) states that the interaction between the state and society is most immediate at the county and rural levels, where 'the Chinese state can be conceptualized as a discursively and practically constructed institutional reality' (p. 518). Examining this symbiotic relationship creates another tool to aid in the understanding of local government behaviour, particularly how it influences policy implementation. Furthermore, it allows for an analysis that goes beyond the abstract approach to policy changes, to

seek an empirical (qualitatively more rich) analysis of policy implementation and how it translates into people's everyday lives.

Towns are placed in a significantly different context to that of large cities. Where policy implementation is concerned, the circumstances surrounding the growth and development of towns have also brought about different outcomes. Moreover, various categories of towns – though sharing many traits – have had different roles and functional features. The most important trait shared by towns has been their role as conveyors of rural-urban linkages, serving as exchange centres of goods, people and information between urban and rural areas. There are, however, differences in the administrative and economic capabilities of towns. In the Chinese context at the grassroots level there are three entities organized at the same administrative level. They are the so-called administrative or statutory towns (*jianzhizhen* 建制镇)<sup>24</sup>; market towns (*jizhen* 集镇); and townships (*xiang* 乡).

Although officially these three entities belong to the same horizontal administrative level, only statutory towns are included in the urban system, while market towns and townships remain part of the rural economy. Among statutory towns differences also exist between county capitals and other towns. In general, county capitals have had a more comprehensive role, acting as the administrative, economic, cultural, transportation and trade centres of counties. Being hosts of county government departments these towns are also subordinate to county authorities, a situation which nonetheless gives them greater access to resources and influence over policy formulation and implementation at the county level.

As the seat of the County Government, Dahuaishu Town thus has a different functional structure to that of other towns in the county. Historically, Dahuaishu Town had been the economic and cultural centre of the area now comprising Hongtong County. It was from this county that the Ming Dynasty distributed land and resettled millions of people from elsewhere in the empire who had been affected by famine and war (Zhang 2000, p. 2). In the year 2000, with the implementation of a

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<sup>24</sup> In the Chinese literature these towns are usually described as 'small town city' (*xiaochengzhen* 小城镇). The prefix 'small', however, refers to their position in the national urban hierarchy rather than to their actual size.

new urbanization plan, all towns and townships in the county were regrouped and renamed, with 25 towns and townships turned into 16. In that process, Fengzhang Township was incorporated under the jurisdiction of Dahuaishu Town to form a city-based-town (*chengguanzhen* 城关镇), consolidating its position as the administrative centre of the county.

Choosing a county capital as a case study for the analysis of urban developmental issues and rural-urban interactions – including migration – presents advantages and limitations; especially if the results are to be taken as representative of town development across China. As previously noted, county capitals enjoy special political advantages (over other towns and townships) that influence the structure of the town's economy and labour market, the quality of its social services, and its infrastructural development. In a survey based in Guangdong Province Lin (1993) found that county capitals tended to have a larger SOE sector, and their infrastructure, education and health facilities were often superior to those in other towns (pp. 333-4). He also found that compared to market towns county capitals were less strongly oriented towards economic efficiency, and usually attracted less rural workers (Lin 1993, p. 335).<sup>25</sup>

Even though some of those differences were also observed between Dahuaishu Town and other towns and townships within the County, not all applied. Certainly, Dahuaishu Town enjoys the best facilities and infrastructure. Its economy, however, is not dominated by state owned enterprises, although government service industries and departments are important employers. Its industrial sector has never been large, and many of its SOEs experiencing financial difficulties have changed ownership or have been privatized. In contrast, the development of two other towns in the county – Zhaocheng and Guangshengsi – has revolved around large SOEs, which constitute the core of their economy. Because of their size and the market significance of their products – coal by-products and chemicals – those large SOEs have managed to upgrade their technologies, attract skilled personnel from outside, and become competitive in domestic and international markets. These industrial conglomerates are

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<sup>25</sup> On the other hand, the population in market towns had lower educational levels; public facilities were inferior; and local industries suffered from limited availability of skilled personnel and management know-how. Lin 1993, p. 335.



not only important employers in those towns, but have also fostered the development of subcontracting enterprises that provide them with raw materials and services. In this sense they have been more economically dynamic and have perhaps attracted more rural labour than Dahuaishu Town, where industry and manufacturing are not as abundant. Nonetheless, Dahuaishu Town has been developing a successful retail and wholesale trade, and its service sector has created a still modest but expanding labour demand. The results from this study and its empirical findings must then be understood in the context of these structural differences among towns.

### **Methodological approach, survey subjects and data validity**

The complex dynamics of hierarchical and horizontal layers of administrative, economic and socio-political interactions taking place across China make the delineation and analysis of development outcomes at the local level a difficult endeavor. Mapping the evolution of urbanization and socio-economic development at the town level necessarily implies looking into various dynamics of change. Yet, since the boundaries of those dynamics are difficult to establish, contextualizing development outcomes using empirical inquiry based on a case study – through both qualitative and quantitative methodologies – can help shed light on the complex networks and processes taking place in local development. Thus, the case study allows the researcher to investigate a phenomenon within its real-life context when the boundaries of that phenomenon are not easily identifiable (Yin 2002, p. 23). The case study is used here as a methodological approach and as research strategy, rather than as just the examination of a unique single case without comparability or generalizability properties (Verschuren 2003). By combining qualitative and quantitative data in the empirical investigation the study also intends to introduce a more holistic research approach ‘aimed at description and explanation of complex and entangled group attributes, patterns, structures or processes’ (Verschuren 2003, p. 137).

Socio-economic development at the town level is enmeshed in such an intricate network of spatial hierarchies, multiple actors and multiple interactions. To investigate those dynamics, interviews with rural and migrant workers, local residents, staff from various government departments and with county officials were

carried out. Qualitative methodologies used for this case study also included direct *in situ* participant observation, and a series of in-depth interviews with individuals from all four surveyed groups. Quantitative data was gathered from primary and secondary Chinese and English sources; statistical data from national and local statistics offices; as well as from information provided by government departments and other relevant interviewees. Official statistical yearbooks, however, only provide data at and above county level, but present no consistent statistical figures on towns and lower administrative levels.<sup>26</sup>

The aim of combining research methodologies is to build an in-depth analysis where quantitative data assists the interpretation of qualitative data, while at the same time the qualitative data analysis serves to exemplify how quantitative findings apply in particular cases (Brannen 2005, pp. 176-7). When dealing with a transition economy like that of China the need for in-depth empirical studies and the use of qualitative data becomes more pressing due to inconsistent and at times unreliable statistical data (Rawski 2000). Over more than twenty-five years of economic reform rapid institutional change has brought frequent changes in the definition of statistical indicators and to the coverage of statistical data. There have also been great disparities between statistical data gathered by local governments and data compiled by the National Bureau of Statistics [NBS].<sup>27</sup> Tampering with statistical data – particularly in the case of economic indicators – has been used by some local officials to enhance their economic achievements, which are key criteria for cadre evaluation (Edin 2003; Whiting 2004).

The fieldwork for this research endeavor was carried out over a period of three years, throughout which it was possible to trace the socio-economic changes taking place in Shanxi Province in general and in Hongtong County in particular. It was carried out

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<sup>26</sup> This lack of information on socio-economic and environmental quality indicators at the town level and below has been signalled as an important constraint for the sustainable development of towns. Bai Renpu (2001) cited in Zhang 2002, p. 37.

<sup>27</sup> Statistical data reported by the National Bureau of Statistics [NBS] is collected independently of local governments, and in some instances is computed using a different accounting system. In March 2005 during the annual CPPCC session, Li Deshui – director of the NBS – noted that in 2004 the annual GDP reported by various provinces, regions and municipalities across the country was 3.9 per cent higher than the figures reported by the NBS. *People's Daily Online* March 9, 2005. In order to reduce the inconsistencies between local, regional and national data the NBS started in 2005 to run its first and largest economic census, which is meant to guide future government plans for economic and social development. *People's Daily Online* Dec. 3, 2004.

between January 2003 and September 2005 with four field trips of two weeks to over a month each. Moreover, before traveling to Shanxi Province for fieldwork, the researcher had spent two years in China (2001-2003), the last year of which was spent in Taiyuan City – Shanxi’s provincial capital. On each field trip the researcher stayed in Dahuaishu Town, where the bulk of the fieldwork was carried out; although side-visits were also made to several suburban villages and to four other towns in the county. Interviews were carried out with a total of 79 individuals, of whom 57 were rural (migrant) workers; 10 local permanent urban residents; 6 county-level government officials; and, another 6 staff of government departments and public service enterprises [PSU].<sup>28</sup> Though open-ended, in-depth interviews were guided by the use of questionnaires (see Appendix), which allowed for a certain degree of standardization of the interview process, while providing some general quantitative data of the interviewee sample. All interviews were carried out in Chinese by the researcher with the assistance of a postgraduate student from Shanxi University, who is also a Hongtong County native. Rural and urban interviewees were selected and recruited through local official and informal connections. Interviews with government officials and other government staff were arranged with the help of various local cadres, to whom the researcher had been previously introduced through a personal connection.

Separate questionnaires were developed for each of the four surveyed groups. Rural workers were asked to give demographic information about themselves, and to comment on the socio-economic situation of their home village and of any household members still residing there. The demographic characteristics of respondents were used to interpret answers from other sections of the questionnaire. In a study of the floating population in Shanghai, for example, Roberts (2002) found that married men and women who migrated together tended to stay for longer periods in the city (pp. 505-6). Similarly, the aim of the questions related to migrants’ home village situation was to learn how migrants describe and conceive their rural environment, while providing some clues to the possible ‘push’ factors that pressed these respondents to leave the countryside.

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<sup>28</sup> See Appendix for a complete list of interviewees.

Rural workers were also asked specific questions about their migration and non-farm employment experiences. These questions helped re-create the process of migration, while aiding to define it as an individual act or a household strategy. They also proved strategic to map the networks that aid and shape migration, and to examine the roles those networks play in the settlement and incorporation of migrants into the new environment. Duration of stay and visits to the home village provided information about the strength of the links between the migrants and their family back home.

Subsequent sections of the questionnaire were dedicated to issues around work conditions and social development, including questions related to housing, education and social security at their urban destination (Dahuaishu Town). The main issue connected to inquiries about urban destination was to find out more about the social interactions between rural migrants and local native urban residents. That relationship was assessed by looking at migrants' place of residence, housing and other living conditions; their participation in community activities; as well as any other links held with members of the local urban society. Work related questions gathered information about the economic sectors and economic activities in which migrants were engaged, and about the characteristics of the jobs they performed. Particular attention was paid to whether or not those jobs provided them with new skills. The information gathered in this section also helped evaluate the situation of social security and public services provision at the town level, at the same time that it served as a measure of the degree of inclusion of rural migrants into local social safety nets. The questions also aimed to investigate migrants' knowledge about their rights, and the mechanisms they recur to when those rights are not fulfilled or have been violated.

The remaining sections of the questionnaire were dedicated to income (wages, living expenses and remittances), *hukou* and future residence plans. Because of the sensitivity of the topic, income was discussed towards the end of the interview, and respondents were only asked to give approximate income figures. The questions dealt with migrant income levels, the relationship between income and living conditions, and remittances. Plans for the use of savings informed on rural workers' future residential plans. This was closely related to the last section of the interview, which dealt with *hukou* status. It examined actual and perceived barriers posed by the registration system to processes of social-economic incorporation of rural migrants.

The age structure of the rural worker's interviewee sample was fairly evenly divided between the age brackets of 16 to 30 (with 23 individuals falling into this category) and the 31 to 40 age-bracket (with 23 individuals); while the remaining 11 rural workers were between 50 and 61 years of age. Over 78 per cent (44 individuals) of these respondents were married, 10 were single and two were widowers. There were 32 females and 25 males in the sample.

The questionnaire guiding interviews with urban residents asked about respondents' demographic characteristics; their general living and work conditions; their access to public services and social security; and their attitudes to the growing presence of rural workers in the town. Interviews with staff from government departments and with county cadres were conducted with the help of a two-section questionnaire; the first section included a series of questions about the nature of the work and position of the respondent, their career background, and their personal attitudes to the locality. Questions in the second part varied according to which department or public industry these civil servants and officials belonged to, but were aimed at enquiring about issues arising from policy implementation in their specific sectors.

The relatively small interviewee sample used for this study highlights the issue of generalization and external validity of the research results. Qualitative findings have long been criticized for their low generalizability; yet – as argued by Brannen (2005) – this criticism only holds true 'if generalizability is taken to refer only to statistical inference, that is when the findings of a research sample are generalized to the parent population' (p. 175). The research findings of this study are in no way intended to represent the realities of town development across China, but rather aim to contribute to the construction of a map of this highly diverse phenomenon. As previously stated, the statistical data used here has the purpose of giving context to the empirical qualitative data, and when adequate will also be used to corroborate qualitative findings.

At the same time, the findings are used to make generalizations in relationship to its theoretical application (Ritchie and Lewis 2003 cited in Brannen 2005; Yin 2002), and may – in some instances – have statistical significance. Verschuren (2003) makes

the argument that in a holistic case study, generalization based on in-depth analysis of a small sample can be defended on the principle of statistical inference where the degree of variability among subjects in the chosen population is not high (pp. 135-6). He then goes on to argue that in holistic research the focus is on complex issues (processes, structures and patterns), which have a much lower variability than separate variables typically used in more reductionist quantitative surveys (Verschuren 2003, p. 137). In a town like Dahuaishu – with an urban population of just over 10,000<sup>29</sup> – a low variability amongst urban permanent residents can be inferred, in which case a small number of interviewees would suffice. This sample is used for comparative purposes of living conditions and access to social security and public services of urban dwellers with those experienced by rural workers living in the town. Moreover, interviews with urban residents were also intended to gather information and opinions about rural migrant presence in the town. Interviews with county cadres were intended to investigate the personal opinions of these officials on local development potentials, and to construct the official position on local development issues, including – on the one hand – the relationship between county level authorities and higher administrative levels, and – on the other hand – local official's perception of rural workers' contribution to urban socio-economic development.

Rural workers comprised the largest interviewee group and were the main focus of the analysis. Despite the demographic differences, the subjects in this group shared similar experiences in their home village, during the migration process, and at their destination (in this case Dahuaishu Town). Of the 57 rural workers interviewed 47 were Hongtong County natives; all – but three – originally from villages located within a range of 5 km from Dahuaishu Town. The remaining three came from remote mountain villages within the county. Of those from outside the county, five came from villages located in one of the prefectures within the southern part of Shanxi Province (one from Linfen City; two from Changzhi City; and another two from Yuncheng City). The remaining five interviewees came from rural areas in Hebei, Henan, Sichuan, Gansu, and Anhui Provinces. Throughout the text, rural respondents

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<sup>29</sup> This figure refers to the number of urban residents in the town holding an urban *hukou*. In 2001 the total population (*xiangzhen zongrenkou* 乡镇总人口) of Dahuaishu Town was 124,859. *Hongtong Statistical Yearbook 200-2002*, pp. 161-2.

will be referred to as either rural workers or rural migrant workers, even though not all of those comprising this group are migrants but are rather sojourners and commuters. The common characteristics shared by those comprising this group are thus that their native home is in the countryside, and that they are engaged in non-farm work in an urban environment.

As noted before, the large majority of rural workers interviewed came from suburban villages of Dahuaishu Town, many of whom commuted – typically by bicycle or on foot – to the town on a daily or weekly basis. Those from more remote villages and those from outside the county were based in the town or in nearby villages. The frequency with which they returned home diminished the longer the distance to their native place. Some of them could be said to be permanently based in Hongtong County. The relative homogeneity within this group of rural respondents can be said to be representative of the larger rural migrant population in Dahuaishu Town, while mirroring migration patterns within the province, where interprovincial short-distance migration has prevailed (Zhang 2003, pp. 58-9; Goodman 2005). According to the Vice-Director of the County Labour and Social Security Department over half of the rural workers employed in local enterprises are Hongtong County natives, while the other half is comprised of mostly migrants workers from other provinces <sup>30</sup> (concentrated in the mining <sup>31</sup> and construction sectors), while a small percentage of workers comes from other counties within the province.

The importance of short-distance movements of people within Shanxi is reflected in the introduction at the beginning of 2005 of a provincial policy titled ‘1 yuan plan to enter the city’, which would make available cheap transportation between villages and county towns around the province. In the preceding years the Provincial Government had been expanding transportation routes to enable easier communications between villages and small towns, in order to provide farmers with better access to urban markets. In January 2005 the Provincial Government claimed that 80 per cent of all provincial villages had been made accessible by a paved road. With the cooperation of

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<sup>30</sup> Mainly from Sichuan, Yunnan and Guizhou Provinces. Interview with the Vice-Director of the County Labour and Social Security Department. Oct. 31, 2004.

<sup>31</sup> 95 per cent of the coalmines in the county are located in the western part of the county. Interview with a staff member of the County Department of Land and Natural Resources (*Guo tu siyuanchu* 国土资源处). Jan. 5, 2003.

the various prefectural governments, the Provincial Government then created a series of bus routes connecting villages with county towns, where peasants need only pay 1 yuan for the ride (*People's Daily Online* Jan. 19, 2005). This policy is not only a response to already important intra-county movements of people, but is also aimed at further encouraging those interactions to try and improve the economic situation of rural households.

### **Organization of the study**

This study is divided into two main parts, the first of which builds a framework and gives context putting forward the issues to be examined in greater detail in the second part of the study dealing with the empirical research findings in Hongtong County. In the first part, Chapter 1 sets out to examine two key elements of the reform process: decentralization; and institutional and organizational transformations. The development of these two interrelated processes has been foremost incremental (thus the prevalence of dual-track economic and administrative systems) but has successfully promoted economic efficiency (Lau *et al.* 2000) while achieving a significant improvement in institutional capabilities. The chapter deals with the issue of the changing relationships between the Central and sub-national governments by examining the process of fiscal decentralization and the consequences for local government financing of devolved responsibilities. In other words, it seeks to explore the ways in which revenue allocation influences local government behaviour, particularly how that revenue is used to address both Central Government mandates and local needs.

Chapter 2 introduces the topic of rural-urban migration and its impact on the development of towns. This 'bottom-up' urbanization has been promoted precisely because of its potential to absorb large numbers of surplus rural labour. Nevertheless, as evidenced in the chapter, that capability depends to a great extent on the economic dynamism and the functional structure of each town. Towns are not only promoted as buffer zones between the rural areas and the big cities, but are also meant to keep migrants as permanent settlers. To allow for this incorporation of rural workers the government has relaxed the *hukou* system and significantly reduced the barriers to migration into these small urban centres. In that process, as well, housing availability



has had an important effect on migrants' decision and ability to settle in an urban environment permanently. The last part of this chapter thus analyses the reform of the housing market, and how it has developed in the towns.

Chapter 3 deals with government attempts to create a new social agenda, and examines the introduction of the new social security system. The general aim of this reform has been to lessen the burden of the state by 'socializing' the system, complementing government funding with contributions from employers and workers. A still incomplete transformation – due to limited participation from the non-public sector – has reduced accumulation of financial resources to fund the various social insurance schemes. Using the case of the pension system this chapter analyses the various challenges to the successful implementation and coverage expansion of the new social security system.

Chapter 4 follows on the inquiry about local government capabilities to address local needs, in this case the provision of health care and education. This chapter starts out by examining the changes within PSU and the increased commercialization of health care and educational services. On the one hand, there has been a redefinition of the popular conception of education – and to some extent of health services – as public goods, due to commercialization and a wide diversification of these services. Yet, on the other hand, increasing costs of education and health care services have made these services unaffordable to a growing number of people. The chapter raises the issue of inequitable access to those services, especially for rural migrant workers.

The second part of the study takes the issues raised in the first part of the study and examines them in practice at the local level. Using empirical data from the fieldwork in Hongtong the second part makes a critical examination of those issues as they have evolved in a specific context, but which nonetheless shares similarities with the case of other counties and regions, and thus serves to shed light on the processes and outcomes of policy implementation at the local level.

Chapter 5 introduces the socio-economic conditions within Shanxi Province, through the analysis of provincial performance in various areas since the start of the reform. The chapter places the analysis of the specific characteristics of Shanxi within the

discourse of unequal regional and sub-national development. It then moves on to put forward the experience with the process of economic transformations of Hongtong County and of its County town – Dahuaishu. Chapter 6 introduces the process of rural reform in Hongtong, in order to approach the emergence of non-farm employment, and prevalent patterns of rural-urban migration in the county. Within that context, the chapter examines the interview data gathered in Dahuaishu Town to put forward the experiences of rural and urban workers with employment and labour markets. As noted before, the findings showed a relatively flexible labour market offering greater openness for rural workers' economic and professional fulfilment. The final part of the chapter deals with housing accessibility, and its relationship with work, remuneration and place of residence. Although the government has relinquished its responsibility over housing provision, state employees in most cities continue to hold an advantage in access to cheap housing. On contrast, findings from this study give evidence of limited work-unit (单位 *danwei*) housing provision, and of a highly commercialized and diversified housing market.

Chapter 7 deals with the experience at the county and town levels of the introduction and setting up of the new social security system and its various social insurance schemes. The chapter not only analyses entitlement and access to social security, but also examines interviewees' perceptions about the new system and the benefits it provides. Entitlement and access are then tested through the case of the old age insurance scheme, which also characterizes the problems affecting other social insurance programs, chiefly: limited enterprise and worker's participation, and insufficient fund raising to support insurance premiums. The findings also evince a low confidence in the social security system among most respondents, especially among urban laid-off workers, many of whom lost all welfare benefits. Yet, those who are enrolled in the system hang on to it as a last resort safety-net, while most – particularly but not only rural workers – remain without insurance coverage.

Chapter 8 interrogates the developments in the provision of health care and educational services in Dahuaishu Town, and analyses the issues of accessibility and affordability of those services among rural and urban workers. Commercialization of these two public services has increased costs; nonetheless, it has also promoted the

emergence of a growing number of private providers catering to differentiated economic groups. In the case of the health sector, a proliferation of private clinics offering cheap – though often only basic – medical services was observed. In the education sector private providers serve both as an alternative and as a complement of public education institutions, which continue to be the main pathway into higher education. A still reduced number of students, however, go on to complete a higher education degree. Yet, by and large, most employment opportunities in Dahuaishu Town do not require tertiary educational levels.

The concluding chapter delineates the main characteristics of the new urban community being formed in Dahuaishu Town, with its successes and its shortcomings; providing a much needed empirical account of urbanization, migration and social integration processes in small urban centres in the less developed interior provinces. In the process the study highlights not only the prevalence of the different outcomes of policy implementation, but also stresses the need for an analysis of the intricate dynamics taking place at the grass-roots levels between the various social, economic and political actors. Small town development and inclusion of rural labour into those urban centres are processes that will continue to experience many challenges. Nonetheless, the case of Hongtong County suggests that China's more dispersed urban transformation may not necessarily result in the dystopian society portrayed in some of the more recent literature.

# **Part I**

## **The urban hierarchy and social welfare in reform**

## Chapter 1

# Local development and institutional change

Since 1978 China has embarked on an economic reform process with an ‘unabated zeal for catching up and getting ahead’ (Chung 2003, p. 124). Mapping the processes and reconfigurations in that transition has become an important element of scholarly work on reform China. Rapid change has indeed been the main feature of reform, where in two decades a plethora of new economic, social, cultural and political issues have been unfolding. In its transition from a centrally planned towards some form of a market economy China can be said to be creating its own modernization model. Although the reform process has not followed a pre-established blueprint, some authors argue that there are certain elements of the reform process that can be regarded as comprising a model (Lin *et al.* 1996; Cao *et al.* 1999; Murrell 2006). They establish institutional innovation, gradualism and decentralization as the most important elements of the Chinese reform experience. Those elements of reform have brought crucial changes to two important relationships: that between the Centre and sub-national levels of government and that between state and society.

New organizational and institutional arrangements introduced by economic reform have significantly influenced the Chinese development process, particularly the ways in which different government levels take part in that development. Through administrative and fiscal authority devolution, institutional restructuring has encouraged new regional and local dynamics of change. Both processes created increased incentives for local governments to promote economic growth (Oi 1999; Oi and Walder 1999; Unger and Chan 1999; Duckett 1998, 2001; Zhu 2004). This local government entrepreneurialism swiftly promoted rural industrialization, which became a major engine of economic and urban growth in the first decade of reform. Furthermore, the intersection of the overhauling of the state sector, economic liberalization and the introduction of new economic actors transformed the role of local governments into more regulatory and less hands-on actors.

The new setting for the distribution of power has also been directly manifested in budgeting authority. Agreeing to share its budget authority with provincial

governments, the Centre managed to win their support for economic reform, at the same time that it disentangled itself from a wide range of budgetary responsibilities. Central Government's declining revenue triggered an ongoing delegation of fiscal responsibilities to lower levels of government. Provincial and local expenditure increased rapidly, as central expenditure and transfers receded. An imbalance between fiscal responsibility and fiscal capacity resulted in great disparities in economic development and in the availability and quality of services, among regions and between urban hierarchies. Uneven development and widening inequalities have indeed become extremely important for understanding local development in the PRC (Wang, S. and Hu, A. 1999).

The growing burden of increased expenditure responsibilities has perhaps been most severely felt by the lowest governmental levels – county, town and townships. Rising revenue shares have not translated into a more adequate level of resources to meet local needs (Blecher and Shue 1996, p. 48). After the implementation of the 1980 fiscal reform local governments have been subject to increasing fiscal responsibilities, which are often not sustainable from the official budget. Local governments have taken up the burden of the provision of most public services and are also responsible for infrastructural development, for which transfers from the Central Government have decreased significantly since the start of the reform process.

When tax revenue is insufficient to meet expenditure, local governments have resorted to the use of extra-budgetary revenue [EBR], over which they hold almost absolute control and discretion. Other consequences of the financial pressures at the local level have been a series of distortions and inefficiencies in policy implementation, budget allocation, and public service provision (Wang R. 2002; World Bank 2002; Lin *et al.* 2003). Trying to comply with their newly acquired responsibilities (i.e. to provide nine years of tuition-free compulsory education to all school-age children, to support the health care sector, to pool resources for the pension system, to provide investment for infrastructural development) local governments are at times pressed to set priorities that bear little relation to local development needs.

Size and position in the urban hierarchy have been other factors directly affecting the speed and quality of local development (Song and Zhang 2002; Chan and Zhao 2002; Zhao *et al.* 2003). The urbanization drive that came with the start of the reform process saw many small cities and towns entering a race to upgrade their administrative classification, in order to gain more power and autonomy over fiscal resources (Chan and Zhao 2002, pp. 102-3), and to speed up authorization from higher government levels for local special development projects (Blecher and Shue 1996, p. 71). Urban hierarchies have thus perpetuated a system of uneven growth across and within regions. Regional and sub-provincial urban hierarchies remain an important determinant of the socio-economic development of urban centres. The role of the state has been particularly crucial in the process of this urban and regional development (Goodman 1989), while the continued state bias favouring cities has widened rural-urban disparities. The urban bias has been a reality since the Maoist era (Chan and Zhao 2002), when state policy – aided by its socialist institutions – transformed urban areas and their citizens into privileged enclaves.

### **Decentralization and the changing role of local governments**

Since the end of the Maoist period many scholars have attested the need to look at China not as a single unified politico-economic entity, but as a continental state formed by a series of regional economies and local cultures (Goodman 1999, pp. 52-78). Analyses of regional and local dynamics of change have become indispensable when articulating the Chinese development process. Local autonomy for the formulation of local solutions has long been recognized by the Communist leadership as a development imperative for a country of such size and diversity as China.<sup>1</sup> Regionalization and decentralization policies were first put into place in the PRC during the mid-1950s, as a way to avoid the systemic faults of the command economy based on the Soviet model (Goodman 1989, p. 21). Nevertheless, in the Maoist era – particularly during the Cultural Revolution – local autonomy *vis a vis* the Centre

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<sup>1</sup> Decentralization theorists have also argued in favour of decentralization initiatives for heavily populated countries, where sub-national units can be larger than many small countries, both in terms of population and in geographical size. See: Prud'homme 1995, and Tanzi 2000. At the empirical level the relationship between country-size and decentralization has been found to be positive. See: Panizza 1999; Arzaghi and Henderson 2002.

remained a relative concept, since the Centre continued to maintain the guiding hand in most areas of development through both political and budgetary control.

In the reform era, decentralization programs once again became a crucial element of the Chinese modernization process. From the early 1980s, decentralization has been the policy strategy most extensively and intensively implemented at the sub-national level.<sup>2</sup> As an ongoing process of both political and administrative nature, a more tangible devolution of power to lower governmental levels has taken place.<sup>3</sup> Local governments are in effect the ones implementing China's development agenda; not only playing a more active role in directing growth and interpreting and mediating economic, social and environmental issues (Skinner *et al.* 2003), but also carrying a stronger responsibility in making that development more inclusive. Adding to the complexity of the decentralization process is the prevalent influence of the CCP<sup>4</sup> in both government and socio-economic activities (Duckett 2001; Edin 2003; Li 2004; Whiting 2004; Tsui and Wang 2004; Pieke 2004).

As has been the case in most other countries implementing decentralization processes, the main thrust behind decentralization strategies in China has been the improvement of economic efficiency and the promotion of economic growth. To that end, one of the most important components in the transformation of the Chinese intergovernmental system has been fiscal reform. Devolution of power and resources from the Centre to sub-national governments, and the reallocation of expenditure and revenue responsibilities have dramatically changed the nature of government intervention in economic matters in reform China (Baum and Shevchenko 1999). Perhaps the most well known change has been the emergence of a phenomenon described by some as 'local government corporatism' (Nee and Su 1996; Oi 1999) and in various ways by others (Pearson 1997; Duckett 1998; Yep 2000), which has allowed sub-national governments to maintain an important role in the promotion of

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<sup>2</sup> Despite this fact, at different stages of the reform process there have been sectoral re-centralization shifts. These have been mainly related to revenue collection and to the control of 'strategic' industrial sectors, like the petrochemical and automobile industry. See: Huang 1996, p. 656; and Sun 2001.

<sup>3</sup> Devolution refers to the transfer of responsibility for governing, through the strengthening – financially and legally – of sub-national units of government. Klugman 1994.

<sup>4</sup> Some authors argue that China's continued political centralization has been crucial in promoting local government incentives to actively encourage economic growth. See: Blanchard and Schleifer 2001. Others, however, argue that CCP ultimate control over governance has been responsible for China's boom and bust economic cycles, and detrimental to the overall economy. See: von Pfeil 2004.



economic development at the local level. From the early 1980s, local governments and their local leaders have strengthened their participation in the economic and overall prosperity of their localities, taking the role of entrepreneurs pursuing rapid industrial growth (Duckett 2001; Lin *et al.* 2003; Zhu 2004).

Central authorities recognized that a separation of the structures of economic management from those of the administrative hierarchy was a necessary step to ensure economic efficiency (Goodman 1989, pp. 23-7). At the sub-national level fiscal decentralization and the transfer of an important number of state owned enterprises [SOEs] to local government ownership contributed to local economic prosperity, by granting local governments a claim over a higher percentage of tax revenues from those industries and allowing for a closer control over their assets and financial resources. Furthermore, agricultural decollectivization and the consequent labour surplus in the countryside triggered the development of rural industrialization, which became a major engine of economic growth during the 1980s.<sup>5</sup>

The new distribution of power was also directly manifested in budgeting authority. Up until 1979 the budget system had been highly centralized and relied almost solely on SOEs' profits and revenues, which until the mid-1980s still represented the major source of government income. Budget centralization, however, also meant high Central Government financial responsibilities. At the start of the reform process, in order to win support from provincial leaders to boost the reform drive, the Central Government agreed to share its budget authority with sub-national governments; at the same time that it disentangled itself from a wide range of budgetary responsibilities. Sub-national governments were granted authority to approve their own budget and were given more flexibility in expenditure assignments, even though they continued to be restricted by numerous expenditure mandates and other national budget laws regulating expenditure growth rates (Bahl and Martinez-Vazquez 2003, p. 24).

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<sup>5</sup> In that period, township and village enterprises [TVEs] became the most dynamic industrial sector, accounting for 36 per cent of the national industrial output in 1993, up from 9 per cent in 1978. Che and Qian 1998, p. 1. This topic is discussed further in Chapter 2.

Under the fiscal contracting system implemented in the early 1980s, fixed tax sharing rates between the Central Government and the majority of the provinces had the unintended result of dangerously reducing fiscal revenue for the former. Decreasing fiscal extraction at the centre was also exacerbated by declining SOE revenues and by enterprise ownership diversification, which made tax administration more complex (Blejer 1993; Riskin 2000). Not being accountable for their own losses, SOEs often had little incentive to improve their financial performance. Moreover, ailing SOEs usually received tax reductions, subsidies and special loans, which further increased the financial burden of the Central Government (Ma 1997, p. 445). Central revenues plummeted from a ratio of 32 per cent of GDP in 1978 to 11.6 per cent in 1997 (Lin 2000, p. 477). Between 1980 and 1994, a push and pull struggle over tax between Centre and provinces was clearly reflected in fiscal policy, which oscillated from *ad hoc* decentralization to a system trying to re-centralize tax collection.

In 1994 the Central Government introduced a more comprehensive fiscal reform, with its most pressing goal being to re-negotiate tax shares with the provinces to reclaim part of the revenue share. It was also a response to growing concerns over divergent tax policy practices across sub-provincial units, as well as an attempt at simplifying the tax system and adapting it to the changing economic conditions. The new tax sharing system [TSS] brought changes not only to tax policy, but also covered tax administration and intergovernmental fiscal relations (Bahl and Martinez-Vazquez 2003; Wong 2000). But yet again, expenditure assignment issues were not addressed, while at the same time increasingly more expenditure responsibilities continued to be shifted down to lower levels of government (Wong and Bird 2005).

As part of the simplification efforts, tax assignment and enterprise income tax across provinces became more uniform, while the number of taxes in the system was reduced from 32 to 18 (Bahl and Martinez-Vazquez 2003, pp. 6-7). The top marginal enterprise income tax rate was reduced from 55 per cent to 33 percent, and was applied to all enterprises regardless of ownership. In turn, the value-added tax [VAT] became the single most important source of tax revenue for the Central Government <sup>6</sup>,

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<sup>6</sup> Other Central Government taxes include customs duties; consumption tax; income taxes from Central Government owned enterprises, banks and non-bank financial intermediaries; remitted profits, income

accounting for 70 per cent of total government revenue in 1995 (Ma 1997, p. 447). Up until 2002 the VAT was the only shared tax between the Centre and sub-national governments, sharing it at a fixed rate of 75 and 25 per cent respectively (Wong 2000). From that year on, however, local governments have also had to share the enterprise income tax and the individual income tax – previously entirely retained by sub-national governments.<sup>7</sup> This move has been justified as a strategy to increase the pool of resources available to the Central Government for the equalization transfer system (Bahl and Martinez-Vazquez 2003, p. 27). Other revenue assigned to sub-national governments includes the business tax, land use tax, property tax, and other revenues.<sup>8</sup>

The new fiscal arrangements have been successful in raising central revenue, helping it increase to a share of 18.7 per cent of GDP in 2002 (Ahmad *et al.* 2004). But despite this achievement, other problems related to fiscal decentralization have been exacerbated. These are related to widening regional inequalities (Kanbur and Zhang 2005), a still inefficient equalization system (Bahl and Martinez-Vazquez 2003; Zhang and Martinez-Vazquez 2003; Ahmad *et al.* 2004), and the lack of a clear and stable assignment of expenditure responsibilities that has resulted in increased fiscal responsibilities for sub-provincial governments (Ma and Norregaard 1998; Li 2002; Jun 2002), among other problems. The following section will discuss some of the consequences from the still incomplete fiscal reform.

### **The decentralization debate**

Decentralization strategies and instruments have long been suggested to promote better and more efficient governance than that provided by centralized systems (Hayek 1945; Tiebout 1956; Musgrave 1959; Oates 1972). According to the theory

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taxes, business taxes, and urban construction and maintenance taxes of the railroad, bank headquarters and insurance companies; and resource taxes on offshore oil extraction. Wong 2000.

<sup>7</sup> The sharing ratio between Central and local governments for these two taxes was 50:50 in 2002, and 60:40 in 2003. No announcement had been made as to whether that sharing rate would be incremental. Zhang and Martinez-Vazquez 2003, p. 12.

<sup>8</sup> These include: Urban maintenance and construction tax; property tax; vehicle and vessel utilization tax; VAT on land; stamp tax; agricultural and animal husbandry tax; tax on special produces; contract tax; tax on the occupation of arable land; profit remittances by all locally owned enterprises; revenue from compensation for use of state-owned land; gift and bequest tax; slaughter tax; and reorientation tax on capital construction. Zhang and Martinez-Vazquez 2003, p. 11.

and its advocates, the strongest case for decentralization lies in its potential for economic efficiency improvement, which can be interpreted in at least three ways: a) allocative efficiency (involving the consideration of what is produced, preferences and how it is allocated between agents); b) technical efficiency (cost minimization), and; c) intemporal allocation of resources (implementation and maintenance) (Klugman 1994). Links have also been made between decentralization and a more efficient provision of public goods and social services, which in turn are said to have positive effects on social development (Rondinelli 1990; Bardhan and Mookherjee 2005). Decentralization is promoted as a way to alleviate local information constraints, leaving local governments to more efficiently address local needs and preferences (Hayek 1945; Faguet 2004). Huther and Shah (1998) – through the development of a governance quality index and using a sample of eighty countries – found empirical evidence that showed governance quality was enhanced by greater decentralization. Lastly, decentralization has been defended for its potential to promote democratization, by facilitating and increasing local participation in political decision-making (Fiszbein 1997; Rossi 1998).

A different set of literature, however, has established that the dangers of decentralization are perhaps more real than its potential; warning of some of the serious drawbacks that badly designed decentralization programs have had (Olowu 1990; Prud'homme 1995). Decentralization has been said to perpetuate and increase inter-regional inequalities (richer local governments will always have higher tax bases), and to have a negative impact on redistribution (Central Government spending declines with fiscal decentralization) (Prud'homme 1995, 2003; Inman and Rubinfeld 1996; Tanzi 2000). Other problems associated with decentralization have been: triggering destructive competition among sub-national governments <sup>9</sup> to attract investment and enterprises (Prud'homme 1995; Tanzi 2000; Rodriguez-Pose and Gill 2003, p. 31); increasing difficulties in macroeconomic policy implementation (Oates 1972; Prud'homme 1995); severely lowering the quality and quantity of social services (Wong 2002; Li 2002), and; increasing corrupt practices by local officials

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<sup>9</sup> Oates, however, states that intergovernmental competition can have beneficial effects by disciplining excessive public spending and other forms of fiscal misbehaviour. Oates 1999, p. 1141. Following the *market preserving federalism* model Montinolla *et al.* 1996 also argue that inter-jurisdictional competition can have a positive influence on market promotion (pp. 57-60). See also: Brennan and Buchanan 1980.

(Fisman and Gatti 2000; Tanzi and Prakash 2003).<sup>10</sup> Furthermore, there is the argument that decentralization can only reap positive fruits when wide citizen participation in decision-making is present and when a functioning democratic system is already in place (Hausken *et al.* 2004). This seems to be the path followed by most developed countries. Yet, empirical evidence on the inverse equation – from decentralization to democratization – has been inconclusive (Panizza 1999; Arzaghi and Henderson 2002).

Despite the criticism, the literature falls short of discrediting decentralization, but rather calls for the need to design strategies that suit the specific characteristics and needs of each system (Ebel and Yilmaz 1999; Prud'homme 2003; Rodriguez-Pose and Gill 2003). Recent debates centre on optimal degrees of decentralization, the changing role of the central government, and on the instruments that can allow for more efficient market development and better governance (Oates 1999; Breuss and Eller 2004; Cai and Treisman 2004). The different positions argue for various sectors to undergo different degrees of decentralization, with the Central Government maintaining a strong role over various key issues like: macroeconomic stabilization, redistribution, national defense, and the provision of public goods with substantial spill-over effects. Nonetheless, the continuing debate has remained at the theoretical level, leading to a call in the literature for more empirical studies that can aid decentralization program design, while contributing to the development of more effective decentralization measurement instruments (Rodden 2004). Decentralization remains a contested field, one in which various decentralization models continue to be tested and modified based on case studies and cross-country analysis and comparisons, both in the developed and the developing world.

As noted in the previous paragraph, empirical studies have only given inconclusive evidence about the direct relationship between decentralization and economic growth, efficiency gains, accountability, democratization, and other processes associated with decentralization efforts (*Online Sourcebook on Decentralization and Local Development*). Those same studies, however, have permitted a better understanding of

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<sup>10</sup> In a counter-critique, Huther and Shah 1998 argue that some of the studies warning of the negative consequences of decentralization have been based mostly on theoretical and anecdotal analyses, but have not been empirically tested.

the complexity and diversity of decentralization (Rodden 2004), and have allowed for the formulation of a set of rules and guidelines that can serve as aiding mechanisms in order to achieve higher rates of success in the implementation of decentralization strategies (Bahl 1998; Oates 1999; Tanzi 2000). According to Rodden (2004), decentralization should not be understood only as a ‘clean transfer of fixed authority or resources from higher to lower governments’, but should be analyzed through the causes and effects ‘of shared and intertwined fiscal, political, and policy authority’ (p. 29). Decentralization thus implies a complex relationship between central and sub-national governments, with a clear demarcation of responsibilities between the two.

### **Decentralization in the PRC**

Evidence from China also points to the need for a more comprehensive analysis of decentralization, in which the chances of success and failure require to be ‘considered in the context of reform of the tax system’ but also in the ‘wider environment of population, financial sector and other central government policies’ (Bahl and Martinez-Vazquez 2003, p. 38). Following Weingast’s theory of *market-preserving federalism* Montinola *et al.* (1996) describe Chinese decentralization as creating the right incentives at all governmental levels to foster economic prosperity, while establishing a range of limits on their behavior (p. 79). Decentralization – in their view – is the strategy by which the government not only preserves and promotes market mechanisms, but is also the process by which the durability of the reform is guaranteed. Li and Lian (1999) – though agreeing with their model – have a more cynical approach to that symbiotic interaction between the Central and local governments for the supposed promotion of markets and economic growth. They prefer to describe the Chinese system as market-preserving authoritarianism, where Party-State support for economic decentralization becomes the most efficient and credible way not only for catching up with developed countries but also for holding on to power (Li and Lian 1999, pp. 167, 184-6). Blanchard and Schleifer (2001) have corroborated Li and Lian’s argument, stating that political centralization has been the crucial ingredient by which China was able to reap the economic benefits of decentralization (p. 11). Whatever the means, the image that emerges from these two models is one of a fairly decentralized economic and administrative system resembling that of a federal state, though with a strong political centralization.

The Chinese Government would probably like to think of the process of economic reform as resembling the neatly designed top-down decentralization model described by Montinola *et al.* (1996). Chinese decentralization strategies and processes, however, present a more complex landscape, one in which counterintuitive behaviors – developmental, predatory and entrepreneurial – on the part of the different government levels coexist (Tsai 2004, p. 5). These behaviors have a lot to do with the experimental and gradual nature of reform, to the hierarchical system still prevalent across government levels, and to the different incentives each of those levels of government has been facing since the start of reform. Some have questioned the functionality of the much publicized decentralization achievements, arguing the Party-State has retained a substantial degree of centralization based on vertical control over sub-national governments (Tsui and Wang 2004). That control has been exercised in a more direct fashion through the imposition of fiscal mandates, and more indirectly – but perhaps more efficiently – through both the cadre responsibility system (岗位责任制 *gangwei zerenzhi*) and the target responsibility system (目标责任制 *mubiao zerenzhi*) (Edin 2003; Tsui and Wang 2004; Whiting 2004). Some authors have gone as far as to state that the *nomenklatura* system of personnel management in China is in fact the most important institution reinforcing national unity (Naughton and Yang 2004).

In his seminal work *Centre and Province in the People's Republic of China* Goodman (1986) analyses the complexity of power balancing between the Centre and the provinces during the first decentralization campaign in the late 1950s, and highlights the extent to which the Centre-local power struggle has been a recurrent problem throughout Chinese history (p. 4). The reform era is no exception, though this time the centrifugal forces triggered by decentralization and economic reform have created a more complex power contest: one in which the Centre-province duality is complicated by regional economic disparities, which have tipped political leverage to the more developed coastal areas. According to Bahl and Martinez-Vazquez (2003) decentralization and the newly gained economic power of some provincial and sub-provincial governments (especially those in the coastal areas) have on the one hand counterbalanced the power of the Central Government (helping preserve the reform process), but on the other hand have weakened the Centre's ability to implement

equalization policies (pp. 18-9). Their increased bargaining power has secured rich provinces a substantial share of revenue, diminishing funds for redistribution.

Although there is certainly growing concern by the Centre regarding regional inequalities, fiscal policy does not seem to acknowledge the varying capabilities of sub-national governments across regions and government hierarchies. Intergovernmental fiscal relations necessarily take place in that same hierarchical structure; one in which provinces have different revenue raising capacities, and where lower governmental levels have less bargaining power *vis a vis* the government level immediately on top. A further complication is the fact that the tax sharing system only binds the Central and provincial governments, but does not establish a working system for sub-national fiscal relations. To a great extent sub-national intergovernmental fiscal relations have resembled those between the Centre and the provinces (Bahl and Wallich 1992), but the lack of a binding framework has weakened the bargaining power of those governments at the bottom of the hierarchy.

Provincial budget flexibility – in turn – constrains ‘local government revenue autonomy, reduces intergovernmental accountability, cuts revenue predictability of local governments, and reduces incentives for revenue-mobilization’ (Zhang and Martinez-Vazquez 2003, p. 17). The 1994 TSS further aggravated the situation by re-centralizing revenue at the Centre, setting off a parallel centralization trend at the provincial level (Wong 2002). Tax re-centralization trends, together with increased responsibility delegation have consequently put a heavy burden on county, town and township governments. Han Jun (2002) has rightly described the financial situation of those local governments as facing the plight of ‘cooking a meal without rice’ (p. 6).

Following the argument that in any complex economy the patterns of financial authority are a reflection of power distribution among the various governmental levels (Blecher and Shue 1996, p. 46), then China could be said to be a highly decentralized country. Operating in many ways as a *de facto* federal system – though remaining a unitary state – Chinese sub-national governments are now responsible for around 70 per cent of total government expenditures, with counties accounting for 40 to 50 per cent of sub-national spending (Wong 2002). These figures, however, give a misguided picture of the relative power of local governments. Even though sub-national



governments have won autonomy over budget authorization, they lack formal revenue raising powers, are not able to modify tax rates and tax bases set by the Central Government, while being subject to several expenditure laws and mandates.<sup>11</sup>

Constraining mandates not only have increased the financial burden of local governments, but have also made the assignation of budgetary funds more inflexible. Partly as a legacy of the planning system and partly as a result of the financial squeeze, allocation of funds by local governments usually follows the principle of 'budgeting incrementalism', based on the previous year's budget or on an average from the last five years (Wang, R. 2002, p. 5). Moreover, local governments often have no mechanisms to ascertain local needs and demands, which results in a mismatch between budget fund allocation and actual local needs (Wang, R. 2002, p. 19). At the same time, local cadres' incentives for action are being increasingly shaped by centrally imposed personnel performance evaluation systems, at times more so than by wider local needs. It is important to note, however, that central policies are not always at odds with local developmental needs.

Even though revenue assignments have already been delineated in the Budget Law, expenditure assignments remain much more blurry. According to Bahl's (1999) *Implementation Rules for Fiscal Decentralization*, expenditure needs should be established before tackling the question of revenue assignments, in order to allow for a more economically efficient assignment of funds (p. 5). Those most affected by the lack of clarity in expenditure responsibilities have been sub-provincial governments, which due to the ongoing delegation of fiscal responsibilities to their jurisdictions, have experienced growing budget deficits (Jun 2002; Yep 2004). The realization that formal revenue mechanisms cannot provide sufficient funds to cover for the financial responsibilities of local governments<sup>12</sup> have lead local officials to increasingly rely on alternative revenue sources, a practice Bahl (1999) has described as 'backdoor

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<sup>11</sup> The legal framework of public budgeting is contained in the Budget Law enacted by the Central Government in 1994.

<sup>12</sup> A major burden for county and township governments has been the compulsory salary increases for civil servants mandated by the Central government. Cases where government offices and SOEs do not even have enough resources to pay for staff's salaries are commonplace. This was something that constantly came up in interviews during fieldwork carried out in Hongtong County, Shanxi Province in October 2003. Other studies have also found that county governments usually delay salary payments to their staff or do not pay their full salary amount. See: Jun 2002.

federalism'. Although not included in the formal budget tabulation, extra budgetary and off-budget revenues<sup>13</sup> have become an integral part of local governments' budgets. In the last two decades, extra budgetary revenues have been growing at a much faster pace than tax revenues. In 2002 the World Bank pointed out that the formal budget in China was small compared to extra budgetary funds available.<sup>14</sup> The use of extra budgetary revenues has become so widespread that by 1996 these funds already accounted for 56 per cent of total tax revenues (Eckaus 2002).

Decentralization should be conceived as a trade-off between possible benefits and costs (Bahl 1999, p. 2). In the case of China, although the leadership had a clear vision of the goals and benefits they wanted to achieve through decentralization, the costs of decentralizing the system were either underestimated or not even considered (Li and Lian 1999, p. 174). Throughout the 1980s and until 1994, fiscal reform developed in an *ad hoc* manner, with changes coming mostly as a response to issues arising from the incomplete nature of the economic reform process, and from increasing external constraints from binding international treaties (Li and Lian 1999; Bahl and Martinez-Vazquez 2003). Policy formulation has become more responsive to the new economic setting, but continues to favor experimentation and gradual reform, which have in some instances limited the full potential of productive forces. Increasing external constraints brought by China's WTO commitments, however, will force the Chinese government to speed up economic reform. The challenge of the Party-State will then reside in adapting its interests to those of the new unleashed socio-economic forces, or else be ousted from the political leadership.

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<sup>13</sup> For legal purposes these two revenue categories are not regarded as taxes. The former is a revenue category used by both the Centre and local governments. In theory extra budgetary impositions need to get official authorization from one or more offices of the Ministry of Finance, though many of those charges are seldom put forward for approval. Off-budget revenues are an even more complicated category. They include a wide range of fees that are meant to generate funds for different local government initiatives and projects. Off-budget revenues, however, need not get approval from or be reported to financial departments; being therefore only subject to the discretion of local officials. Eckaus 2003, p. 74-5.

<sup>14</sup> According to World Bank figures, the overall budget of China represents only 14 per cent of GDP, whereas extra budgetary revenues account for as much as 20 per cent. World Bank 2002.

## Chapter 2

# Rural labour, migration and new urban spaces

Since the late 1970s, rural-to-urban migration has greatly reshaped China's political economy and its urban landscape. Rural-to-urban migration has been crucial in easing the problem of rural labour surplus – by shifting rural labour into non-agricultural jobs – while feeding urban industries with cheap labour. In parallel, small cities and towns have been closely linked to both rural transformations and urbanization processes throughout the country. Introduction of the household responsibility system [HRS] over rural land and agricultural production, as well as the subsequent introduction of rural markets, translated into an engine of growth for small towns, which strengthened their role as processing and trade centres of farm produce. At the same time, peasants began to rely more on small towns for access to farming equipment and technologies, credit, educational and health services, as well as government administrative services. Most importantly, towns provided farmers with off-farm employment, helping them diversify the household income, while injecting capital into the rural economy. Throughout the 1980s, successful incorporation of dozens of millions of rural workers into TVEs made leaders optimistic about the formation of a virtuous cycle in which agriculture, rural industrialization and urbanization were closely interlinked.

Realization of the important role small cities and towns were playing in absorbing surplus rural labour, together with growing concerns over unemployment in major cities, prompted the Central Government to initiate the reform of the *hukou* system in small urban centres. Up until 1984 all outsiders staying in an urban centre for more than three days had to seek approval from various agencies at both the place of origin and at their destination; yet, no regulatory framework dealing with more long-term rural-to-urban migration had been put in place. As a first step, migration into small cities and towns was officially sanctioned <sup>1</sup> in 1984, as part of a strategy to promote employment in local enterprises, while reducing the number of farmers moving into larger urban areas (Davin

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<sup>1</sup> Migrants were required to bring their own grain or to buy grain at non-subsidized prices.

1999, p. 41). That same year, the Central Government introduced a system of temporary resident permits for all urban centres and decentralized the *hukou* system, establishing a locally based migrant registration system. Each city was allowed to implement their own set of temporary residence permits <sup>2</sup>, classifying migrants depending on their level of education and skills, duration of stay in the city, and income levels or contribution to the local economy (Chan and Zhang 1999; Liu 2005).

This locally based system of temporary residence permits soon triggered the commodification of urban registration, which can now be acquired for a price. <sup>3</sup> Coastal and larger cities – like Shanghai, Beijing and Shenzhen – require those who want to acquire an urban *hukou* to have a high income, and high educational levels and skills. Small urban centres, on the other hand, demand little skills and charge much lower fees for an urban registration (Woon 1999, p. 499). In the big cities *hukou* commodification practices have created a stratified system of migrants, where those with the economic means can more rapidly achieve incorporation into the urban society, while poorer migrants are relegated to temporary settlers with limited chances for socio-economic inclusion. The Central Government's emphasis on strictly controlling the growth of the big metropolises is partly responsible for the implementation of these strict migrant filters. Meanwhile, relaxation of the *hukou* system in towns and small cities has been further enhanced. Following the State Council's 'Opinion Concerning the Carrying Forward of the Reform of the Household Registration System', from 1 October 2001 towns and small cities began to dismantle the household registration system, allowing those non-natives with a fixed place of residence, stable non-agricultural work or a legitimate source of income to register as permanent urban residents (Chan and Zhang 1999, pp. 840-1; Zhang, Laimin 2001).

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<sup>2</sup> To get a temporary residence permit migrant workers have to pay a series of fees to the Public Security Bureau and the local government. Permits have to be renewed every 6 to 12 months.

<sup>3</sup> From 1992 some city governments introduced the so-called blue-stamp *hukou* – usually only issued to professionals, investors and property buyers – that allows the holder to enjoy most of the socio-economic benefits of a local urban *hukou* holder, and the opportunity to obtain permanent urban registration after 2 to 5 years of residence in the city. Those who obtain this registration have to contribute to the city's infrastructural construction by paying an urban entry-fee can be more than 50,000 yuan. Chan and Zhang 1999, p. 838; Liu 2005, pp. 136-7.

Though constrained by institutions like the *hukou* system, the different processes of internal population movements have had a great impact on urbanization patterns in post-reform China, and represent the most important element of urban growth in basically all urban centres and particularly in small cities and towns<sup>4</sup> (Kirkby *et al.* 2000; Gu and Li 2000; Lin 1993, 2002; Zhu, Yu 2002). During the reform era these small urban centres – some previously rural – became the ‘hubs of the interflow of goods, people, and information between urban areas and the countryside’ (Lin 1993, p. 329). As has been the case around the world, towns in China have played an important role as service centres promoting the development of rural areas through production linkages and ‘spread’ and ‘trickle down effects’ (Hinderink and Titus 2002, p. 379).

After the initial success of rural industry during the first decade of reform, it seemed as if that virtuous cycle between rural industrialization, urbanization and labour absorption was being threatened by both domestic forces and economic developments beyond China’s national borders. Highly praised local state corporatism (Oi 1999) – of which TVEs were the representative symbol – started to come into disrepute, with many commentators questioning the economic and environmental sustainability of the TVE sector (Zhao and Wong 2002) and its continued ability to absorb the still abundant surplus rural labour (Johnson 2002). The economic downturn of the late 1990s also convinced many in the Central leadership of the need to free up the restrictions on the expansion of large urban centres, in order to create new engines of growth. Mirroring this opinion shift, researchers at the National Research Institute began to argue that large and medium-sized cities had a stronger capacity to accommodate resources and to deliver much higher economic returns to the overall economy, even though they continued support the role of small cities and towns as buffer zones between the rural areas and big cities (*China Internet Information Centre* 2000). Strict restrictions on urban growth – including limits on migrant inclusion – continue to apply in the large metropolises, but more medium-sized cities have been allowed to increase their population intake. Small cities and towns continue to be promoted as centres of rural labour incorporation.

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<sup>4</sup> Natural growth was also enhanced by the redefinition of urban designations in the early 1980s, which resulted in a boom of new cities and towns, often formed through the agglomeration of smaller administrative units. Wu 1994, pp. 680-1; Song and Zhang 2002, p. 2321; Zhang and Zhao 2003, p. 465.

## **China's 'dual-track' urbanization and the formation of a new city system**

In recent years urbanization in developing countries has been challenging conventional urbanization theories (McGee 1991; Song and Timberlake 1996; Zhu, Yu 2002; Qadeer 2000, 2004). Even though the city continues to be the ultimate frontier, the processes by which developing countries are achieving urbanization have greatly differed from those followed by the developed world. Even among debates over urban trends in the developing world there have been attempts to develop specific models for different areas and countries, aiming to explain what they consider to be unique urban processes (McGee 1991; Qadeer 2000). Critics have argued that those models and paradigms only perpetuate 'the awkward dichotomy between the First and Third World', favouring instead the inclusion of those debates 'within mainstream urban literature' as a more appropriate way of clarifying – as opposed to isolating – those urban phenomena (Dick and Rimmer 1998, p. 2304). Nonetheless, it is evident that some of the urbanization processes taking place in developing countries are difficult to enclose within current urban discourses, which deal primarily with the consequences of global dynamics on highly developed urban systems (Afshar 1998, p. 375).

Scholarly work on Chinese urbanization has framed itself between these two discourses, recognizing the uniqueness of the local experiences (Lin 1993; Zhu, Yu 2002) but also acknowledging the increasing importance of global influences in domestic urban developments (Sit and Yang 1997; Zhao *et al.* 2003). External influences have been particularly important in the eastern coastal areas, where export-led development has become a major engine of urban growth (Sit and Yang 1997). Further inland the forces behind urban growth have been of a very different nature; and if rural-urban inequalities are then added to regional disparities, urban possibilities become even more complex. Accounting for all these variables is indispensable when mapping Chinese urban development. It becomes a search of the processes and the trends not the end result, which is the modernization ideal of bringing urban life to the majority in society. That ideal is perhaps best expressed by the Centre's efforts to usher China into a 'new stage of

development in building an all-round well-off (*xiaokang* 小康) society and speeding up modernization' (*People's Daily Online* Nov. 6, 2002). It thus becomes crucial to explore how this ideal is articulated in local discourses around urban modernity, and to understand what the implications of those discourses have been for policy implementation and urban development.

Two parallel processes have characterized Chinese urbanization in the reform era, they are: rural or 'bottom up' urbanization (Wang, G and Hu, X. 1999; Gu and Li 2000; Zhu, Yu 2002); and the growth of existing cities (Fan 1999; Zhao *et al.* 2003). Since the start of reform the expansion of existing cities was influenced by marketization, economic and real per capita GDP growth, foreign direct investment [FDI] stock, regional disparities (coastal-inland), historical and geographical factors <sup>5</sup>, as well as by the entrance of large numbers of rural migrants (Zhang, K.H. 2002, p. 2304). 'Bottom up' urbanization, however, has been the most extensive urban process and the one experiencing the fastest growth; a result of both low initial levels of urban mass and of the development of rural industries (Lin 1993, 2002; Wang, G. and Hu, X. 1999; Kirkby *et al.* 2000). It has its origins in the countryside and has not been dependant on the growth of major cities, although often towns and small cities have been an integral part of this new urbanization process.

Elsewhere the phenomenon has been described as 'urbanization by implosion' (Qadeer 2004), a process by which population density in rural areas builds up urban spatial organizations. In a study carried out in India, Bangladesh and Pakistan, Qadeer (2004) found that population density in rural centres created urban infrastructural needs; changes in the landscape and settlement system; and a restructuring of the land economy and land uses (p. 6). He calls those settlements *ruralopolis*, since the physical and spatial changes in them usually occur independently of the social, economic and cultural characteristics of urbanization (Qadeer 2000, p. 1584). The concept of the *ruralopolis* has some

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<sup>5</sup> For national security reasons the Maoist government had carried out a spatial re-arrangement of cities to the central and western regions. Between 1949 and 1978 the number of cities in the central and western regions grew from 50 to 84 and from 13 to 40 respectively, while the number of cities in the east coast remained unchanged at 69. Lin 2002, p. 307.

resonance in rural China, where population density has also ignited *in-situ* transformations (Zhu, Yu 2002). But contrary to South Asian *ruralopolis*, the Chinese countryside has seen important changes to its agrarian economy, thanks to the emergence of rural industry. And although villages and townships – and to some extent even towns – remain socially and culturally rural at their core, township and village enterprises [TVEs] and off-farm work have contributed to the development of urban or quasi-urban facilities, introducing many traits of urban life into the countryside (Zhu, Yu 2002, p. 10).

In this respect Chinese rural urbanization is closer to McGee's *desakota* regions, where non-agricultural activities acquire increased importance. In McGee's model urban sprawl creates extended metropolitan areas – or *desakota* regions<sup>6</sup> – as cities encroach into adjacent rural areas. This phenomenon has also been described as 'rurbanization' (*xiangcun dushihua* 乡村都市化); a dynamic incremental process that leads rural urbanization towards 'townization' and eventually into 'citzation', until most of the countryside has been urbanized (Guldin 1996, p. 280; Dai 2000, p. 65). Yet, Chinese rural urbanization continues to resemble the *ruralopolises* in that it has maintained a strong relationship with the rural population and with agricultural land. With more peasants engaging in off-farm work and making most of their income from those activities, life in some villages – especially in more developed areas – is becoming more urban-like.

Chinese bottom-up urbanization has been greatly influenced by spatial differences and by urban hierarchies. The Chinese urban system continues to operate as a vertically organized hierarchical system, which has important implications for urban growth and local development. As stated by Dai (2000), the formation and development of the Chinese city system is closely related to both administrative and economic factors (p. 67). During the Maoist era, in an effort to maximize industrialization and minimize urbanization costs, large cities were developed as the most important centres of

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<sup>6</sup> The main characteristics of the *desakota* regions are: a) dense population; b) increase in non-agricultural activities; c) well-developed infrastructure of roads; c) reservoir of cheap labour; d) highly integrated 'transactive environment' in terms of movements of people and commodities; and, e) a perception by the state of being 'invisible' or 'grey' zones. Ginsburg *et al.* 1991, p. xiii.



production at the expense of small cities and towns (Lin 2002, p. 309; Song and Zhang 2002, p. 2319). Larger urban entities have therefore enjoyed better infrastructure and much better services than small cities and towns (Chan and Zhao 2002; Cohen 2004). Furthermore, since the start of reform big cities have enjoyed greater autonomy, more political power and better access to resources (Fan 1999; Zhang and Zhao 2003). The large municipalities of Shanghai, Beijing, Tianjin, and – more recently – Chongqing are situated at the higher end of that urban hierarchy, followed by provincial capitals and other centrally administered cities (Song and Zhang 2002, pp. 2320-1; Kynge 2003), after which come medium and small cities, with towns at the bottom of the hierarchy.<sup>7</sup>

The viability of urbanizing China from below has long been debated among policy makers and researchers (Kirkby 1985; Kwok *et al.* 1990; Ma and Lin 1993; Kirkby *et al.* 2000). In the same fashion, over the last twenty-five years of reform the Central Government has supported and then distanced itself from small urban centres and TVE development efforts, just to advocate them again later on (Liang *et al.* 2002, pp. 2180-1). Thus, despite the enthusiasm among some policy makers for the promotion of small cities and towns, large cities remain the main recipients of state capital investment<sup>8</sup> and have unsurprisingly become the biggest contributors to GDP growth. During the 1990s, urban centres with a population of over a million received more than 60 per cent of all fixed assets invested in cities (Lin 2002, p. 311). Reform also shifted the geographical bias of urban development from the interior to the coastal areas – a trend that has been only partly modified with the introduction of the Open up the West campaign in 2000 (Goodman 2004).

By 1998 – for example – 65 per cent of fixed assets investment and 87.4 per cent of utilized foreign direct investment [FDI] went to large cities in the eastern coastal region<sup>9</sup>,

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<sup>7</sup> Although the town (*zhen* 镇) is officially the lowest level of the urban hierarchy a limited number of townships (*xiang* 乡) have been allowed to be classified as urban, usually if they are located in minority or in an isolated area. Townships can also be classified as ‘statutory towns’ (*jianzhizhen* 建制镇) if they have a population larger than 20,000 with at least 10 per cent holding a non-agricultural registration. Lin 1993, p. 327-8.

<sup>8</sup> Between 1990 and 1998, for example, Shanghai became the single most important recipient of state capital investment. Lin 2002, p. 311.

<sup>9</sup> 44 per cent of all cities are located on the east coast. Dai 2000, p. 67.

which generated 64 per cent of that year's total GDP (Lin 2002, pp. 311-2). This outstanding performance has strengthened Chinese economists' support for the expansion of large and medium-sized cities, considering them to have a much stronger capacity to accommodate resources and deliver better economic returns to the overall economy (*China Internet Information Center* 2000). Some have also argued that globalisation processes and FDI inflows into China have further strengthened the role of large cities<sup>10</sup> as the main actors in the economic and demographic growth of urban China (Zhao *et al.* 2003, p. 276).

Yet, although large cities remain the most efficient and productive economic centres for capital investment and production (Prud'homme 2000; Au and Henderson 2004; Ioannides and Rossi-Hansberg 2005), small cities and towns continue to have an important role in the absorption of surplus rural labour and in the promotion of local and rural development (Hinderink and Titus 2002; Cohen 2004). And despite the fact that Chinese small urban centres have not received the same financial help from the Central Government, their growth has been even more rapid than that of large cities. Since the start of economic reform the number of small cities and towns has increased exponentially. Between 1978 and 1998 designation of new cities and the expansion of existing ones occurred primarily in the small city category and on the eastern coast (Lin 2002, p. 311). Of the total 668 cities existent in China by 2002, 437 were county level cities. Moreover, by 1997 towns under county jurisdiction hosted more than 884 million people (Dai 2000, p. 64). Further relaxation of the *hukou* system implemented in small cities and towns since 2001 is likely to have an important effect on the number of those urban centres and on the size of the population they accommodate.<sup>11</sup>

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<sup>10</sup> Against this, Sit and Yang (1997) found that foreign direct investment [FDI] going into the Pearl River Delta favoured small cities and counties over larger urban centres, and was characterized by small and medium-scale, labour intensive, processing-type of manufacturing and trade-creative investment coming from Hong Kong and Macau.

<sup>11</sup> During the first two decades of reform an average of 10,000 townships were established annually. Chinese researchers expect that number to increase to 20,000 per year in the next 20 years. Dai 2000, p. 65.

## **Agglomeration economies and urban productivity**

Rural economic growth and rapid rural industrialization were largely responsible for urban growth at the lower level – allowing for the creation of a much more dispersed urban system – and for the absorption of millions of surplus rural workers. By 1990 only 12 per cent of those who had left the countryside had moved to a large city (Wang and Hu 1999, p. 80). During the 1990s, even though a growing number of migrants started to move to big cities (about 30 per cent of the total) (Croll and Huang 1997, p. 128), small cities and towns remained the biggest recipients of rural workers. Employment in local TVEs represented the strongest pull factor for peasants. By 1996 small towns<sup>12</sup> hosted more than 60 per cent of the over 20 million non-agricultural TVEs in China (Wang and Hu 1999, p. 83), and employed more than 135 million rural workers – about one third of the rural labour force (Oi 1999a, p. 620). Most importantly, TVEs – both collective and private – developed into one of the main sources of income for rural households, while at the same time constituting an important source of revenue<sup>13</sup> for local governments (Wang and Hu 1999, p. 87). Small cities and towns – through their rural enterprises – have also made a significant contribution to the national economy. At the end of the 1990s they already produced more than half of the total industrial output and had become important exporters (Oi 1999a, p. 622).

From the early 1990s, however, employment in TVEs had started to experience a decline, due in part to slower industry growth rates. From 1981 to 1995 the average annual growth rate for rural industries diminished from 42.5 per cent to 33.6 per cent, and went further down to 14 per cent by 1999 (Wang 2000, p. 81). After 1996 the number of rural workers engaged in industrial and manufacturing work also experienced a downturn, mainly as a result of growing competition and market saturation.<sup>14</sup> According to government statistics, in one single year – between 1996 and 1997 – the number of rural workers

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<sup>12</sup> These include market towns, which are rural by official designation.

<sup>13</sup> From 1978 to 1994, taxes paid by TVEs as a percentage of total government revenue increased from 4 to 22 per cent. Zhao and Wong 2002, p. 258.

<sup>14</sup> Since 1993, only 95 to 96 per cent of industrial products have been marketed, creating a massive inventory of products worth as much as 500 billion yuan by 1998. This market saturation was partly due to the increased competition among TVEs, and between rural and urban enterprises; which were building similar industrial structures. Wang 2000, p. 81.

engaged in non-farm industrial work had decreased by over 171 million (Wang 2000, p. 81). Reduced labour absorption capacity in towns and small cities was also a reflection of the slow development of the service sector, which in most developed and developing countries is usually one of the largest employers. Underdevelopment of the service sector has been related to the small scale of small city and town economies, but is also linked to an over-emphasis on manufacturing. Nevertheless, whilst a positive correlation between city size and the size of service industries is to be found in the Chinese urban system, large cities have also struggled to widen the scale of their tertiary sector (*People's Daily Online* Oct. 23, 2002), which continues to an important extent to be dominated by local SOE monopolies (Henderson 2000, p. 47; Mattoo 2002). By 1997 the national employment average in the tertiary sector for all cities was 37.3 per cent of the labour force; 45.5 per cent in the large metropolises; and 32.1 per cent in small cities (Wang 2000, p. 86).

These changes in functional structure are becoming more clearly demarcated in the arrangement of the new Chinese urban system. Cities and towns in the various ranks of the urban hierarchy are playing different roles in the promotion of socio-economic development, a reflection of how urban scale has influenced urban function (Tian *et al.* 2002). Despite disagreements as to which direction urban growth should follow – usually pinning bottom-up urbanization against the development of medium and large urban cities, and *vice versa* – Chinese urbanization continues to be characterized by its urban dualism. In this dual-track urbanization process, large cities coexist with medium, small cities and towns (Lin 2002, p. 313). Those urbanization paths are therefore not mutually exclusive but should develop in tandem (Wang and Hu 1999, p. 83; Forster 2002, p. 79). As argued by Forster (2002), the growth of large cities should be controlled to avoid urban congestion and the problems that come with it; yet, small city and town development should not be developed blindly and arbitrarily (p. 79). To date, however, various government institutions continue to restrict the natural trajectory of urbanization, thus restricting the formation of agglomeration economies (Au and Henderson 2002, 2004).

By restricting population mobility the *hukou* system continues to be the one institution that more clearly restricts urbanization processes. Hindering the free movement of labour – especially out of agriculture – the *hukou* system limits the growth and productivity potential of urban centres, leading to insufficient agglomeration of economic activity, not only in urban areas but also within the rural industrial sector (Au and Henderson 2002). According to the theory of agglomeration economies certain types of economic activity are more productive when undertaken in urban areas (Pan and Zhang 2002, p. 2267). Agglomeration economies can emerge through urbanization externalities (general availability of infrastructure, labour and wholesale operations) and through localisation economies (availability of infrastructure, labour and facilities specific to a particular industry) (Pan and Zhang 2002, p. 2268). Both are related to city and industry size, which have in turn a direct impact on productivity. Urban scale and increased productivity are then assumed to bring greater economic returns (Ioannides and Rossi-Hansberg 2005, p. 6).

Other factors like the geographical concentration of human capital – often only found in urban areas – can also have a strong impact on productivity (Rauch 1993). By limiting labour mobility out of agriculture the *hukou* system has also limited the educational development of rural workers, with adverse consequences on earnings and quality of life differentials between urban and rural populations (Johnson 2002, p. 2170). Besides, by maintaining the link between farmers to their agricultural land the *hukou* and the household responsibility systems [HRS] have not only distorted labour allocation, but have also negatively affected agricultural production and productivity (Oi 1999a, p. 621), while obstructing a more efficient use of land resources (Zhong 2001; Li, H. 2002; Zhu 2004a). Since *hukou* differentiation prevents most rural workers from settling permanently in urban areas, peasants have been reluctant to give up their agricultural land, which they still see as their only asset and source of income during difficult economic periods.

Returns from agriculture, however, have experienced a continuous decrease from the second decade of reform, while income from non-agricultural activities has become more

important for rural household finances. According to statistics from the Ministry of Agriculture, in 2001 about 55 per cent of farmer's income derived from off-farm and urban jobs (Zhao, H. 2002). Migrant remittances to the countryside have also helped fuel rural development. In a study undertaken by the Ministry of Agriculture in 2003 it was found that an estimated 98 million rural migrant workers sent or brought back home a total of \$370 billion yuan (Kynge 2004). Moreover, although rural per capita income and income growth rates have lagged behind those in urban areas <sup>15</sup>, rural income has continued to grow – again – thanks to non-agricultural employment.

### **Institutional constraints on town development prospects**

Sluggish urban growth and limited development of agglomeration economies in China are not only the result of population mobility restrictions but are also the result of limited factors and capital mobility within and between provinces (Prud'homme 2000, pp. 33-4). Provincial economic protectionism, for example, has increased regional trade costs, while at the same time limiting the role of labour and urbanization in regional economic growth (Yang 2000, p. 44). Restricted products mobility has resulted in low levels of regional specialization, creating duplication of industrial structures and market saturation in various industrial sectors. <sup>16</sup> Furthermore, constraints on capital mobility and ownership issues have adversely affected industrial restructuring and the ability of enterprises to relocate to an area where they are best able to take advantage of the local scale externalities inherent in agglomeration (Au and Henderson 2002, p. 28). This is in particular the case with TVEs, which have for the most part been established in a scattered fashion across the countryside. <sup>17</sup> TVEs have therefore experienced important capital constraints and suffered from restricted factor mobility, while their community-

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<sup>15</sup> In 2004 – which was a good year for agriculture – rural disposable income grew by 6.8 per cent, compared to a 7.7 per cent increase in towns, where earnings are three times higher than in the countryside. Dickie 2005.

<sup>16</sup> In a study on urban productivity across China, Pan and Zhang (2002) reported that some industries have already exceeded their 'optimal' industry size within a given urban area. Those industries included: food processing, wooden products, furniture, paper and paper products, petroleum refining, non-metal raw materials, ferrous metal metallurgical and non-ferrous metal metallurgical. (p. 2275).

<sup>17</sup> By the early 1990s, however, TVE total factor productivity already exceeded that of SOEs due to their greater operational freedom and hard budget constraints. Jefferson and Singhe 1999.

based organization has made it difficult for these enterprises to diversify (share-holding) or change their ownership.<sup>18</sup> Other aspects affecting capital and factors mobility are proximity to the coastal areas and FDI inflows. Access to the coast has been shown to capture greater domestic and international market potential effects, increasing productivity and city growth (Au and Henderson 2002, pp. 23-6). Institutional reform – of the *hukou*, the financial and the legal systems – is hence an indispensable prerequisite to ease the bottlenecks of a more efficient urbanization and industrialization process.

The changes in urban functional structure in the Chinese city system, however, already provide evidence of a significant degree of agglomeration, since – after all – the rate of industrialization has been faster than that of urbanization. And, although urbanization externalities have certainly played an important role in the promotion of economic development, industry concentration in localized geographical areas – mainly the coastal areas – seems to have had a much more crucial role in productivity, economic, and urban growth promotion (Pan and Zhang 2002; Au and Henderson 2002). Manufacturing has been perhaps the main thrust behind agglomeration economies in China. Overall, up to 1996 employment in Chinese cities was concentrated in the secondary and manufacturing industries, which accounted for 40.23 per cent of all urban employment (Tian *et al.* 2002, p. 244). Commerce was next with 17.85 per cent of total urban employment; followed by science, education and hygiene with 13.7 per cent; construction industry with 11.2 per cent; transportation with 7.17 per cent; mining with 4.86 per cent; and government administration with 3.33 per cent (Tian *et al.* 2002, p. 254).

Some of those economic sectors tend to be very sensitive to city size, while others seem to be unconnected to urban scale. Both the size of the construction industry and the service sector are greatly influenced by urban scale. Usually smaller cities have a larger number of workers in the construction sector, while in larger urban centres construction

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<sup>18</sup> Despite the continued difficulties, the Chinese government's industrial policy to 'grasp the large and release the small' (*zhuada fangxiao* 抓大放小) allowed thousands of TVEs to change ownership, by being sold to enterprise managers, employees and other private investors. This privatisation wave in rural China took place after 1995. Dong *et al.* 2002, p. 416. Privatization, however, has not only taken place as a change towards private ownership, but is also evident in the increased private involvement in management and financing of public sector activities. Kong 2003, p. 539.

has a less important role. Close proximity to the coastal areas <sup>19</sup> acts as a separate dynamic making the service sector (finance, insurance, real estate, science, education and hygiene) more significant in the urban economy, which is reflected in larger employment levels in the sector (Tian *et al.* 2002, p. 245). Employment in manufacturing and mining, however, has shown little relationship to urban size, but is closely linked to geographical location of natural resources. <sup>20</sup> Transportation and employment in trade also seem to bear no relationship to urban scale. Industry concentration in those economic sectors in rural areas has therefore potential to positively influence rural urbanization, productivity, employment and rural wages. <sup>21</sup> It is important then for small urban centres and their surrounding rural areas to take advantage of such economic activities, in order to create economies of scale that promote urban and economic growth.

If China's goal is to urbanize the large majority of its rural population, towns and small cities should continue to be actively supported, given that those urban centres present a lower cost of accession to farmers due to their proximity to the villages. At the same time, that proximity also presents an advantage to those urban centres, since it allows for workers to commute from their rural homes to their workplace, instead of having to look for urban housing. According to Johnson (2002) if small cities and towns were to accommodate the large majority of the surplus rural labour – approximately 750 million people, including rural workers and their dependants – those urban centres would have to spend at least an average of 140 billion yuan annually in capital investment (p. 2169). Various studies and surveys on peasants working in towns and townships (Lin 1997; Xu 2001) have shown that a large proportion of rural workers <sup>22</sup> commute to the towns on a daily basis.

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<sup>19</sup> Foreign capital flows into the service sector have greatly increased employment in this sector in the large cities located in the eastern coastal areas.

<sup>20</sup> Over the period between 1989 and 1996 employment in the manufacturing sector experienced a slower growth than that in transportation, construction and the service sector. In large cities the weight of manufacturing is expected to decrease steadily, due to the rapid growth of the service sector, but also owing to increased competition from both TVEs and foreign manufacturers. Tian *et al.* 2002, pp. 246-7.

<sup>21</sup> In a study of Maine municipalities in the US, Gabe (2004) found that industry concentration in rural areas had had positive results on employment and wages in the area (p. 183).

<sup>22</sup> A nationwide survey of 60 designated towns revealed that about 42 per cent of the town's *de facto* population returned to their villages every day. Another survey carried out in the Yangtze River region



Many peasants have realized that it is more convenient and economic to commute rather than move permanently to those cities and towns. In Xu's (2001) study on commuting town workers, the reasons given by peasants as to why they chose commuting<sup>23</sup> to relocation included: having more spacious and cheaper housing; maintaining their income from farming; being able to maintain stronger kinship contact; and, having a cleaner environment; as well as lower crime rates (p. 38). In the short term, commuting could save small cities and towns a substantial amount of financial resources that would otherwise have to be spent on residential development. Nevertheless, rural workers will still need to make use of local infrastructure and public services, and thus their welfare needs have to be taken into account in the development of local urban safety nets. If – as Xu (2001) warns – towns develop into predominantly manufacturing sites instead of more complex living spaces, this will greatly affect the capacity of those urban centres to both attract and retain rural workers (p. 36). A recent study on internal migration patterns (Liang *et al.* 2002) argues that there is yet no significant statistical evidence to prove that rural industrialization in China has stopped rural workers from moving on to large urban centres.<sup>24</sup>

Thus, the issue remains as to whether small cities and towns can create enough jobs to absorb rural surplus labour, while creating a suitable environment to retain those workers on long-term basis. Between 1978 and 2002 the employment growth rate in cities and towns was 4.1 per cent, which translates into an average of around 6.36 million people hired each year (Cai and Wang 2004, p. 17). Like urban growth, an important part of those jobs were created in small urban centres and towns, mainly in the TVE sector. From the early 1980s and until 1993 TVEs provided employment to 112 million rural workers; but by 1999 that figure had only increased to 127.04 million (Wang, Y. 2002, p. 25). According to Johnson (2002), at least 12 to 15 million new non-agricultural jobs

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found that an average of 64 per cent of the population in designated towns returned to their villages every day. SCRES 1996; Zhang and Jin 1992 quoted in Xu 2001, p. 36.

<sup>23</sup> Most of the village-town commuters travel distances no longer than 6 km, which is an easy bicycle ride. Xu 2001, p. 44.

<sup>24</sup> The results of their study suggest that although rural enterprises may reduce intra-provincial migration, they seem to increase inter-provincial population movement. Liang *et al.* 2002, p. 2185.

would need to be created each year over the next three decades to allow for an annual 3 per cent decrease in the agricultural work force, and to provide jobs to new entrants into the labour force (p. 2169). Experts have predicted that small cities and towns could be able to take in 7 to 8 million of those rural labourers each year (*People's Daily Online* August 28, 2001), which still leaves 5 to 7 million jobs to be created elsewhere. In the short term, however, the TVE sector will most likely continue to face many challenges that will be directly reflected in their employment generation capacity (Au and Henderson 2002; Johnson 2002).

While employment in SOEs, collectives and in TVEs continues to decline, employment in the private and foreign sectors is growing rapidly. Small cities and towns have had a smaller state owned sector and have therefore been able to adopt more far-reaching market-oriented policies (Li 2000, p. 31). By promoting private initiatives in all different sectors of the economy – especially the service sector – small cities and towns could boost job creation the same way TVEs generated employment in the 1980s. More recently, job creation has also been linked to the informal economy, which has to a certain extent counteracted the effects of declining formal employment. Therefore, as stated by Cai and Wang (2004), urban employment growth will depend not only on the new economic sectors (private and foreign owned) but will also be strongly influenced by irregular employment.<sup>25</sup> As important as creating employment opportunities will be to provide urban residents and in-coming migrants with public services and the infrastructure that can allow them to build and secure a stable relationship with their urban environment. While commuting may work as a temporary solution for some rural workers, housing development – among other services – needs to be an inseparable part of urban development.

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<sup>25</sup> According to Cai and Wang (2004) irregular employment is linked primarily to private family and micro enterprises. These enterprises do not have clear organizational structures and they hire their workers on a temporary basis often without a formal contract (p. 20).

## Urbanization and housing provision

Housing reform has been a crucial component of urbanization, the regeneration of cities and overall economic growth. Public housing provision had until the late 1990s been an intrinsic component of the state welfare system for urban workers. During the early 1950s private housing was requisitioned by the state and fully nationalized by the mid-1960s. From then on the state acquired a full monopoly over urban housing provision. Like social security and welfare, housing construction and allocation was the responsibility of SOEs, work units and government agencies. Housing had therefore tied the individual to his or her work unit. In contrast, the government assumed no responsibility for rural housing construction, and left peasants to depend on their own resources to build housing. Paradoxically, it was in the housing dimension that the rural population experienced an advantage over their urban counterparts, enjoying larger living spaces compared to overcrowded urban living conditions (Knight and Song 1999, p. 184). State investment in urban housing had been given a low priority, due to the government's perception of housing as being a mere consumption good rather than a basic need of households (Zhu 2000, p. 507). Between 1949 and 1978 investment in urban housing averaged only 0.78 per cent of gross national product [GNP] (Lim 1991), which translated into a slow growth in urban housing stock, low quality housing, and low maintenance of existing housing stock.<sup>26</sup>

By the late 1970s housing shortages and overcrowding had reached a critical situation, with one-third of urban households experiencing housing hardships.<sup>27</sup> Overcrowding and housing shortages were aggravated by rapid urbanization, which included an important movement of people from the countryside into the cities. Between 1977 and 1982 alone, the total urban population had increased by over 40 million (Kirkby 1985, p. 175). Larger cities suffered the worst housing shortages, while – at the same time – already overcrowded housing stood in severe decaying conditions. As much as 50 million square

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<sup>26</sup> Shaw (1997) points out that during the late 1950s housing construction in Beijing was guided by the slogan 'narrow, small, low, and thin' (p. 202).

<sup>27</sup> According to the first national housing census carried out in 1985, 3.2 per cent of urban households were homeless, 12.8 per cent lived in overcrowded conditions, and 10.5 per cent did not have enough rooms for family members of different generations and sexes. Shaw 1997, p. 200.

meters of dilapidated housing needed to be demolished or repaired (Shaw 1997, p. 200). Average urban living space per capita<sup>28</sup> had decreased from 4.5 square meters in 1952 to 3.6 square meters in 1978 (Zhang, X.Q. 2001, p. 69). Within cities, availability, size and quality of housing depended on the scale and importance of the SOE or *danwei*, while within those work units another dimension of housing inequality was played out according to the worker's seniority and personal connections (Knight and Song 1999, pp. 197-8; Zhu 2000, p. 512; Yu 2006, pp. 293-6).

All public housing was distributed by SOEs, work units and government agencies, which charged employees nominal rents – to compensate for their low salaries – that usually fell short of maintenance costs. Based on floor space occupied, rent subsidies further exacerbated housing inequalities, since those who had the seniority or connections to secure a larger dwelling received in practice a larger subsidy (Shaw 1997, p. 201). Housing shortages, unequal distribution of housing, dilapidated housing stock and low investment in the housing sector made the reform of the housing system an immediate reform priority.

As early as 1978 Deng Xiaoping publicized his concerns about the housing problem. An early housing reform launched in 1980 had several aims, including: a) to end the state monopoly over housing provision; b) to turn housing into a commodity – to aid the process of housing privatization –; c) to promote self-built housing; d) to raise rents to commercial levels, and; e) to adjust household income through subsidies or wage increases (Zhang 1990 quoted in Shaw 1997, p. 203). But despite this early attempts at opening the housing market, public housing provision would not start to weaken until the late 1990s. Well into the second decade of the reform period, SOEs, work units and government agencies continued to use housing as a reward for their workers. Some work units, operating under a soft budget constraint and unsecured property rights, had managed to channel large amounts of state resources into workers' housing schemes (Zhu

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<sup>28</sup> Per capita living space became the basic standard of urban housing in Communist China. It excluded corridors, stairways, kitchens and latrines, which were facilities usually shared by households in the same housing compound. It was not until the later 1970s that households were generally provided with their own kitchen and toilet. Kirkby 1985, p. 165.

2000, p. 506). Controls and government guidelines over wages and salaries had consequently made housing the single most used non-cash employee benefit by work units (Yu 2006, p. 295). These practices were put to an end in 1998, when the Central Government announced that subsidized public housing allocation was to be discontinued, and that the resale market of privatized public housing would now be allowed (Zhang, X.Q. 2001, p. 76; Rosen and Ross 2000, pp. 82-3). However, acknowledging prevailing income and purchasing power inequalities in urban areas, the Central Government committed itself to a multi-layered housing system that would continue to provide rent subsidies to the lowest-income urban groups (*China Daily* August 21, 2002).

Housing reform was initiated after the first national housing conference organized by the State Capital Construction Commission in September 1978. The conference drew up a plan for housing targets and discussed the mechanisms to finance housing construction. Decentralization processes and a greater degree of autonomy experienced by state owned enterprises had given enterprises more control over their financial resources, a large proportion of which were soon allocated to housing construction (Kirkby 1985, p. 174; Zhang, X.Q. 2006, p. 332). Housing construction experienced an explosive growth during the early 1980s. Annual housing completion went from an average of 25.2 million square meters during the early 1970s, to over 90 million square meters in 1982 (Kirkby 1985, p. 174). The construction boom prompted an experiment in 1979 with public housing sales<sup>29</sup> at prices comparable to construction costs. Although the new policy received a poor response, in 1982 the government decided to expand it from 4 to more than 50 medium and small cities (Shaw 1997, p. 203). Low-cash salaries barred most workers from purchasing private housing; at the same time, subsidized rentals acted as a disincentive to home buying (Zhu 2000, pp. 508-10). Furthermore, there were concerns among individuals about this sudden support for private housing, and many feared private housing might later be requisitioned by the government (Kirkby 1985, p. 177).

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<sup>29</sup> Only newly-built housing was put on the market. Later on old housing compounds were demolished to make way for new housing developments.

Low levels of private home purchasing changed the government's emphasis on developing commodity housing towards co-financing projects that could provide more economic housing options (Zhang, X.Q. 2006, p. 337). Introduced in 1984 the new scheme distributed the cost of housing in equal shares between the state, the work unit and the individual. However, since workers paid for merely one-third of the value of the house or apartment, they could only acquire partial ownership of their dwelling and could therefore not resell the property (Zhu 2000, p. 509). Although this type of housing development did present a more affordable housing option, its ownership structure did not create sufficient incentives for public employees to take the step of buying their own living space. Rather than acquiring partial ownership, many preferred to continue enjoying the benefits of low rents in their public housing compounds. Again, this early welfare housing policy was unable to break the responsibility over housing provision between the work unit and its employees, and thus failed to foster a functional housing market. Low commercialization rates in the housing market during the 1980s had in fact increased the burden of government subsidies on housing. Between 1978 and 1988 total housing subsidies had risen from 1.3 per cent to 4.2 per cent of GNP (Knight and Song 1999, p. 200).

Despite the setbacks, the promotion of private home ownership maintained its position as a top government priority. Various affordable housing schemes were advanced nationally and in specific cities, but typically only managed to deliver a limited amount of housing. Housing prices – and profit caps – on this type of dwellings were set by the government according to construction, land acquisition and relocation costs (Zhang, X.Q. 2001, p. 70). Low profit margins meant few housing developers were interested in building affordable housing. In order to maximize returns, those who did participate in this housing sector would usually resort to cheap building materials, with the consequent poor construction quality (Rosen and Ross 2000, p. 81). Another important barrier to the full liberalization of the housing market was the fact that only workers in the public sector had been eligible for discounted housing and housing subsidies offered by work units (Wu 2002, p. 96).

Between 1986 and 1988, in a second phase of housing reform, the Central Government experimented with the gradual liberalization of rental prices. The new strategy was meant to urge the advancement of private home purchasing; it tried to discourage people from taking excessive rental space; and was at the same time an attempt to match house size with household income. Throughout the 1980s urban per capita income had experienced important increases, but housing rental levels had remained much lower than wage growth. Rent as a percentage of household expenditure had actually experienced a decline from 2.61 per cent in 1964 to 0.73 per cent in 1992 (Wu 1995 quoted in Zhu 2000, p. 510). The new guidelines established that rents would be raised to a degree where they could sustain housing maintenance, and would gradually increase to up to 15 per cent of average household expenditure by 2000 (Rosen and Ross 200, p. 83).

Cheap rentals and housing subsidies had continued to act as a big disincentive to home ownership. Between 1986 and 1997 rent and services (i.e. water, electricity, gas) accounted for 1.91 and 4.51 per cent of urban household income respectively (Buttimer *et al.* 2004, p. 3). Therefore, after almost a decade of housing commercialization the majority of the urban population continued to live in rented public housing. According to a national household survey carried out by the Chinese Academy of Social Sciences [CASS] in 1988, 84 per cent of respondents were still living in public housing; 14 per cent lived in their own homes (inherited 7 per cent); 7 per cent had built their own housing; 0.4 per cent had purchased private housing; and 2 per cent were living in privately rented accommodation (Knight and Song 1999, pp. 187-8).

Increasing rental levels were also accompanied by changes in housing delivery. In 1988 the State Council issued a new plan for urban housing reform, by which commodity housing would be delivered by property developers rather than by work units (Zhu 2000, p. 509). SOEs and work units remained reluctant to relinquish their role as housing providers and until 1990 remained the main purchasers of commercial housing, acquiring 71.3 per cent of all commercial housing that year (Zhang, X.Q. 2001, p. 73). Investment in housing by SOEs and work units, however, continued to grow up until the late 1990s.

Between 1981 and 1997 financial contribution by work units to total housing investment had soared from 55.4 to 67.7 per cent (Zhu 2000, p. 512).

Furthermore, SOEs and local governments maintained an indirect control over housing development, since most housing developers were their subsidiaries. Individual consumer needs were therefore often superseded by the priorities of the builders and their bosses (Rosen and Ross 2000, p. 80). Up until the late 1990s the majority of housing construction companies were state owned. In 1997, 41 per cent of all construction enterprises were state owned; 22 per cent were collectively owned; 10 per cent were foreign owned; and 10 per cent were Hong Kong, Macau and Taiwan companies (Zhang X.Q. 2001, p. 73). The distinction between state and market in the housing market had thus become blurred. Urban governments benefited indirectly from construction contracts with developers, and more directly through land sales for commercial housing development.

Also crucial to the development of housing as a new economic sector was the establishment of housing financing mechanisms. Realizing that low private home purchasing was largely a problem of affordability, between 1994 and 1998 housing reform concentrated on setting up a housing financial system, which could provide both developers and individual workers with loans for construction, maintenance and home buying. During this period experiments with a Housing Provident Fund [HPF] (*zhufang gongjijin* 住房公基金) were launched, introducing compulsory savings from 4 to 10 per cent of enterprises' wage bill, with equal contributions by employer and employee (Huang 2004, p. 49; Buttner *et al.* 2004, p. 5). The scheme had been introduced in Shanghai as early as 1991, but was implemented nationally in 1995. By 1996 all cities had established their own housing fund, which is administered by the newly established Management Centres of the HPF under the Construction Department. Funds accumulated into workers' individual accounts are owned in whole by the employee, but can only be used for housing related purposes<sup>30</sup> (i.e. home purchasing, paying off a mortgage, or

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<sup>30</sup> The HPF offers several benefits to participants: it allows them to purchase the public dwelling they occupy at a discounted price (between 10 to 40 per cent of the government's asking price for non-fund



repairing a house) (Zhao and Bourassa 2003, pp. 732-3). Upon retirement the employee can withdraw the total amount accumulated in the account, and can use that sum for other purposes (Buttimer *et al.* 2004, p. 5). If the employee dies before making use of the money in the account, his or her heirs would gain access to that money, with the same use-rights as a retired employee.

After several setbacks in the promotion of the housing market, in the aftermath of the 1997 Asian financial crisis, Zhu Rongji – then Premier – announced the formal end of welfare housing. He predicted that the expansion of the commercialization of the housing sector would become a new engine of growth for the Chinese economy (Plafker 1999; Rosen and Ross 2000). SOEs and work units would no longer distribute subsidized housing, while workers were expected to buy housing in the market or pay larger rent shares. Initial negative responses to the new policy were responsible for an implementation delay of two years, although in practice most urban areas had already been experimenting with an incipient private housing market. During this period up to 60 per cent of privatized public housing was allowed to enter the re-sale market, which was fully opened in 2000 (Zhang, X.Q. 2001, p. 71). Individuals had by 1994 already surpassed work units as the main home-buyers, and in 1998 – when the new housing policy was passed – individuals bought 71.9 per cent of all commercial housing sold that year (Zhang, X.Q. 2001, p. 73), up from 28.7 per cent in 1990 (Zhang, X.Q. 2006, p. 335).

In parallel to the process of severing the relationship between work units and housing provision for workers, the 1998 housing reform introduced a multi-layered housing supply system to help meet the needs of people of different income levels. Commodity housing (*shang ping fang* 商品房) – comprised of mostly new private housing stock – was targeted for high-income families; affordable or economy housing (*jingji shiyong fang* 经济适用房) – a type of commodity housing with government-controlled prices – was to be channelled to medium and low-income households; while low-rent housing was to be

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participants); participants are also able to acquire mortgages at below-market rates at state owned banks; as well as being eligible for a tax waiver (10 per cent) on housing transactions. Buttimer *et al.* 2004, pp. 5-6.

guaranteed for the lowest income groups (Zhao and Bourassa 2003, p. 735; Huang 2004, p. 49). Commodity housing could be freely re-sold on the housing market; while economy housing could only be sold after 5 years of occupation and after repaying any profit accrued from the increased value of the land. In some cases, economy housing could be re-sold but only to the original owners (city government or work unit) for a reduced percentage of the market value (Zhao and Bourassa 2003, p. 736). In 2001, however, all constraints on the re-sale of economy housing were eliminated (Buttimer *et al.* 2004, p. 6).

Within this housing framework local governments were given freedom to determine the speed of reform according to local economic conditions (Huang 2004, p. 50). Availability of economy housing has therefore varied greatly across cities, while in many cities low-rent housing schemes have not been available or are insufficient. In 2002, for example, Beijing still had 294,000 households living in overcrowded conditions (*China Daily* August 21, 2002). Dominated by SOEs and ministry-level work units, Beijing's economy and housing situation is still closely tied to the previous welfare provision system. By the end of 1997, 63 per cent of Beijing's housing stock consisted of public housing still under work unit management (Huang 2004, p. 54). Investment in public housing, however, did not reflect this dominance of work unit housing. In 1997 only 7.09 per cent of Beijing's total housing investment was used to build economy housing, while 30.4 per cent of housing investment went towards construction of villas and luxury apartments (Huang 2004, p. 53). Economy and low-rent housing schemes have been extremely limited in most urban centres, mainly because they depend on the direct injection of funds from local governments, which do not always have the incentives or the resources to finance welfare housing. Local governments tend to favour commercial property developments that can bring bigger returns to local coffers through land sales and taxes. Developers of economy and welfare housing, on the other hand, have been entitled to tax exemptions and other discounts (*China Daily* August 21, 2002).

In large cities most workers have had little option but to rely on the provision of subsidized public housing, since commercial housing remains largely unaffordable to the

average-income urban family. Again, using the example of Beijing, in 2001 the average housing price was 4,883 yuan per square metre, while average annual wages stood at 19,155 yuan (*China Daily* August 21, 2002). Home buying had also been restricted due to limited mortgage lending channels<sup>31</sup> and high mortgage interest rates (Plafker 1999; Rosen and Ross 2000, pp. 85-7). Prior to 1998 only three state owned banks had been authorized to offer home mortgages, and these were generally only made available to purchase economy housing. From the late 1980s and up to 1997 the China Construction Bank [CCB] on its own accounted for about 70 per cent of all mortgage lending. Financing channels and funding available to finance home ownership, however, had to be expanded to boost housing commercialization once the end of the welfare housing system was dismantled. In 1998 the People's Bank of China (China's central bank) provided 12 billion yuan to authorized banks, and ordered them to dedicate at least 15 per cent of their lending to residential housing projects (Plafker 1999; Rosen and Ross 2000, p. 86). That same year the CCB dedicated over 30 million yuan for individual mortgage lending, while setting aside around 34 million yuan in loans for the construction industry.

Both the Housing Provident Fund and the opening of home financing mechanisms have been designed by the government to ease the financial stress of households seeking to buy housing. By the end of 1999, all large and medium-sized cities and most small cities had established a housing provident fund, with more than 69 million participants and 140.9 billion accumulated funds (*People's Daily Online* July 15, 2000). Newly available financing mechanisms were successful in facilitating and encouraging home ownership. In 1998 71.9 per cent of commercial housing had been bought by individual citizens (Zhang, X.Q. 2001, p. 73), and by 2002 that figure had gone up to 94 per cent (*China Daily* August 21, 2003). To a lesser extent – but growing in importance – mortgage lending and housing funds have also been used for self-built housing (*zìjiàn fāng* 自建房),

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<sup>31</sup> By the late 1990s mortgage lending was common only in developed provinces like Guangdong. Moreover, state owned banks would typically only offered fixed rate loans. Up until the late 1990s home buyers had to make a down-payment of a minimum of 40 per cent, and were obliged to pay off their mortgage within 5 to 10 years. Mortgage lending terms have been made more flexible since then; down payment rates have been reduced and loan repayment periods have been extended. Rosen and Ross 2000, p. 86.

which has become an important method of home ownership in small urban centres (Huang 2004, p. 52; Zhang, X.Q. 2006, p. 334).

Small cities and towns have enjoyed several advantages that have facilitated the development of a more open and diversified housing market. First, their share of SOEs and government work units in the local economy has been smaller than that present in large cities, hence housing provided by those work units has been more limited. Secondly, housing prices in relationship to local wages in these small cities have been much lower than those prevailing in large cities, allowing for more widespread home ownership.<sup>32</sup> In large cities the link between the work unit and housing – although weakened – has not yet been completely broken. Even after a large proportion of the public housing stock has been transferred on to individual workers, privatized public housing remains within the boundaries of the work unit, which in most cases continues to be involved in the maintenance of its residential areas (Shaw 1997, p. 210; Zhao and Bourassa 2003, p. 741).

The prevailing relationship between work units and housing provision for public employees has also resulted in growing housing inequity across work units. This problem became particularly severe from the late 1990s as a result of the growing number of SOEs and work units experiencing financial difficulties. Meanwhile, successful SOEs and work units were able to make available better quality and more spacious housing for their employees. Housing inequity has also been aggravated by the unequal distribution of housing subsidies. In 1995, 41 per cent of those subsidies were assigned to families in the top 10 per cent of the income distribution (Zhao and Bourassa 2003, p. 738). In small cities and towns, however, where housing subsidies have been very limited, the old housing system has been dismantled more quickly, pushing home ownership outside of work unit boundaries. The different experiences in housing reform across cities thus confirms that housing choice has not only been influenced by household's preferences and income levels, but has also been determined by the particular socio-economic issues

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<sup>32</sup> Jiangyin City in Jiangsu province – a small city of just over 150,000 people – declared the end of welfare housing one year before the Central Governments reform announcement in 1998. Huang 2004, p. 62.

shaping housing stocks, housing markets and government behaviour in each specific urban location (Huang 2004, p. 52).

Another dimension of housing inequity in urban areas was introduced by the large influx of rural migrant workers.<sup>33</sup> Urban housing reform had made little or no provisions to accommodate rural migrant workers, many of whom have lived in urban areas for long periods or have even remained there permanently.<sup>34</sup> Migrant workers have been pushed to the periphery of cities, usually the only area where they can rent cheap housing. Peri-urban villages and rural pockets within cities had typically not been included in urban housing planning; therefore, private rural housing has been widely available in those areas.

From the late 1980s rural migrant agency and the need for housing had also prompted the formation of self-contained migrant communities formed along ethnic or native-place ties (Ma and Xiang 1998). Nevertheless, those migrant enclaves – as an urban social phenomenon – remained the exception rather than the rule. Migrants' temporal status in the city and their rural registration has left them without the possibility of claiming any right to be part of urban housing schemes. Not only is urban commercial housing unaffordable to most rural migrants, their *hukou* status could potentially weaken their ownership claims to any privately acquired real estate property in the city. Results from housing surveys carried out in Shanghai and Beijing showed that among migrants, housing ownership was lower than 1 per cent (Wu 2002, p. 100). Leasing of private housing has been one of the most used options among rural migrants residing in urban areas. Other housing options include staying in dormitories provided by employers, and in migrant housing complexes – managed by sub-district agencies or by private companies (Wu 2002, p. 102). In general, housing conditions for rural migrants have remained much lower than those of urban residents.

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<sup>33</sup> With more job opportunities opening in the private sector, there have also been increasing urban to urban population movements. Those incoming residents are also participating in the housing market.

<sup>34</sup> A 1997 official survey of the 'floating population' (rural migrant workers) carried out in Beijing and Shanghai, showed that around half a million migrants had lived in each of these cities for over three years. Wu 2002, p. 90.

Despite the set-backs and at times limited progress, the reform of the urban housing system has overall been a positive one. Particularly from the late 1990s the rapid development of the housing stock, combined with more widely available financing mechanisms, allowed a growing number of households to become homeowners. At the same time, the quality of the housing available has improved greatly, easing the overcrowded conditions that had prevailed in the late 1970s. Housing commercialization also allowed for a broader housing supply, with diversified alternatives for individuals from different income groups. The phase-out of the previous welfare housing system, however, has aggravated housing affordability for medium and low-income families. As pointed out by Yu (2006), homeownership is likely to become an important marker of class in urban China, due to its growing role as an instrument of investment and wealth (p. 300). Housing development and redistribution of residential space – resulting from urban renewal – has also inevitably brought about new forms of social segregation (Laurans 2005, p. 21). Those most affected by this new form of social differentiation related to housing will be the growing number of rural migrants working and residing in large urban centres. Moreover, in their search for affordable housing they will increasingly come into competition with low income urban families; though in practice the latter group should have better chances at accessing subsidized rental housing and discounted house purchases.

The housing situation in small cities and towns indicates a somewhat radically different situation. Achievements in the development of a more open housing market have the potential to encourage and allow for increased home ownership that is not linked to a government work unit. Self-built housing, for example, has been most common in small cities and towns. One housing study carried out in Jilin Province found that within that province 83 per cent of self-built housing was found in towns (Zhang, X.Q. 2006, p. 334). Availability of more affordable housing (compared to local wages) in small cities and towns will also allow more rural workers to purchase housing, which will in turn secure them more stability and greater chances of staying permanently in those urban centres. In this manner, the socio-economic promotion of small cities and towns – and of their housing stock – could offer an effective long-term solution to the widening

development and income gap between urban and rural areas, and between urban workers and peasants (Wang and Hu 1999, p. 82; Johnson 2002, pp. 2115-6).

Nonetheless, if towns are to attract and keep rural migrant workers, the next step needs to be for small cities and towns to improve their basic infrastructure and service functions, and to expand the coverage of social safety nets to include rural workers. This last challenge will remain a difficult one to fulfil, given that the largest employers in those urban centres have been TVEs and private enterprises, which until recently have not participated in social insurance schemes. Other challenges to small city and town development will be to consolidate and strengthen towns' functions (Lin 2002), and to commit to a more optimal and transparent land use and allocation (Tang and Chung 2002; Andrews-Speed and Cao 2003; Skinner *et al.* 2001; Zhu 2004a). The strategies taken to tackle these and other urban management problems will determine the success of China's unique bottom up urbanization and the creation of a more balanced urban system.

## Chapter 3

# Reform of the social safety net

Creating the necessary safety nets to protect its population from the risks of increased economic liberalization and exposure to global markets during the process of economic transformation has become one of China's greatest challenges. Government intervention in the realm of social security, where spillover effects are greatest, is not a resolved issue even in market economies. Transition economies – like China's – have an even greater task determining what degree of public intervention is best for their social security and welfare systems (Guillaumont Jeanneney and Hua 2004; Jack and Lewis 2004). During the Maoist era, despite important achievements in social security provision, the main pillars of that welfare system had ran counter to economic efficiency (Guan 2000, p. 118). The introduction of market mechanisms has made it increasingly difficult for the government to sustain pre-reform egalitarian social policies. As the economy strides for efficiency and increased productivity, social security and welfare have had to adapt to the new socio-economic conditions. At the same time, social policies have been crucial in helping maintain social stability throughout the transition from a planned to a market economy, and from the public ownership of production to a more diversified economic structure.

Though maintaining its commitment to a more efficient delivery of services – enhanced by marketization and commodification – the state is well aware that the market alone cannot create safety nets for the poor and other vulnerable social groups. Instead, the Central Government has had to revamp social and redistribution policies, leaving aside greater funds to deal with various social issues. In his New Year's address in 2005 – reinforced during the annual National People's Congress – premier Wen Jiabao stressed the need to focus on the quality of economic growth, putting people first in order to build a harmonious society (*People's Daily Online* Feb. 8, 2005; Kahn 2005). The new approach has translated into programs like the Development of the West campaign (Shih 2004; Goodman 2004); targeted poverty reduction campaigns (Heilig *et al.* 2005); renewed support for agriculture and rural social development (Kung 2002; Lu and



Wiemer 2005), and; a strong emphasis on reemployment policies in urban areas (McDonald 2005; *People's Daily Online* March 5 and 8, 2005; Wong and Ngok 2006). These policies are all aimed at maintaining government legitimacy while avoiding unsustainable social instabilities.

Though there is little agreement as to whether China's continued political centralization has been favourable or detrimental to socio-economic reform, it remains true that the Party-State has been both the initiator and one of the most important supporters of reform efforts, and will perhaps continue to be the single most influential actor in policy formulation in the mid to long term.<sup>1</sup> Therefore, the current leadership's concern with widening inequalities and the emphasis on protecting those who are being left out of the economic boom has the potential of translating into positive changes in the realm of social development, rather than remaining as pure rhetorical politics. Public opinion – especially among urban residents – continues to regard government intervention in social security and welfare as a moral responsibility of the State. In Shanghai – where state intervention is particularly high – a 1996 survey showed that urban residents felt that the government initiated social security reform had helped ease popular anxiety over economic restructuring (Wong and Lee 2000, p. 114). Even though expectations over the 'right amount' of government intervention both in economic and social arenas is due to change over time, urban society's strong sense of entitlement – a legacy of the Maoist welfare system – will most probably continue to demand state intervention, which can at the same time strengthen government legitimacy. The biggest task for the Party-State, however, will be on the rural front, where social safety nets and most public services have to be reconstructed or even created from scratch.

While the expansion of coverage outside of the urban areas continues to be a mammoth task, the urban social security system is gradually moving towards a more inclusive and standardized system. Policy wise, China is aligning its social security system with those

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<sup>1</sup> Blanchard and Schleifer (2001) have argued that political centralization has been a crucial element of China's successful economic transition, while others see the Party's will to preserve political hegemony as a strong obstacle for revamping state institutions and state capacity (Zheng 1997; Béland and Yu 2004).

in the developed world <sup>2</sup>, though with unique adaptations to its domestic conditions. Yet, rather than policy formulation, the greatest challenge to social security reform has been policy implementation. According to the logic of decentralization, not only are counties and townships responsible for providing such critical services like health care and basic education, they are also in charge of pooling resources for pensions and unemployment insurance, as well as having to fund the development of local infrastructure. Since the 1997 restructuring of SOEs, the Central Government has also pushed local governments to promote reemployment programmes for laid-off workers, and to pool resources for assistance schemes to guarantee a minimum living standard for urban residents. <sup>3</sup>

Uneven development combined with those decentralization processes has consequently created large variations across regions and between urban and rural areas in the quality, accessibility, and extent of coverage of social security and public services. For lower governmental levels – often strapped of resources – financial responsibilities have become overwhelming, and in many instances welfare premiums cannot be delivered. Furthermore, rural and less developed areas have had the added complication of suffering from weak administrative capacity, which has further deteriorated public service delivery and diminished social security provision in those areas.

The gradual unfolding of the social security reform hence follows the trajectories of local development – enmeshed in the dynamics of uneven economic development – and institutional reform. Economic reform and marketisation have severely shaken the old welfare system, previously based on urban state employment. Economic liberalization and increased market competition has meant that SOEs are no longer able or willing to solely bear the burden of social security and welfare provision. Because of a lack of alternative funding channels, the collapse of the industry-based welfare system has shifted the burden of safety net provision to local governments, which became

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<sup>2</sup> In the case of pension reform, for example, China has closely followed the developments of the Singaporean and Chilean systems, moving away from the SOE based pay-as-you-go system to a multi-pillared funded system. See: West 1999; Li and Li 2003; and Huang 2003. World Bank programs and technical support have also influenced China's pension system. See: Béland and Yu 2004.

<sup>3</sup> These include the establishment of unemployment insurance (funded by employers and employees) and a minimum living standard security system (urban social relief system) funded by local governments. *White Paper on Labour and Social Security in China* 2002.

responsible for providing pensions to retirees of ailing SOEs (West 1999, p. 167) and unemployment benefits to those who have consequently been laid-off (*White Paper on Labor and Social Security in China* 2002). For already overburdened local governments this state of affairs is unsustainable.

Although reform priorities had often tilted towards economic goals, since the 16<sup>th</sup> National Congress of the Chinese Communist Party in 2002 social issues have become an important part of the government's agenda (Fewsmith 2002, 2003; *Xinhua News Agency* Nov. 10, 2002; Kwan 2003). The CCP has come to realize that social unrest presents a real threat not only to the success and continuation of the reform process, but also to its own leadership (Perry and Selden 2000; Chung 2003). Social security and welfare reform are part of a new social agenda intended to tackle widening inequalities, among other socio-economic issues. Newly implemented social policies require an active involvement of sub-national levels of government, and a more active cooperation of new economic actors and civil society. Ultimately, the reform of the social security system aims to shift the burden of social security provision from SOEs and government, to a more socialized system financed from various channels. According to a government white paper <sup>4</sup> issued by the State Council in 2002, the reform of the social security system has the goal of:

‘establishing a standardized social security system independent of enterprises and institutions, funded from various channels, and with socialized management and services, a system characterized mainly by basic security, wide coverage, multiple levels and steady unification’ (*White Paper on Labor and Social Security in China* 2002).

Social security reform is still in its infancy, and although the intention has been to widen the coverage of basic provision, the system is only designed to cover the urban population. Rural areas – which still hold the majority of the population – and rural migrants working in the cities are yet to be included in the system. Meantime, social security and public services in most rural areas are facing a critical situation. Evidence

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<sup>4</sup> Even though there is yet no national social insurance or social security law, under the constitution the State Council has some legislative powers to issue decrees and adopt administrative rules through its various departments. Zhu 2002, p. 40.

from other developing countries attests to the fact that the challenges of decentralization are indeed greater in the rural areas and in conditions of uncertainty and limited resources (Klugman 1994; Prud'homme 1995; Rodriguez-Pose and Gill 2003). Those are the conditions faced by many county governments in China. Exploring the dynamics and developments in social security provision at that level thus becomes a crucial part in the understanding of social development and social cohesion within China as whole.

### **The challenges of social security reform**

From the inception of the PRC, state owned enterprises [SOEs] and public service units [PSU] (*shiyè danwèi* 事业单位) became the main agents carrying out economic plans, while serving also as the state's channel for social welfare provision in urban areas. Those enterprises created small socio-economic microcosms, providing the jobs needed to secure full employment, while at the same time supplying their workers with a wide range of social benefits and welfare entitlements. Economic efficiency was not a priority, with the system mostly concerned on guaranteeing universal employment and welfare coverage for urban state workers. Rural areas were organized around the communes, through which agricultural production and some social services were planned and delivered. Agricultural land and resources were considered to be peasants' social insurance; hence no direct government financial provisions were assigned to the countryside. The current social security reform thus faces two main tasks: to shift its enterprise-based social security system to a more socialized system, with government, enterprises and society all contributing funds; and, to expand coverage to include all sectors of the urban economy, and ultimately to cover the rural population. How the reform proceeds will greatly depend on finding the mechanisms to finance and regulate that transition.

After almost twenty years of experimentation – throughout which the government issued various decrees delineating the framework of the reformed social security system – in 2002 the State Council consolidated the guidelines for the national standardized mandatory social security system (*People's Daily Online* April 29, 2002). Mixed funding

from government, enterprises and employee contributions is set to back China's new social security system and its various insurance schemes. Fund pooling is carried out along administrative lines <sup>5</sup> (province, city, and county) (West 1999, p. 165). Participation in the social security system is compulsory for all enterprises, even though the new guidelines establish no specific penalties for non-compliance (Huang 2003, p. 189). This lack of punishment for defaulters severely hinders acquiescence by non-publicly owned enterprises, which usually prefer to offer higher salaries to employees and leave the issue of social security to individuals' savings.

The new social security system is comprised of old-age pension insurance (*yanglao baoxian* 养老保险); medical insurance (*yiliao baoxian* 医疗保险); unemployment insurance (*shiye baoxian* 失业保险); work injury insurance (*gongshang baoxian* 工伤保险); and childbirth insurance (*shengyu baoxian* 生育保险). These last two insurance schemes are at an early stage of implementation and so far are only offered by a limited number of enterprises <sup>6</sup>, since both have to be solely funded by employers (*White Paper on Labour and Social Security in China* 2002). Premium contributions by employers and employees vary for the other insurance schemes. In the countryside social insurance programs remain limited, since they are often solely financed by farmers' contributions, aided by collectively raised funds from rural enterprises and fees on farmers, where economic conditions allow it (Zhu 2002, p. 21). Even though China's countryside is home to around 77 per cent of the elderly, by the end of 2003 (Xiong 2000, p. 2) only 54.28 million peasants had joined the old-age insurance system (Table 3.1), and merely 1.98 million were benefiting from the program (*China Internet Information Center* 2004). Moreover, rural migrant workers residing in the cities who do not hold an urban registration have yet not been eligible to join the urban-based social security system. <sup>7</sup>

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<sup>5</sup> Fund pooling has also been organised along some national trade sectors, like civil aviation, railways, banking, electric power, coal mining, and the postal service. Leung 2003, p. 78.

<sup>6</sup> At the end of 2003, 45.73 million workers were covered by the work injury insurance, while 36.48 million participated in the childbirth program. These figures were small compared to the total number of workers covered by old-age insurance (154.9 million) and by medical insurance (108.95 million). *China Internet Information Center* 2004.

<sup>7</sup> During the 16<sup>th</sup> CPC National Congress, a government report established that in order to build a prosperous society the Ministry of Labour and Social Security was considering setting up a pension insurance scheme for rural residents working in the cities; for those whose land had been requisitioned by the government; and for those who had recently changed their rural registration into an urban one. These

**Table 3.1 Overall participation in the social security system (Millions)**

	1999	2001	2003
<b>Participants in the pension insurance program</b>	95.018	108.019	116.46
<b>Number of retirees in the pension insurance program</b>	29.84	33.81	38.6
<b>Participants in the health insurance program</b>		76.3	108.95
<b>Participants in the unemployment insurance program</b>	-	-	103.73
<b>Number of workers receiving unemployment compensation</b>	1.01	3.12	4.15
<b>Participants in the rural pension insurance program</b>	80	59.95	54.28

Source: *China Internet Information Center* 2004, 'China Facts & Figures 2004'.

Administration of the new social security system has been centralized by the Ministry of Labour and Social Security. The Integrated Social Security Administration had been approved at the First Session of the Ninth People's Congress in March 1998 (Research Group on China's Social Security System 2000, p. 53). Previously, social security for civil servants and those employed by public service enterprises, as well as rural social security were administrated separately from the urban labour social insurance schemes<sup>8</sup>, while medical insurance was under the administration of the Ministry of Public Health. Another welfare mechanism included in the *Labour and Social Security White Paper* is the 'minimum living standard' guarantee system<sup>9</sup>, for which a specific share of the local governments' budget is allocated every year (*White Paper on Labour and Social Security in China* 2002). General provisions have also been established to give financial assistance and to provide services to those in extraordinary conditions – including senior

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insurance schemes are yet to be established. Guo 2002. Only Shenzhen has established a compulsory pension system for migrant workers. However, pension premiums and contributions by employers and employees are lower than those of the national urban labour old-age pension insurance scheme. *People's Daily Online* Feb. 9, 2001.

<sup>8</sup> The Ministry of Personnel used to manage insurances for staff of public service enterprises and civil servants; rural social security was administered by the Ministry of Civil Affairs; and labour social insurance was handled by the Ministry of Labour. Research Group on China's Social Security System 2000, pp. 52-53.

<sup>9</sup> The system is designed to guarantee a basic livelihood for urban residents experiencing financial difficulties and who are not eligible for unemployment benefits, or whose unemployment benefits have already been terminated. Leung 2003, p. 83.

citizens, orphans and handicapped persons – funded by especially instituted lotteries.<sup>10</sup> Lastly, there is a natural disaster relief system funded by both Central and local governments; and a so-called social mutual help system financed with public donations<sup>11</sup> and administered by the Ministry of Civil Affairs. This chapter only considers the case of the old-age pension insurance system, to illustrate the issues facing the transition to a social insurance system that incorporates mixed funding mechanisms, under the existing institutional framework.

### **The case of pension insurance reform**

Since the 1990s, China's aging population has become an even more pressing issue than population growth. Growing at an annual speed of 3.2 per cent<sup>12</sup> by 2004 China's population over 60 years of age had reached 134 million; accounting for more than 10 per cent of the total population (He *et al.* 2005). By 2030 China's population aged 60 and over is set to account for 24 per cent of the total population, and to further grow to 48.4 per cent by 2050 (Xiong 2000, p. 1). This rapidly growing aging population will present China with serious economic and social challenges. Confucian filial traditions establish that children have a moral obligation to support and look after their parents in their old age. Yet, changing demographic and socio-economic conditions are threatening to break that filial bond. Both family planning and population mobility are increasing the phenomenon of the elderly occupying 'empty nests'. According to Xiong Bijun, director of the Institute of Gerontology at the Chinese Academy of Social Sciences, in 2004 already one third of the urban elderly were living on their own; mostly as a result of the

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<sup>10</sup> The rights of these groups are protected by the Law of the People's Republic of China Guaranteeing the Rights and Interests of Senior Citizens, the Law of the People's Republic of China on the Protection of the Handicapped, and the Regulations Concerning Work on the Provision of the "Five Guarantees" in the Rural Areas. *White Paper on Labour and Social Security* 2002. Welfare lotteries started to operate as early as 1987. *China Internet Information Center* 2004.

<sup>11</sup> According to the Ministry of Civil Affairs between 1996 and 2002 social donations totalled 9.49 billion yuan. In 2003 alone – due to the SARS epidemic – social donations exceeded 4 billion yuan. *China Internet Information Center* 2004.

<sup>12</sup> China's population is aging at a higher speed than that experienced by Western countries. In just 18 years Chinese society moved from being an adult society to an aging one, while in France it took 115 years, in the United States 60 years; and in Britain 45 years. *China Today* April 2005a.

reduction in family size and people changing residence in search for better job opportunities (*China Today* March 2004).

China's controversial family planning policy has effectively reduced the total fertility rate to 1.8 per cent (*China Today* April 2005), a much slower growth rate than that of the aging population. Even though by early 2005 China's population had reached the record number of 1.3 billion, this had come four years later than experts had expected (*China Today* April 2005). China is not only aging faster than developed countries; it has also become an aging society with a still low per capita GDP.<sup>13</sup> As the population ages further, pressure will mount on the economically active population to support retired workers.<sup>14</sup> China's labour force is due to peak around 2015 – reaching a level of up to 930 million workers (*China Today* April 2005a). Nevertheless, only if the majority of those entering the labour market can secure permanent jobs will this large labour force lighten the burden of social security provision. So far the government has borne a large part of the pension burden. From the early 1990s government expenditure on pensions has been the fastest growing expenditure category. In the decade from 1990 to the year 2000 pension spending trebled from 0.8 per cent to 2.4 per cent of GDP; with some experts predicting that in a 'worst case' scenario pension spending could exceed 12 per cent of GDP by 2040 (Whiteford 2001, p. 30). Furthermore, from 1978 to 2003 the number of pensioners increased from 3.14 million to 38.6 million, with the ratio of workers to pensioners<sup>15</sup> declining from 30.3 to 3.01 (West 1999, p. 155; *China Internet Information Center* 2004).

This declining workers-to-retirees ratio is also the result of the institutional setting in which the pension system was first established. From the inception of the pension system in the early 1950s, all state employees were eligible for a retirement pension after at least

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<sup>13</sup> Most developed countries started to experience the aging of their populations when their average per capita GDP was between \$4,000 and \$10,000 US dollars. *China Today* April 2005a.

<sup>14</sup> During the 1960s and 1970s around 250 million people were born in China. After this baby boom fertility rates experienced a sharp decline due to birth-control policies. Selden 1997. Those born during the 60s and 70s have now to be supported by a decreasing labour force.

<sup>15</sup> The 1978 ratio of workers to retirees includes only formal workers in state owned enterprises; the ratio for 2003 is calculated dividing the number of participants in the pension insurance program by the number of pensioners.



20 years of employment; while retirement age for women and men went from 50 to 60 years old – depending on the type of work carried out. Therefore, it was in the 1970s that state workers started to qualify for a pension <sup>16</sup> (West 1999, pp. 154-5). After Mao's death and the subsequent end of the Cultural Revolution, 'sent-down youths' started to return to the cities <sup>17</sup>, putting increasing pressure on urban employment (Selden and You 1997, p. 1660; Huang 2003, p. 179). To mitigate unemployment the government encouraged people to retire early and leave their posts to the younger generations. <sup>18</sup> Growing numbers of retirees, however, translated into large pension burdens for SOEs, which had at the same time to deal with pressures to increase enterprise productivity. Many SOEs started to resort to hiring staff on a temporary basis, thus avoiding responsibility for providing them with social security. By the second half of the 1980s, the gradual decline of employment in the state sector – due to failing SOEs, industrial restructuring and large lay-offs – left the government unable to guarantee pension and unemployment payments for many urban retirees.

Largely motivated by SOE restructuring (Zhao and Xu 2002), reforms in the pension system were initiated as early as the mid-1980s. The main objectives of this reform were to establish a multi-pillar funded pension program and to unify the different pension schemes existent across the country. <sup>19</sup> According to the new unified system's regulations – issued by the State Council in 1997 – the pension system is to be financed through three sources. The first pillar or source consists of funds pooled by local governments (city, county and town) – the so-called mutual assistance funds – supplied by a 13 per

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<sup>16</sup> In 1978, 74.5 million state sector workers and 20.5 million urban collective workers were eligible for pension benefits. That year 3.1 million workers were receiving pensions; 2.8 million from the state sector and 0.3 million from the collective sector. Selden and You 1997, p. 1660.

<sup>17</sup> During the late 1970s, around 10 million of the 17 million youths sent down to the countryside after 1964 had returned to the cities. Selden and You 1997, p. 1660.

<sup>18</sup> Retirement eligibility requirements were greatly relaxed, at the same time that more generous pension benefits were offered. Continuous service requirement was reduced from 20 to 10 years, and pension benefits were raised from 70 to 75 per cent. There were reported cases of people retiring as early as 29. O'Neil 2001. Eligible retirees could also designate a child to substitute (*dingti* 顶替) them as a permanent employee in the parent's work unit. This program was eliminated in 1986. Selden and You 1997, p. 1660.

<sup>19</sup> Civil servants and staff in public service enterprises continue to be covered by a separate more generous pension system and a special voluntary old-age insurance scheme. OECD 2004. More recently, pension eligibility for these state employees has been linked to their work performance, in a move to preclude corrupt practices within the government. *China Internet Information Center* Dec. 14, 2004.

cent payroll tax on enterprises<sup>20</sup> that functions as a pay-as-you-go [PAYG] scheme. Though raised by sub-national governments, the new guidelines establish that those funds must be raised to the provincial level for redistributive efforts (Zhao and Xu 2002, p. 399; Bottelier 2002). The second pillar consists of mandatory contributions by employers and employees, accounting for 11 per cent of enterprises' wage bill, 8 per cent of which is deducted from workers wages and the rest contributed by enterprises. These mandatory contributions are directly deposited in employees' individual accounts. Mutual assistance funds and mandatory contributions form the basic pension scheme. The third pillar is the occupational pension scheme, which consists of voluntary provisions by enterprises to their staff.<sup>21</sup>

Employees who have reached retirement age as provided by law (60 for male employees and 50 for females) and who have paid their share of the premiums for 15 years or more are entitled to a basic old-age pension every month after retirement (*Information Office of the State Council of the PRC* 2004). Monthly pension payments<sup>22</sup> are equivalent to about 20 per cent of an employee's average monthly wage in the area in the previous year (*White paper on Labour and Social Security in China* 2002). At the end of 2003 the old-age pension program had 116.46 million participants, 38.6 million of whom were already retired (Table 3.1). By September 2004, the number of workers participating in the system had surged to 160.62 million (*China Today* April 2005a). Pension funds increased in tandem. Between 1998 and 2003 national pension funds grew at an annual rate of 20 per cent; which included 80 billion yuan paid by workers, 220 billion contributed by enterprises, plus a Central Government subsidy of 176 billion yuan (*People's Daily Online* June 8, 2004).

But despite the resurgence in the number of workers included in the pension scheme, a large proportion of the labour force remained without coverage. In 2003, only 45.4 per cent of total urban employees (256.39 million) were covered by pension insurance. That

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<sup>20</sup> This payroll tax is calculated from enterprise's pre-tax revenue (Zhao and Xu 2002, p. 399).

<sup>21</sup> Enterprises contribution for all three pension pillars cannot exceed 20 per cent of total payroll tax. *White paper on Labour and Social Security in China* 2002.

<sup>22</sup> In 2003 monthly pension payments averaged 621 yuan. *Information Office of the State Council of the PRC* 2004.

same year, only 11 per cent of rural labourers had old-age insurance <sup>23</sup> (Tables 3.1 and 3.2).

**Table 3.2. Population and Employment Indicators**

	<b>1999</b>	<b>2001</b>	<b>2003</b>	<b>Unit</b>
<b>Total Population</b>	<b>1,259.09</b>	<b>1,276.27</b>	<b>1,292.27</b>	Million
Non-agricultural	315.62	334.52	376.77	Million
Agricultural	943.47	941.75	915.5	Million
<b>By place of residence</b>				
Urban	388.92	480.64	523.76	Million
Rural	870.17	795.63	768.51	Million
<b>Age groups</b>				
0-14	25.4	22.5	22.1	%
15-64	67.7	70.4	70.4	%
65 and over	6.9	7.1	7.5	%
Dependency coefficient of the aged	11.15	10.09	10.65	%
<b>Employment</b>				
<b>Economically active population</b>	<b>727.91</b>	<b>744.32</b>		Million
<b>Total Number of employed persons</b>	<b>713.94</b>	<b>730.25</b>	<b>744.32</b>	Million
<b>Urban</b>	<b>224.14</b>	<b>239.4</b>	<b>256.39</b>	Million
In state owned units (a)	85.72	76.4	68.76	Million
In urban collectives	17.12	12.91	10	Million
In private enterprises	1.053	1.527	2.424	Million
<b>Rural</b>	<b>489.82</b>	<b>490.85</b>	<b>487.93</b>	Million
In TVEs	127.04	130.86	135.73	Million
In private enterprises	9.69	11.87	14.11*	Million
<b>Unemployment</b>				
No. of registered unemployed persons	5.75	6.81	8	Million
Registered unemployment rate	3.1	3.6	4.3	%
Number of retirees and resigned staff	36.99	40.08	44.33	Million

(a) Includes permanent and temporary staff and workers; \* Figure for 2002

Source: China Internet Information Centre 2004, 'China Facts & Figures 2004'.

Given that the rural pension system is funded almost entirely by peasants, expanding coverage there depends mainly on the economic conditions of rural communities. Yet, even for those who are able to afford pension premiums the incentives to join the system have been low. Government regulations require pension funds to be invested in government bonds or else to be deposited in local banks, but both options typically offer very low rates of return (Zhao and Wen 1998, p. 10). Instead of directly subsidizing rural

<sup>23</sup> The rural pension program was first promoted nationwide in 1991. By the end of 1997 it had 87 million participants, with payments per capita at 169 yuan, only 11 per cent of 1996 rural net per capita income. Zhao and Wen 1998, p. 10.

pensions, the Central Government has resorted to a series of subsidies for targeted groups in the countryside. In March 2004, the State Population and Family Planning Commission announced that those farmers over 60 years of age and who had only one child, would be eligible to receive a minimum of 600 yuan annually (50 yuan per month) until their death (*China Today* April 2005).

Notwithstanding the relief this policy will be able to bring to some rural households, it represents only a drop in the ocean of the rural aging population problem. Dismantled collective mechanisms in the countryside have left all responsibility over old-age support and welfare to the rural household. Peasants rely on their savings, their land and their children to support them in their old age. Rural surveys have shown that the majority of the elderly population in rural areas are living in depressed economic conditions, with almost 70 per cent receiving support from their children (Xiong 2000, p. 2). Support from children, however, can no longer be taken for granted. As previously noted, factors affecting filial obligations towards parents include demographic changes in household composition<sup>24</sup>, and rural-urban labour mobility. A growing number of villages are now inhabited only by old people and children, with the economically active population usually working in the urban areas. Savings and land are also a problematic form of old-age insurance, due to limited protection of private property rights (Zhao and Wen 1998, p. 8). Rural pension programs seem to present no viable solution either, since they have to be funded almost solely by participants (aided by collective funds where they are available (Guo 2002)), and offer only low return rates to their investment (Zhao and Wen 1998). Rural pension insurance schemes have been successful in rich rural areas, where extra funds can be pooled collectively and where grass-roots organizations have a stronger administrative capacity.

Funding provisions for the urban pension system have been much more generous than those in the countryside. In 1998, in order to ease the transition from the PAYG system to the new socialized system the State Council established a framework for provincial

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<sup>24</sup> Reduced household size is partly the result of decreasing fertility rates – induced by the family planning policy – but is also due to the rise in bride’s average age at first marriage and education levels among women. Hussain 2002, p. 1933.

governments to set aside a reserve fund to ensure the payment of old age pensions, with the rate of the fund determined by each province (Research Group on China's Social Security System 2000, p. 51). In 2000 – partly as the result of low capital accumulation in provincial funds – the Central Government then created the National Social Security Fund [NSSF], which was to help provinces meet the costs of the pension transition. By the end of 2004, the fund had accumulated assets totaling 149.2 billion yuan (OECD 2004, p. 5). Nearly 78 per cent of those assets had been contributed by the Central Government, 17 per cent came from the sale of state holdings in listed enterprises, and 5 percent was raised through lottery sales (USA Social Security Administration, April 2004).

Poor urban centres in the central and western provinces continued to have problems raising enough pension funds from local enterprises and were therefore running large pension deficits. To fill in the gap the Central Government allocated supplementary funds for those areas. In 2003, a total of 47.4 billion yuan from the central budget was allocated to twenty-five cities located in the central and western provinces (*People's Daily Online* Sept. 8, 2004). In another effort to increase returns on pensions, the NSSF was put in charge of investing social security funds in the stock market.<sup>25</sup> However, only a small percentage of the funds has been invested, since a large part of the pension funds has to be used to pay for current pension liabilities.

Another government strategy aiming to complement the basic pension scheme was the consolidation in May 2004 of a voluntary retirement plan under the Enterprise Annuity Law (Sun 2005). This new law created a legal structure for the occupational pension scheme<sup>26</sup> (a voluntary provision by enterprises to their staff), which had been operating on an experimental basis since 2003 (Sun 2005). Trying to create incentives for firms to support occupational pension the Enterprise Annuity Law stipulated that enterprises contributing to the annuity fund could get a tax weaver for up to 4 per cent of their

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<sup>25</sup> Asset allocation of NSSF funds in 2004 included 13.6 billion yuan in stocks, 114.5 billion yuan in bonds, and 21.1 billion yuan in other assets. Close to 5 per cent of NSSF assets have been invested in the Hong Kong stock market. OECD 2004, p. 5.

<sup>26</sup> By the end of 2003, the Ministry of Labour and Social Security had 7 million workers registered under the occupational insurance scheme. Sun 2005.

employees' annual wage bill, thus easing the burden of high pay-roll taxes.<sup>27</sup> Nonetheless, tax exemption in this matter is to be determined and granted at provincial governments' discretion (USA Social Security Administration, June 2004). By mid-2004, a few months after the Enterprise Annuity Law was passed, only a dozen provinces had confirmed they would provide tax relief to enterprises joining the scheme (OECD 2004, p. 5). Another important aspect of the new occupational pension is that it can be managed by private insurance companies. That same year the China Insurance Regulatory Commission had approved the Shanghai-based Taiping Life Insurance as the first pension insurance company<sup>28</sup> to manage a corporate pension fund (*People's Daily Online* Dec. 22, 2004). Moreover, occupational pensions were set to be convertible into bonds from the second half of 2005 (Sun 2005). Both moves represent the first steps towards the creation of a private pension market that can bring better returns to pensioners, while enhancing the socialization of the management of those funds.

### **Incentives and regulatory frameworks**

Despite the important steps taken towards the diversification of pension fund pooling and management, declining employment in the state sector and limited participation of non-publicly owned enterprises has severely diminished the prospects of successfully financing the transition of the pension insurance program from the enterprise-based PAYG system to a multi-pillared one. Although compulsory for all enterprises, the lack of penalties for non-compliance<sup>29</sup> has made it very difficult for local Labour and Social Security Departments to get more enterprises to join the system. As stated by Béland and Yu (2004) limited administrative capacity restrains the regulatory power of local governments, which have little power to go against enterprises' interests (p. 270). In some cases there has also been unwillingness on the part of local governments to collect

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<sup>27</sup> High payroll taxes have been responsible for widespread payroll tax evasion, which further limit pooled funds for social security. Zhao and Xu 2002, pp. 400-4; Li and Li 2003, p. 282.

<sup>28</sup> Because of its size potential, pension funds management has become one of the main targets for competition among insurance and securities companies. Sun 2005.

<sup>29</sup> In January 1999, the State Council passed the 'Tentative Rules on the Payment of Social Security Dues', allowing for penalty imposition on defaulters. Rösner 2004, p. 77. However, the new regulations did not specify penalties for non-compliance, while loopholes in the rules' setting continue to allow many enterprises to remain outside the system. Huang 2003, p. 190.

pension taxes, and to integrate their pension funds at the provincial level (Bottelier 2002; Zhao and Xu 2002). Previously, local governments had been in charge of administering pension pools, which had been used as a source of local investment, usually for purposes other than pension payments (Zhao and Xu 2002, p. 403). By raising fund pooling to the provincial level, the new system took control of pension funds away from local governments. Furthermore, the redistributive nature of the system – taking surplus from one city to cover for the deficit of another – has acted as yet another disincentive to local payroll tax collection (Zhao and Xu 2002, p. 403).

Similarly, employers and employees in the growing non-state sector have remained reluctant to join the pension system. According to the Ministry of Labour and Social Security, at the end of 1997 only 53.8 per cent of urban collectives and 32 per cent of other enterprises participated in social pension programs; while 93.9 per cent of SOEs were offering pension coverage to their employees (Zhao and Xu, p. 400). Some commentators argue that pension reform – including appropriation and management of funds – has been highly politicized and used as a mechanism to ease the problems of SOE restructuring without consideration for the situation of the new economic sector (Zhao and Xu 2002; Dorn 2004). High payroll taxes make enterprises reluctant to enter the system <sup>30</sup>, at the same time that it pushes already enrolled enterprises to underreport employees and wages (Hu 2001, pp. 3-7; Leung 2003, p. 80). Many have argued that in order to create the right incentives for enterprises to join the pension system the payroll tax needs be reduced (Zhao and Xu 2002; Li and Li 2003). Zhao and Xu (2002) have shown that a full transition to the new system can be financed with a 15.76 per cent payroll tax – instead of the current 24 per cent rate – a rate that could also allow for an expansion of the tax base (pp. 410-1).

Depletion of funds in individual accounts has acted as another disincentive for bringing in more workers into the system. Workers' accounts have for the most part been used to

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<sup>30</sup> Besides contributions for pension insurance enterprises have to contribute to health and unemployment insurance pools, and in some cases also pay for work injury and childbirth insurances. The first three insurances alone impose a payroll tax of 35 per cent (11 per cent deducted from employee's wages). Such high government taxation level on enterprises has been linked to enterprise efficiency losses. Browning 1987, pp. 11-23.

pay for current pension payments and therefore exist only in name.<sup>31</sup> By 2000 around 199 billion yuan (about 2 per cent of GDP) had been transferred from individual accounts to mutual assistance funds (Li and Li 2003, p. 282). The pension funds deficit<sup>32</sup> has been largely the result of the new system taking on the liabilities of those pensioners in the old PAYG system (OECD 2004). Without a firewall to separate individual accounts from mutual assistance funds there will continue to be little incentive for workers to join the new system (Zhao and Xu 2002; Huang 2003; Li and Li 2003; Dorn 2004a). Efforts should also be made to increase the rates of return for pension assets, in order for them to generate enough dividends to fund individual pensions by the time workers retire. Inadequate pension payments have pushed many elderly retired workers into poverty (Leung 2003, p. 80). Minimum pension payment levels are even lower than the assistance provided through the ‘minimum living standard’ guarantee system. Current conditions are far from providing confidence to workers of securing at least a basic lifestyle in their old age.

A further complication to the system is the issue of the lack of transferability of pension accounts and benefits from one enterprise to another. Job-hopping has become a common trend among workers; often an attempt to maximize salary expectations. Largely perceived as being non-transferable, many workers view pension payments as a burden rather than as an investment for the future. Also aware of this, many enterprises (particularly non-public ones) use instead high salaries to attract workers, and in that way justify their non-compliance with social insurance schemes. As can be attested from this analysis the current framework governing pension schemes makes non-compliance – at least in the short term – the best financially rational decision. One policy alternative suggested to create greater incentives for workers to join the new system would be to allow individual accounts to remain separate from social pension funds, by shifting management of those funds to private professional asset managers (Bottelier 2002; Wang 2004; Dorn 2004). Some have gone as far as to argue that an essential requirement for a successful pension reform would be to privatise the pension system, in order to free

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<sup>31</sup> It is estimated that individual accounts have accumulated less than a quarter of the funds workers should be entitled to. OECD 2004, p. 4.

<sup>32</sup> All but 7 provincial governments are running a pension deficit. OECD 2004, p. 4.



retirement funds from political interference (Dorn 2004, p. 438). For those conditions to be realized, however, capital markets would have to be further liberalized (Wang 2004), and a strong legal framework that can guarantee worker's property rights over their pension accounts would need to be established (Dorn 2004). Once workers can secure property rights over their pensions – with higher rates of return – pensions can be made portable, not only from one enterprise to another, but between cities and regions – enhancing labour mobility and the unification of the pension system.

Guaranteeing a more reliable system that can provide better economic returns might in tandem encourage workers to demand their enterprises enrol in this and other social insurance schemes. Separating individual and social pension funds can also help ease enterprises' concerns about cross-subsidisation of ailing SOEs. Moreover, enterprises could alternatively use occupational pension schemes to make themselves more attractive to potential employees. Lowering enterprises' contributions to the various social insurance schemes will be a necessary prerequisite not only to lower the burden of current participants, but – most importantly – to increase the number of enterprises enrolled. The latter must become the top priority of the whole social security system, if it is to become sustainable in the mid to long term. If reasonable levels of enterprise and worker participation are not achieved, the pension burden on the government could be financially devastating. Low insurance coverage and low or unpaid pension payments would also increase the number of retired workers with little or no welfare benefits. Many of those could in turn become part of the urban poor class, putting pressure on other welfare schemes such as the minimum living standard guarantee system.

Related to the latter problem is the issue of rural migrant workers' incorporation into existing urban social insurance schemes. Although some relaxation of the *hukou* system has taken place around most urban centres in China, for the large majority of migrant workers acquiring an urban registration remains a far fetched goal. Up to now, without an urban registration rural migrant workers cannot join any of the urban social insurance schemes. According to the *China Human Development Report 2005*, in China's cities and towns there were 380 million urban *hukou* holders and 160 million urban residents

without an urban *hukou* (UNDP 2005), that means that about 30 per cent of those residing in urban areas have no access to social insurances or any other welfare benefits because of their registration status. At the same time, those left in the countryside remain largely uncovered. Though certainly gradually moving in the right direction, the pressures of an aging population and the changing composition of the labour force demand a speedier move towards a further liberalization of social security and welfare provision, and an opening for greater involvement of non-public actors in the financing, management, and provision of insurance schemes.

## Chapter 4

# Reform of health and education

Public services provision is another important component of China's social agenda – mainly the provision of health care and education. Though increasingly open to private participation, these two sectors continue to be dominated by government-run institutions – the so-called public service units [PSU]. Public medical and educational institutions are PSU set up by respective government departments, which had until the 1980s been wholly dependant on government funding. Like SOEs, PSU have been major government employers. By 2004 over 1.3 million PSU employed nearly 30 million people, managed around 300 billion yuan (US\$36 billion) of state assets, and were recipients of more than 30 per cent of total government expenditure (*People's Daily Online* March 24, 2004). Over 95 per cent of teachers and doctors throughout the country work in these public service units (Lan 2004). It is this particular role as employer that had delayed government attempts to reform public service agencies. Rising unemployment, worker's demonstrations, and the rising number of the urban poor – which came about as direct and indirect consequences of SOE reform – taught government to tread carefully when dealing with PSU reform.

Over two decades of reform the government gradually allowed and encouraged non-public participation in the fields of health and education, and by the late 1990s finally modified its ideological stance in order to give official sanction to private involvement in the socio-economic development of the country. Nonetheless, within the government leadership the debate continued over whether non-public organizations could and should pursue public ends. Hence, despite the move to a more permissive stance, government policy toward private providers and public-private cooperation in the provision of public goods remained characterized by its ambiguity (Meng *et al.* 2000). In general, private providers continue to be perceived as pursuing mostly economic returns. Earlier ideological formulations have persistently influenced policy formation pertaining to public services provision, even though the growing participation of private supply and the blurring boundaries between public and private provision has forced the government to

start reconsidering its role as sole provider and financier of public services, to one as regulator and guarantor of provision.

Meantime, private and other non-government participation in health care and education has continued to thrive, partly due to the failings of public provision (Liu *et al.* 1994; Mok 2005). Yet, contrary to the claims of a ‘shrinking state’ and outright privatisation (Blumenthal and Hsiao 2005), public service supply in China has resulted in a more complex pattern of provision; one in which new public-private partnerships are being formed. International organizations like the World Bank and the OECD are thus advancing the idea among the Chinese leadership of the government’s responsibility to deliver services in a satisfactory manner, though not necessarily delivering services itself (World Bank 2005, p. 38; OECD 2005). Nonetheless, as international experience has shown, public-private partnerships for public service provision are no easy panacea (Richter 2004). Mixed provision requires well-framed regulatory and accountability systems, especially if equity and efficiency want to be uphold. Existing economic disparities across regions and between urban and rural areas have created large variations in the extent of coverage, quality, equity and overall efficiency of public services provision and social security (Henderson *et al.* 1995; Gao *et al.* 2001; Gao *et al.* 2002; Lindelow and Wagstaff 2005). Those inequalities have been responsible for rising social tensions, which Central and local governments are closely following. Social complaints are not falling on deaf ears; yet, government response has tended to be too cautionary and reactive, rather than proactive.

Being part of the public goods regime, health care and education provision systems have been operated in a similar fashion since the establishment of the PRC. Both sectors have also experienced parallel transformations during the reform period. Decentralization and changing funding mechanisms have pushed these two sectors towards a stronger reliance on user-fees. Reduced subsidies from the Central Government and increased marketisation of public goods are other factors influencing PSU tendency towards pursuing more profitable services. Affordability has therefore become one of the main factors determining a person’s access to health care and education. Problems of

availability and quality of services have also arisen, mainly in the rural areas. There is also the issue of rural migrants working in the cities, who for the most part remain excluded from public services and social security. At the same time, however, in small cities and towns there seem to be greater opportunities for access to services and inclusion into social safety nets, where *hukou* policies have been more open.

Apart from encouraging PSU to become more financially self-sufficient, the government has promoted the participation of social forces in the financing, delivery and provision of public services and welfare, though maintaining responsibility to provide a safety net for those most needy and vulnerable (Mok 2005, p. 222). In theory, decreasing government participation in public services and welfare provision should in turn increase market and private forces' influence on social development. Yet, as shown by some China analysts, in practice the dichotomies of market-state and government-society can be analytically problematic and misleading (Goodman 2001; Pieke 2004; Mok 2005; Li 2006). Particularly at the county level – Goodman (2000, 2001, 2002) found – the strength of social institutions and their ability to effect social change – including enterprise, entrepreneurial and social development – rests on their inter-connectiveness with the Party-State. Furthermore, as pointed out by Mok (2005), the state – as well – actively intervenes in markets in order to accelerate market forces, while maintaining its influence over socio-economic development (pp. 233-4). This mixed economy in the provision of social services urges the need for greater regulation in order to curb over-charging, corruption and malpractice, while advancing the well-being of individuals and society.

### **Health care reform and new health insurance schemes**

China's health care sector is undergoing an important crisis of governance that is negatively affecting health care provision. Proof of that critical momentum in the reform of the health care system is the stagnating rate of improvement in the overall health situation of the population, particularly since the late 1980s. Health care reform has been under close scrutiny – domestically and internationally – after a series of crises in the health care system, which became open knowledge after the outbreak of the SARS

epidemic in early 2003. Concerns over financing, efficiency, regulation, access, quality, and cost of health care services have not been effectively tackled by existing policy initiatives (Meng *et al.* 2004). Rapidly increasing health care costs and the prevalence of fee-for-service practices have had severe implications for equity of access to health services. At the same time, both health care institutions and medical practitioners have been accused of operating mostly on a for-profit basis in the provision of a public good with such broad externalities. In July 2005 Gao Qiang – head of the Ministry of Health [MOH] – described the health care system as failing to meet the health demands of the masses (Yang 2005). That same month, after a report on health care reform by the State Council Research Organization (*Guowuyuan yanjiujigou* 国务院研究机构) was made public, Ge Yanfeng – Deputy-director of that research organization – went as far as to describe the reform of the health care system as a failure.<sup>1</sup>

While most of the weaknesses of the existing health care system have been identified, debates and proposals for potential policy solutions are still contested. Discussions are centred around the changing role and involvement of government in funding and provision of health care services; the adequacy of using market mechanisms to boost efficiency in the system; and, the necessity of building a framework for a more effective participation of private providers (Meng *et al.* 2004; World Bank 2005). Existing policy incentives and changing funding mechanisms have pushed public health care facilities and their medical personnel to operate the health care system as a for-profit-enterprise<sup>2</sup>, while indirectly contributing to informal methods of revenue earnings (Bloom *et al.* 2000). It is also within this context that policy makers and reform commentators are assessing the role of private health care providers. So far, many policy makers have viewed the expansion of private provision of health care as aggravating the problem of equity of access, among other concerns. Yet, studies carried out in other developing

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<sup>1</sup> Wang 2005. The main points of the report can be found in: [www.hbver.com/Article/yjz/ckxx/200508/4063.html](http://www.hbver.com/Article/yjz/ckxx/200508/4063.html) See also: Qin 2005, and Li 2005.

<sup>2</sup> According to article 2 of the 1998 ‘Interim Administrative Regulations on Institutional Registration’ issued by the State Council, public service institutions are ‘social service organizations set up with state owned assets by state or other organization to engage in educational, scientific and technological, cultural and health activities...for social and public benefit purposes. Under the Chinese legal system public service institutions are classified as not for-profit entities’. Ge 2004, p. 33.

countries (Kumaranayake 1997; Ha *et al.* 2002) – including some undertaken in China (Meng *et al.* 2000; Liu *et al.* 2006) – have shown that the private sector may in particular circumstances offer a more equitable provision of medical services than the public sector, and that when accompanied by adequate regulation it can effectively improve service quality while reducing service and delivery costs (WHO 1991). There is thus a need to find ways by which private provision can act as a complementary to public provision for a more efficient achievement of national health priorities.

The issues facing the reform of the health care system and the development of the new medical insurance programs – due to the externalities involved – are more pressing and more immediate than those present in the provision of other public goods and social insurance programs. Health care reform also implies a more complex reform process, one that entails the redefinition of state intervention in the delivery of a public good, but also one facing the new challenges of demographic and epidemiological changes (Hussain 2002; Fogel 2003; Cook and Dummer 2004). After more than a decade of reform initiatives in this sector, there has been a dramatic cost escalation of medical services, and a growing emphasis on the part of health care institutions to develop revenue-generating activities (World Bank 2005). The rising trend of medical costs has resulted in a steady decline in utilization of health care services, a situation that directly affects the overall well-being of Chinese society (WHO 2005; MOH 2004).

China's noteworthy achievements in life expectancy rates since the 1950s and its growing aging population have translated into a rising number of people suffering from chronic diseases (Rösner 2004, p. 77; Cook and Dummer 2004; He *et al.* 2005), who consequently put greater stress on medical facilities and health budgets. At the same time, fiscal decentralization and changing financing mechanisms for health care institutions have greatly accelerated medical care cost escalation, further complicating the transition from an industry-based to a socialized health care financing system (Bloom *et al.* 2002; Duckett 2004). Furthermore, rising urbanization rates, industrialization and greater labour mobility are continuously increasing the demand for health care services in urban areas (Liu *et al.* 2003). Since the later part of the 1990s, state owned enterprises' loss of

profitability and their declining share in employment, as well as the partial implementation of health insurance schemes have all contributed to a decline in the number of people covered by health insurance (Gao *et al.* 2001, p. 306; Rösner 2004, p. 81). Unsustainable by enterprises and individuals alone, social risk pooling for health care provision has become crucial to guarantee – if not universal – wider access to medical services, especially in the case of catastrophic illness where costly and long term medical treatment is needed (Liu and Hsiao 1995; Gu and Tang 1995; Rösner 2004). Nevertheless, the still limited participation by the non-public sector and the self-employed has rendered social pooling for health care financing unable to guarantee coverage of costly medical treatments (Rösner 2004, pp. 80-4; Duckett 2004, p. 171).

Health care provision in the rural areas is in an even more critical situation. With the dismantling of rural communes and the collapse of the Cooperative Medical System [CMS] in the early 1980s, village governments are finding it increasingly difficult to raise sufficient revenue resources to sustain rural medical facilities (Tang and Bloom 2000; Bloom and Jing 2003). Whereas in the 1970s the CMS had covered up to 90 per cent of the rural population, by 1985 only around 5 per cent of villages were still covered by the cooperative medical scheme (Gu and Tang 1995, p. 187). Availability, quality and equity of access to medical services have since varied widely across regions and between urban and rural areas. Reduced funding for health at the township and village levels has triggered a flow of the few experienced staff out of health care facilities, which are subsequently finding it increasingly difficult to attract skilled personnel (Liu *et al.* 1996; Tang and Bloom 2000; Bloom and Jing 2003). Many barefoot doctors in the villages have had to go back to full-time farming to earn a living, although many have been able to take over rural clinics where they operate as private practitioners on a fee-for service basis. According to the *China Yearbook of Health*, by 1998 around 50 per cent of village clinics had been transformed into private medical facilities. A number of village clinics had also been subcontracted to former village health workers, who managed clinics as private businesses (Zhu 2002, p. 21). Those with higher medical training and experience, however, have migrated to the cities in search for better paid jobs. According to one independent county level study, the number of township and village health care workers



per every 1,000 people had decreased by 48 per cent in the decade between the late 1970s and the late 1980s (Liu *et al.* 1996, p. 160).

In the pre-reform period, wide coverage in rural areas had been made cost-feasible thanks to an emphasis on low-budget disease prevention. Introduction of economic reforms and marketization efforts, however, induced a dramatic turn in the health care system, which moved away from disease prevention to a system dominated by more expensive curative services. According to Gu and Tang (1995), by 1985 medical care costs for curative services already accounted for 77 per cent of total health expenditure, while the combined costs of disease prevention, maternal and child care, and family planning added up to only 7 per cent (p. 189). This shift in objectives has been to a large extent responsible for rapidly increasing healthcare expenditure accruing to both local governments and end-users (Liu and Hsiao 1995; Gu and Tang 1995; Bloom *et al.* 2002). Although it may seem as if the state is retreating from health care provision responsibilities by shifting larger percentages of medical costs to the individual, local governments continue to act as major organizers and managers of social health care insurance, as well as being the ultimate guarantors of its provision (Duckett 2004, p. 158; Cheung 2001, pp. 85-6).

From the start of economic reform medical costs have risen faster than income, becoming the third largest household expense after food and education. According to a national health services survey carried out by the Ministry of Health [MOH] between 1999 and 2004 annual income of urban and rural residents rose by 8.9 and 2.4 per cent respectively, while per capita expenditure on health care services in urban and rural areas increased by 13.5 and 11.8 per cent respectively (*Xinhua News Agency* Dec. 3, 2004). Declining participation in public health insurance schemes in urban areas – from 52 per cent coverage in 1993 to 39 per cent in 1998 – has also rapidly increased the number of people paying out-of-pocket for medical services (Gao *et al.* 2001, p. 306). In rural areas, health insurance coverage has been so sparse that about 90 per cent of the rural population has to pay for health care from their own resources (Liu *et al.* 1996, p. 155). Meantime, government spending on health experienced an important decrease between 1990 and 1998, only recuperating after that year. Government spending as a percentage of total

health spending decreased from 25 per cent in 1990 to 15.5 per cent in 1998 (Liu *et al.* 2002, p. 16).

Even though there certainly have been renewed efforts since 1998 to shift more fiscal resources into social security (Duckett 2004, p. 156), total health care expenditure by the year 2000 amounted to 5.3 per cent of GDP, only 0.3 percentage points higher than the minimum level recommended by the World Health Organization (*China Daily* Dec. 19, 2002). Concerns have also been raised about how health financial resources are used and channelled among the various insurance schemes. According to a report by the Asian Development Bank, China has been allocating a growing share of its health expenditure (24.9 per cent in 1990 and 31.1 per cent in 1998) to the government employee insurance system<sup>3</sup>, making health care financing even more inequitable (Liu *et al.* 2002, p. 16).

During the 1990s, while most commodity prices experienced a downturn, medical services and medicine prices continued to rise. The Third National Survey on the country's medical services situation – carried out by the MOH in 2004 – established that in urban areas 48.9 per cent of the population cannot afford to get medical treatment when ill, and 29.6 per cent cannot afford hospitalisation when needed (*China Daily* March 10, 2005). The situation in the countryside is even more precarious. According to an earlier independent study 28 per cent of farmers do not seek health care when seriously ill, while 51 per cent refuse hospitalisation even when recommended by physicians (Liu *et al.* 1996, p. 160). High health care expenses have also been recognized as one of the main causes of poverty in rural China (Gu and Tang 1995; Liu *et al.* 1996; Bloom and Jing 2003; Liu, Rao and Hsiao 2003; Wagstaff 2005).

Health care insurance is in no great shape either. Since 1998, health care reform's aim to move away from the state owned enterprise-based insurance system towards a basic health care insurance that would expand coverage to urban workers in all sectors of the economy, and that would gradually include rural migrants and farmers, has actually had

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<sup>3</sup> This insurance scheme includes civil servants and PSU staff, but also covers college and university students and disabled war veterans. Cheung 2001, p. 65.

the immediate result of drastically reducing the number of those covered (Gao *et al.* 2001; Duckett 2004). Established in the early 1950s, the health care insurance system covered most urban workers, civil servants and staff from public service units. Urban labour health insurance was solely funded by individual enterprises, while that of government employees was financed directly by the various government levels (Rösner 2004). Only SOEs with more than 100 employees were obliged to join the system <sup>4</sup>, while smaller SOEs and urban collectives could join on a voluntary basis. Labour health insurance's generous scheme not only covered individual workers, but also included worker's dependants – who were entitled to receive reimbursement for 50 per cent of their health expenses (Liu and Hsiao 1995, p. 1095). Government employees' health insurance provided an even more generous coverage than that of the labour scheme, but did not include dependants.

Meantime, health care services in the rural areas <sup>5</sup> were administered by the CMS, which organized disease prevention campaigns and provided primary and secondary care to rural communities (China Medical Association 2005). Until the late 1970s urban health insurance schemes covered the majority of urban workers, while the CMS provided health services to about 90 per cent of the rural population (Gu and Tang 1995, p. 183). Through these three schemes the Chinese medical system offered basic but wide coverage to both rural and urban populations. With the start of economic reform, however, health care provision has had to meet the challenges of SOE reform, extension of coverage into new economic sectors, unification of schemes, and – perhaps more importantly – health care provision has been more dramatically affected by the changing financing and organizational mechanism of its medical institutions.

Underfinancing of the health care system has been a problem inherited from the Maoist era. Already after the First Five Year Plan (1953-57) government expenditure in health care as a proportion of total expenditure began a steady decline (Cheung 2001, p. 67).

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<sup>4</sup> Enterprises with more than 200 workers usually had their own clinic or hospital – depending on the size of their workforce – providing outpatient services. For inpatient services, companies would subcontract the services of outside public hospitals. Liu and Hsiao 1995, p. 1096.

<sup>5</sup> In the rural areas, however, there existed no systematic health insurance program.

Despite that fact, the government kept user-fees at a minimum level; with fees contributing to as little as a quarter of medical costs (Peng *et al.* 1992, p. 5, quoted in Cheung 2001, p. 68). Under financing and the collectivised nature of the health personnel allowed to maintain a low-cost – but relatively effective – health care regime from the early 1950s onwards (Cheung 2001, p. 68). During the late 1970s – after the move away from central planning – financing mechanisms for public health institutions and their personnel experienced important changes. First, decentralization devolved responsibility over social security – including health care – to local governments, which were at the same time experimenting with a new fiscal system. Decreasing budget allocations from local governments and the important decrease of state subsidies for public hospitals, made those medical institutions turn towards a fee-for-service system (Liu and Hsiao 1995, p. 1100). User charges received an even further boost when the government decided to liberalize fee levels, causing medical costs to increase dramatically.

Between 1985 and 1989, rising medical costs and inflation were responsible for a 30 per cent annual increase in total social health insurance expenditure, while the total health budget grew at a low 7.9 per cent annual rate (Liu and Hsiao 1995, p. 1096). Higher user fees not only increased inequalities in access, but also brought about an inefficient use of resources on the part of medical institutions (Gao *et al.* 2001). Seeking to increase their revenue, hospitals redirected investment priorities towards the purchase of technologically advanced equipment, with which they could offer more expensive medical services. This move came at the expense of preventive health services, and did not necessarily respond to the health needs of the population. By the early 1990s the government again attempted to push medical costs down by reintroducing limits on fee levels for basic medical services (Liu *et al.* 2000). This policy, however, had the unintended result of exacerbating over-prescription practices and the use of high-cost services like ultrasounds, X-Rays, and other lab tests.

Furthermore, medicine sales gradually became one of the main sources of hospital revenue, with drugs accounting for as much as 60 per cent of hospital cost (Liu and Hsiao 1995, p. 1100). The high costs of health care services and medicines consequently

reduced demand for health care services, causing underutilization of medical facilities and high operation costs (Gao *et al.* 2001). Health care provision fell into a vicious cycle, one in which decreased government fund allocation to public hospitals pushed them to focus on providing more profitable services, while at the same time high medical costs kept people away from hospitals. Worst affected have been hospitals at the county level, which are lowest in the administrative and medical hierarchy. When faced with a serious disease or injury most in the countryside and in the towns and townships have tended to by-pass county hospitals to seek better treatment in the cities. According to Zhou Zijun – associate professor of Hospital Management at the School of Public Health, Peking University – in small hospitals at the grassroots level less than 30 per cent of the beds are taken at any one time, with medical resources being underutilized or wasted (*China Daily* Sept. 15, 2004).

Problems have also arisen with the formulation and implementation of local health care development plans, and with the administrative and operational capacity of public hospitals. At the county and township levels, health investment often receives a low priority, since governments are faced with the need to channel scarce resources into more immediate policy priorities (Tang and Bloom 2000, p. 194). Not only are health issues weighed against economic development policies, health care has also to compete for funding with other social programs. One such program has been the re-employment campaign for laid-off workers, which became a national policy priority in the late 1990s. Apart from the competition they present in the funding field, re-employment campaigns have had an impact on the composition of public hospitals' personnel. Even though hospitals have gained considerable freedom regarding the hiring and firing of their staff, local governments can still influence personnel appointment thanks to its position as salary provider. County Governments have been able to pressure health care institutions to take in employees, many of whom are laid-off workers from other government departments or from ailing SOEs. Between 1981 and 1994 this practice was responsible for a decrease in the number of employees with medical training in public medical facilities from 78 per cent to 56 per cent (Tang and Bloom 2000, p. 195). Overstaffing,

low efficiency and low service quality have become chronic problems in many public health care facilities at the county level.

The manifold problematic of the health care system – but particularly the continued cost escalation of health care services – triggered a series of experiments with multi funded insurance mechanisms launched between 1992 and 1995, which tested various schemes <sup>6</sup> that made use of social risk pooling and individual funding mechanisms (Cheung 2001; Duckett 2004; Rösner 2004). Based on those pilot experiments, on December 14, 1998 the State Council issued the ‘Decision on Establishing a Basic Medical Insurance System for Urban Employees’. The new system introduced compulsory enterprise and worker’s participation <sup>7</sup>, in an attempt to widen fund sources and to enhance a more efficient use of existing resources. It also proposed to extend coverage to all of those employed in cities and towns by enterprises of all types of ownership, public institutions, non-profit associations as well as the self employed (Rösner 2004, p. 78). According to the new guidelines, the system is to be financed by employers’ contributions (6 per cent of total wage bill) to social fund pools and employees’ accounts <sup>8</sup>, and from employees’ own contributions (2 per cent of their wage). Outpatient treatment costs are to be paid from employees’ individual accounts, while inpatient services are to be covered from social fund pools and a system of co-payments by employees. <sup>9</sup>

Social fund pooling is organized by local governments at city level (prefecture) level and ultimately coordinated at provincial level, and is managed by the health insurance

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<sup>6</sup> The earliest of such programs was introduced in Shenzhen in 1992, while Shanghai introduced a mixed funded health insurance program in 1994. The following year Hainan followed suit, together with the two most publicised reform cases of Zhenjiang (in Jiangsu province) and Jiujiang (in Jiangxi province) – these last two were at that time medium-sized cities with a population of about 2.5 million each. For a more detailed explanation of how those systems operated see: Cheung 2001; Rösner 2004; and, Duckett 2004.

<sup>7</sup> In general, however, participation has been mandatory only for SOEs and urban collectives, since local Labour Departments have not yet been given power to press non-public enterprises, other organizations and the self-employed to join in.

<sup>8</sup> 1.8 per cent of employers’ contributions go into employee’s accounts, while 4.2 per cent is channelled to the social fund pool. Li, H. 2000, p. 197.

<sup>9</sup> Individual accounts (or employees themselves when there are not enough funds in their accounts) have to pay for treatment costs of up to 10 per cent of the local average annual wage. In-patient services above that level are paid from social funds, complemented by declining co-payments (out-of-pocket) from employees, as the treatment cost increases. Social funds, however, can only pay for up to four times the average annual wage to any single individual. Any cost beyond that amount has to be paid directly by the employee or through private health insurance if the person has it. Duckett 2004, p. 162.

department within the Provincial Labour and Social Security Office (Duckett 2004, p. 162). Although contribution rates and administration have – at least in principle – been unified, local variations have been permitted to continue operating. Those variations have been a result of differing economic and demographic conditions among regions and between urban centres, with various degrees of success. A unified system is not regarded as the best solution to the funding of the health care system, since there remain large regional inequalities in the ability to raise funds for social risk pooling, as well as differing expenditure capacities on the part of the end-users to cover for health insurance payments.

In general, increased demand for health care services and rising medical costs has rendered social pooling insufficient to pay for growing health care expenditures. Cities with older populations are finding the 8 per cent payroll tax contribution from enterprises and workers insufficient to cover for an increasing number of users, especially a growing number of pensioners (Cheung 2001, pp. 78-9). And as has been the case in the old-age pension system, funds from individual accounts have had to be used to cover the gap in current medical expenses.<sup>10</sup> Moreover, in the health care system the advantages of separating individual accounts and social funds have not been as straightforward as in the pension system. Whereas individual pension accounts have the potential for gaining large returns over a working life, funds in health care individual accounts have to be used on a more regular basis, since workers are expected to pay for outpatient treatment directly from their accounts. In addition, in cities where employees' capacity to afford health care co-payments is weak, the cost of managing individual accounts only puts more stress on already overburdened social funds.

Following that problematic, some authors have argued that instead of individual accounts it would be more efficient for employees to acquire supplementary private health insurance as the sole complementary to social funds (Li, H. 2000, p. 200; Rösner 2004, p. 83). Li Haizheng (2000) argues that the main role of social health care insurance should

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<sup>10</sup> There are cases where individual accounts have remained empty because employers do not or cannot afford to pay contributions. Rösner 2004, p. 83.

be to provide aid for large medical expenses, and not – as he puts it – ‘to manage every penny of health expenses for individuals’ (p. 200). In his view, the amount accumulated in individual accounts is so small (3.8 per cent of payroll tax), that it would be much more cost effective to give that amount back to the individuals, and only step in to cover for high medical expenses (Li, H. 2000, p. 200). Under the current system, though in principle employees have defined ownership over their individual account, the funds accumulated in those accounts are in practice being used for redistributive efforts. By acquiring complementary commercial insurance workers could guarantee a more stable long-term private savings account.

Acquiring complementary insurance would depend on individual employee’s capacity to afford private insurance, a situation which might aggravate equity of access and differences in the quality of the services each employee can receive. In light of this situation, there is the need to persistently strengthen social pooling at all administrative levels, and to find ways by which private medical providers and insurance companies can contribute to the improvement of the health situation of the population at large (Widdus 2001; Ha *et al.* 2002; Liu *et al.* 2006). In order to expand social pooling – for health care insurance and other social security programmes – social insurance schemes need to be redefined in a way that they create enough incentives for private enterprises and other economic and social sectors to willingly join public insurance schemes (Wu *et al.* 2005). Only by expanding the base of social risk pooling can the socialisation of the system be achieved.

Social security reform has been an attempt to redefine the role of the state and to reconfigure the welfare system by replacing state-financed enterprise provision with a society-based social insurance system that emphasizes the role and responsibility of the individual (Cheung 2001, pp. 85-6). It is also meant to break urban residents’ strong sense of entitlement to life-long social security and services (Wong and Lee 2000; Bloom *et al.* 2002; Rösner 2004) and to stress the need for individuals to contribute to social safety nets, in order to enhance a more efficient use of social benefits. Nonetheless, there



is a danger that the socialisation of social security simply becomes the privatisation of the welfare system.

Civil society – through not-for-profit organizations – and the formation of private health care and insurance markets will play an important role in consolidating the emerging health care system (Cheung 2001, p. 85). Meantime, the Central Government has pledged to continue its efforts to eradicate poverty, to alleviate unemployment and carry out redistribution. SOE restructuring and the reform of the welfare system will continue to be strongly interrelated, with the latter having potential to reinforce further marketisation and privatisation of the state owned sector (Gu 2001, p. 131). Equally crucial will be to improve local financial autonomy and administrative capacity at the lower governmental levels, which now bear responsibility to oversee the implementation and management of social security in their localities, in order to achieve a more balanced and efficient distribution of the burden of social security provision between the various administrative levels (Gu 2001; Cook 2000; Bloom *et al.* 2002).

In rural China, the problems faced by the health care system are even more complex and severe than those in the urban areas. Not only have medical facilities in the countryside been mostly dismantled or privatized, escalating costs have become the greatest barrier to health care access even where facilities are available. According to results from the first two National Health Services Surveys (1993 and 1998) the number of households who were impoverished due to medical expenses as a percentage of the total number of households living in poverty had gone up from 26.4 per cent in 1993 to 45.1 per cent in 1998 (Liu *et al.* 2002, p. 21); corroborating the link between health care spending and the incidence of poverty. As a result of this dramatic situation in health care access and affordability – particularly for poorer rural households – from the late 1990s several cooperative medical insurance programs have been tested in a number of rural areas (Zhu 2002; Zhang *et al.* 2006).

Pilot experiments to re-establish cooperative medical schemes, however, have encountered numerous problems, including: an inability on the part of farmers to afford

health care insurance contributions; unwillingness to join a system that promises only reduced benefits; insufficient funds in the social risk pools and the need to subsidize the system; and a lack of experience and managerial capabilities on the part of village and township governments for administering funds and reimbursement procedures (Zhu 2002; Li and Zhang 2002). By June 2004, 95.04 million peasants (about 10 per cent of the total population holding a rural *hukou*) from 310 counties in 30 provinces were covered by one of the cooperative medical insurance schemes. These schemes, however, have had to be heavily subsidized by both Central and local governments. During that same period, these insurance schemes had altogether raised 3.02 billion yuan in funds, of which 1.11 billion yuan were contributed by local governments, while 390 million yuan were part of Central Government subsidies allocated towards the central and western regions (*Information Office of the State Council* 2004). Early evaluations of government subsidies to insurance premiums have found that subsidies – on average – increased the probability of farmer's willingness-to-join community-based schemes by only 50 per cent (Zhang *et al.* 2006).

Again, the necessity and the feasibility of establishing a rural medical insurance under the current conditions in the countryside has been called into question (Liu *et al.* 1996; Hao *et al.* 1998; Zhu, L. 2001, 2002). There is, however, agreement among commentators that community financing for health care could be feasible with adequate government financial and administrative support (to regulate the quality of medical services, medicine prices, and funds), and a more active social participation that can enhance the transparency of health care provision (Liu *et al.* 1996, p. 169; Zhu, L. 2001, p. 86; Zhang *et al.* 2006). Also crucial for rural health insurance schemes to be operational will be the involvement of private health practitioners to permit a more efficient use of scarce medical personnel in rural areas. Despite the strong criticism from authorities regarding the function of private providers, available evidence has shown that the services and quality of public medical institutions is not necessarily superior to those offered by the private sector. Most importantly, the private sector seems to have become the first port of call for low-middle income groups seeking outpatient medical services (Liu *et al.* 2006). Due to widespread privatization in the rural areas, private practitioners and clinics are

perhaps serving an even more important role in health provision than cooperative clinics. Both sectors, however, suffer similar problems related to the quality of services, availability of equipment, personnel qualifications, and working conditions (Meng *et al.* 2000, pp. 354-5). Health policies for rural areas should therefore incorporate and positively steer cooperation between the private and public health care sectors towards the attainment of public health goals.

Trying to enhance efficiency in the health care sector policy incentives have unintentionally increased health facilities reliance on user fees and over prescription. Efforts are being made to find more adequate policies to boost productivity in the health sector, while building a structure that encourages a more effective participation of private health care providers (Hanson and Berman 1994; Meng *et al.* 2004; World Bank 2005). The health care sector is in dire need of a stronger and clearly defined regulatory framework that can govern public hospitals, the medical profession, the sale of pharmaceuticals, as well as the emergence of private health provision. Such a framework would help strengthen accountability and thus the overall performance of the system (Kumaranayake 1997; Brinkerhoff 2004). This – in turn – would allow the Central Government to focus on strengthening its redistributive policies.

### **Reform of the education sector: redefining the role of education as a public good**

Institutional and organizational changes in the educational system have also had very immediate and direct influences on social development throughout China. Education had to be reformed to serve as a tool for the development of productive forces and marketization, which would in turn boost economic development. Moreover, apart from serving as a means to build a knowledgeable and skilled labour force, the reform of the education system had the goal of eradicating illiteracy throughout the country. Yet, despite these important goals and the positive externalities they could create, reform of the education system remained on the backburner of government priorities until the 1990s. In 1992, during the 14<sup>th</sup> National Congress of the Communist Party a new

framework for educational reform recognized the need to make education a strategic priority of government policy (Zhang 2003, p. 2).

Meanwhile, decentralization of responsibility over education had been well underway since the mid-1980s. Reduced financial commitment of the Central Government towards education signalled its gradual abandonment of the use of education as a means of spreading socialist ideals, while subsequently lessening its involvement in the direct provision of educational services (Kwong 1997; Mok 2001, 2005; Zhang 2003). The education system suffered drastic reductions to its budget share from the start of the reform period, and expenditure on education as a percentage of GDP remained one of the lowest in the world. On average, the rate of expenditure in education during the 1990s was 2.4 per cent of GDP, but was as low as 2 per cent in 1994 (Rong and Shi 2001, p. 120). As was the case in the health care sector, budget allocations for education increased from 2000 – reaching 3.41 per cent of GDP in 2002 – though remaining at a much lower level than the world average of 5.2 per cent (Rong and Shi 2001, p. 120). Educational services have gradually become more market-driven, with most schools adopting the fee-paying principle (Mok 2001).

As early as 1985 the Central Committee of the CCP issued its ‘Decision to Reform the Educational System’, a policy document through which the government stated its support for the diversification of educational services, by encouraging society to contribute to the development of education (Mok 2001, p. 92). As has been previously noted, new fiscal arrangements between the Centre and the provinces, and at the sub-provincial level signalled the need to find a more diversified funding structure for education, as subsidies from the Central Government decreased. According to a report from the State Education Commission, already by 1994 around 40 per cent of funding going into primary and secondary education came from non-governmental sources (State Education Commission 1994, p. 11). In 1986, the Centre had reiterated its commitment to universal basic education with the introduction of the ‘Nine Year Compulsory Education Law’, which would guarantee all school age children with at least 9 years of tuition-free education. Ultimate responsibility over the implementation of this law was devolved to the county

and township governments, which often had to resort to alternative financing channels – taxes and subsidies, fees and overseas donations – to comply with the new Education Law (Mok 2001, p. 93). Hence, extra school fees charged on parents meant that although tuition-free, the nine years of compulsory education continued to represent a financial burden for less well-off families.

Fiscal decentralization (with its battle over resources among provincial and sub-provincial governments) had created incentives for local governments to invest in projects that could gain them quick returns and that would generate tax revenues; education – consequently – fell to a low priority in the hierarchy of local government investment (Tsui 1997, p. 108). In most cases, local governments will only pledge to pay for teachers' salaries and for part of the cost incurred in the construction of classrooms and other facilities, but leave schools to raise the rest of their income through their own efforts (Mok 2001, p. 93). Public schools – especially higher education institutions – became dependant on tuition and miscellaneous fees to sustain their academic activities, and some have even opened non-education related businesses to increase their revenue (Kwong 1996; Mok 2001, p. 105). Public educational institutions have also found themselves overwhelmed by an increasing demand for educational services. In rural areas, for example, more than 30 per cent of eligible students cannot receive secondary education, due to limited places available (Lin 1999, p. 42; Lin and Zhang 2006). Deficient schooling supply at the grassroots level has also resulted in less rural students gaining access to higher education (Liu 2004; Lin and Zhang 2006). In fact, overall enrolment rates in tertiary education for the whole country have remained much lower than those present in other developing countries.<sup>11</sup>

It was under these circumstances that schools and higher education institutions run by 'social forces' began to cater for a growing number of students, and an increasing demand for a larger variety of educational services (Kwong 1997; Lin and Zhang 2006,

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<sup>11</sup> In 1988 the enrolment rate in higher education was 2 per cent. World Bank 1991, quoted in Knight and Song 1999, p. 123. According to government statistics, by 2003 the gross enrolment rate in institutions of higher education had already reached 17 per cent, with a total student enrolment of 19 million. *China Internet Information Center* 2004.

pp. 270-2). Though reluctant to refer to them as private, as early as 1987 the government passed the Temporary Regulations on the Running of Society-Run Schools. The issue of these regulations was as much an acknowledgement of the existence of private educational providers, as a response to the need of regulating malpractices in this newly emerging sector (Kwong 1997, p. 254). Six years later the government would finally issue the Regulations for Private Schools, which gave a further boost to private participation in education by making investors more confident about the safety of their investment (Kwong 1997, p. 254). In Article 25 of the Education Law – promulgated in 1995 – the government again renewed its support for enterprises, social institutions, local communities and individuals who chose to establish schools under the legal framework of the People’s Republic of China (Mok 2001, p. 92). As Zhang Yu (2003) has put it, the issue of privatisation in education was not only a matter of efficiency, but also one that involved a debate on ideology, equality and autonomy, factors that explain the government’s cautious stance for increased privatisation in this sector (pp. 1-3).

Between 1992 and 1997 institutions of private education – especially those of tertiary education – experienced a rapid increase in numbers and students. Between 1991 and 1995, for example, the number of private institutions of higher education had risen from 450 to 1,319 (World Bank 2002, p. 19). By 1996, private schools at all educational levels represented around 4 per cent of all educational institutions in China, with more than 60,000 schools and about 6.8 million students (Cheng and DeLany 1999, p. 1). At the end of 2003 the number of private schools had soared to 70,000 (around 11 per cent of all educational facilities) hosting 14.16 million students, or just over 3 per cent of student enrolment in the country (*China Internet Information Center* 2004; Lu and Wang 2004). Private education, however, had emerged and developed in the absence of a clear legal framework, prompting corrupt practices on the part of both government agencies (Yan and Levy 2003) and by some private institutions and their staff. The need to regulate this rapidly growing sector resulted in the formulation and promulgation in December 28, 2002 of China’s first private education law (Yan and Levy 2003). The ‘Law on Private Education Promotion’<sup>12</sup> had the double aim of promoting private education by securing

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<sup>12</sup> The law went into effect until Sept. 1, 2003.

the property rights of private institutions (Zhang 2003, p. 7), while regulating the quality of their services and their economic returns (Yan and Levy 2003).

Nowadays in China education has become a *de facto* commodity, and compared to the case of other social services, public opinion agrees responsibility over tuitions – at least at higher educational levels – should be borne by the individual and not solely by the state (Mok 2001, p. 91). Fee-paying practices are now the norm in both private and public schools, which are increasingly competing with each other – even though private institutions still represent a very small proportion of all educational facilities in the country. Nevertheless, the introduction of fees as an alternative funding channel for education has exacerbated inequalities in access to education and educational attainment across regions, between urban and rural populations, along gender lines, and among ethnic minorities and other disadvantaged groups (Knight and Song 1999; Cheng and DeLany 1999; Rong and Shi 2001; Willmann and Schucher 2005). Because of the close relationship between economic and educational development, China's decentralized funding mechanisms have created important inequalities in educational opportunities, educational resources, school facilities, teacher qualifications, and student attainments between wealthy and poor regions (Mok 2001, p. 106; Knight and Song 1999, p. 122; Willmann and Schucher 2005). In the same manner, marketization of education and the emergence of private schooling – with the resulting cost escalation of educational services – have also increased educational attainment inequalities between households of different socio economic backgrounds (Cheng and DeLany 1999).

The greatest educational divide, however, is the one that prevails between rural and urban populations (Knight and Song 1999; Willmann and Schucher 2005). According to Knight and Song (1999) the most important factor influencing a person's educational attainment is whether he or she lives in a rural or and urban area (p. 153). This has to do with the structural division existent between urban and rural areas in both administrative and funding arrangements, which give urban areas an advantage over their rural counterparts. Decentralized funding usually means urban schools get more resources than rural schools, inducing a problem of education supply in the rural areas. On the demand side,

rural educational attainment within a province has proven to be positively related to per capita income levels (Kinght and Song 1999, p. 153). Less well-off households are less able to afford education for their children – especially after their completion of the nine years of compulsory education – resulting in low school enrolment, high dropout rates and low efficiency in the use of rural educational resources (Rong and Shi 2001, p. 122). An independent study carried out in one county in Hebei Province found that there are a considerable number of rural children who drop out of school while in junior secondary school, therefore not even completing the nine years of compulsory education (Liu 2004).

Another critical issue has been that of providing education to the nearly 20 million children (under 18 years of age) of rural migrant workers residing in urban areas. Until recently, migrant children holding a rural registration were either not admitted at urban schools or were asked to pay an extra-fee for their enrolment, which most migrant parents could not afford. According to a survey carried out by the Women and Children Work Committee of the State Council and the China National Children's Center, of the 20 million migrant children living in urban areas 9.3 per cent (about 1.86 million) have to drop out of school because their parents cannot afford their education (*People's Daily* Feb. 17, 2004). As a response to this situation migrant workers themselves have opened their own schools to cater for the migrant community. Some of those schools have been able to secure equal status with public schools, but they remain a minority (*China Daily* August 15, 2002). Urban governments are gradually accepting their responsibility to provide migrant children with at least the 9 years of compulsory education. Following the publication in 1998 of the 'Temporary Measures for the Schooling of Children and Adolescents from the Migrant Population'<sup>13</sup> urban governments started to put pressure on public schools to accept migrant children, and in some cases special schools were set up for those children (*China Gateway* July 15, 2002). Despite the policy change, high fees at public schools continue to preclude a large number of migrant children from entering the urban educational system. Migrant workers prefer to send their children to schools run by migrants rather than send them to public schools, where fees are much

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<sup>13</sup> Issued jointly by the State Commission for Education and the Ministry of Public Security. Froissart 2003, p. 22.



higher <sup>14</sup> and where bullying of migrant children is common (Froissart 2003, pp. 23-4; *People's Daily Online* 17 Feb., 2004).

More than ever education has become an important determinant of individual income (Wu and Xie 2003; Maurer-Fazio 2006), and of the future economic development of China (Heckman 2005, p. 54). Besides, education and schooling have other 'non-market' effects or externalities, which directly affect on the individual and the household's welfare (Knight and Song 1999, p. 121). Another non-monetary benefit of education would be its role in promoting the emergence of a more democratic society (Rong and Shi 2001, p. 110). Rural children have seen their educational opportunities severely limited, a situation that not only restricts their inclusion in the national labour market and thus diminishes their potential economic returns, but which also restricts their opportunities and capabilities to voice their problems. Meanwhile, urban children continue to have access to better quality education and a greater availability of schools, while also growing up in an environment where better educated parents can more easily improve their educational opportunities (Knight and Song 1999, p. 153).

Government awareness of the rural educational problematic, and the need to eradicate illiteracy as part of the goal of building an overall prosperous society, has allowed for more fiscal resources to be channelled to the rural areas, and the central and western regions. In 2002, state fiscal resources designated for education picked up to a record high since 1989, accounting for 3.41 per cent of GNP and 63.71 per cent (349.14 billion yuan) of total government expenditure on education (548.003 billion yuan) (Ministry of Education 2004). The following year the Central Government earmarked just over 9 billion yuan to support the national compulsory education scheme and the reconstruction of schools in poor rural areas, and various other pilot educational projects for rural areas in the western part of the country. These redistributive policies, nevertheless, only mobilize a very small share of total investment in education for the more than 160 million

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<sup>14</sup> In Beijing, for example, public schools can ask for tuition fees as high as 12,000 yuan per semester, whereas in migrant schools fees can be as low as 50 yuan a semester. A survey of migrants in Beijing found that 20.2 per cent of the 31,000 surveyed households live on 500 yuan a month, while 43.2 per cent live on 500 to 1,000 yuan per month. *People's Daily Online* Nov. 4, 2004.

students enrolled in rural primary and secondary schools (Ministry of Education 2004). Another strategy to promote rural education and rural labour skills has been to emphasize the role of vocational and technical secondary schools at the township level. Yet, without significant changes to the funding and financing mechanisms of rural education these types of policies and subsidies can do little to improve the educational and economic development of the vast rural population.

The state is gradually redefining its role and intervention in the provision of public goods such as education and health care, fostered by an ideological change that has allowed for increased private participation, but also by recognition that the public sector alone cannot meet the public demand for those services. At the same time, commodification of educational and health care services has gradually changed public perceptions about who is to bear responsibility over the provision of those services. A continued sense of entitlement to social services and welfare on the part of urban residents has nonetheless been accompanied by the acceptance of a stronger individual contribution to the financing of those services. The conjunction of regional and rural-urban inequalities with growing out-of-pocket payments, however, is seriously undermining access to education and health care by peasants, rural migrant workers, and the urban poor. In the light of this situation the Centre has continued to pledge its support for the poorest regions and most vulnerable social groups. That support has been reflected in the incremental growth in government expenditure on health and education starting in the year 2000.

Meantime, private expenditure on education and health continues to rise. Particularly in the health care sector, private expenditure remains significantly higher than government appropriations. In 2002 only about 34 per cent (2 per cent of GDP) of total health expenditure was provided by the government, while private expenditure made up for the rest (3.8 per cent of GDP) (Human Development Report 2005). Government appropriations for education that same year represented 3.3 per cent of GDP (63.7 per cent of total expenditure on education), and private expenditure in education stood at 1.9 per cent of GDP (Heckman 2005, p. 52). Access to both social services is therefore increasingly linked to affordability, a situation that has made access to quality services

more inequitable. Differing socio-economic situations around the country thus demand differentiated policies and strong redistribution efforts on the part of the Central Government in order to aid and promote social services and insurance schemes in the less wealthy regions, but particularly in the rural areas.

More proactive policies pertaining to service provision could ease existing problems of efficiency, affordability, access and quality of social services and insurance programs. Those policies would need to address the problem of incentives to foster a better use of scarce resources, to reduce waste, but – most importantly – to get PSU to address the needs of users, and to move away from a system where the main preoccupation is the creation of revenue. To maintain their financial viability – while still addressing public needs – funding allocations for social services at all governmental levels need to be reconsidered. At the same time, in order to overcome fund scarcity, local governments should actively engage the private sector, which can aid and complement public provision of services. In order to enhance the positive results of private participation (i.e. service quality improvement; more equitable provision; reduction of delivery costs) local government capacity needs to be strengthened, and a new regulatory and accountability framework needs to be established to govern the new public-private alliances.

## **Part II**

# **Hongtong County, Shanxi**

## Chapter 5

# Regional disparities and local development

Uneven economic development has been recognized as having significant negative effects on economic growth, governance and social development (Wang S. and Hu, A., 1999; Sen 1999; Anand and Sen 2000; Harvey 2000). For thirty years Maoist China had managed to contain inequalities among its regions and population to a minimum. Equality, however, meant most households were equally poor. Low incomes were compensated – to some extent – by a welfare system that guaranteed the basic needs of the population. With the start of economic reform – in the words of Riskin *et al.* (2001) – China retreated from that equality. Since then, uneven development has become one of the main characteristics of the Chinese reform process. Regionally, China has experienced a widening development gap between its east coast and its interior. Similarly, rural-urban inequalities have become exacerbated, with serious implications for rural poverty. Though certainly China has made an important progress in poverty reduction since the start of reform (World Bank 2000; Ready and Minoui 2006), economic restructuring is changing the nature of poverty, putting more rural areas and new social groups at risk (Fan *et al.* 2002; Hussain 2003; Liu and Wu 2006). Poverty reduction has been found to be uneven across regions, and there is also some evidence of it not being accompanied by improvements in other aspects of well-being (Reddy and Minoui 2006a; Ravallion and Chen (forthcoming)).

Income inequalities have gradually re-established a complex social stratification system (Lü 2002), something the Communist regime had prided itself on having successfully eliminated. An increasing number of laid-off workers and rural migrants have started to form a new class of urban poor; a phenomenon previously unseen in Chinese cities. Government awareness over rising inequality has redirected its policy agenda towards narrowing the gap between regions, and putting more emphasis on social development and poverty reduction (Zhang 1993; Chen and Wang 2001). Many, however, have questioned the viability of national development programs (such as the Open Up the West campaign (Goodman 2004; Naughton 2004) and other

poverty reduction plans <sup>1)</sup> warning that if macroeconomic instruments – mainly the fiscal and price systems – are not reformed, structural inequalities will continue to widen (Bequelin 2003).

Despite the slow economic spill over effect – from east to west –, macroeconomic policy continues to favour the development of the east coast. More recently, political rhetoric has widely publicized grand infrastructural projects in the west, while the Central Region – where Shanxi is located – disappears in a vacuum, mentioned only briefly in national development plans. Although acknowledging the need to enhance the ‘attractiveness’ of the Central Region, the Central Government has not delineated any specific development policy for this area. Yet – as with the Western Development program – the effectiveness of such targeted programs is highly debatable. Economic indicators show that throughout the reform period the performance of the provinces comprising the Central Region has been at best mixed. Between 1978 and 1994, however, the region’s participation in the national economy suffered the greatest downturn amongst all regions. Its share of the national GDP during that period declined by 3.6 per cent, a drop greater than that experienced by the Western Region (2.4 per cent). <sup>2</sup> Though it remains true that the Western Region ranks lowest in most economic and social indicators, fluctuations in the development of Central Region provinces over the last twenty five years show no clear path towards catching up with their counterparts in the coastal region.

### **Shanxi Province, a reform latecomer**

As has been the case with other provinces in the Central Region, Shanxi has not been a big beneficiary of economic reform. Its conservative stance on reform meant the province was slow in introducing and implementing economic and institutional

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<sup>1</sup> In 1994 the government introduced a National Plan for Poverty Reduction – the ‘8-7 Plan’ –, which had the goal of lifting the majority of the remaining 80 million poor above the government’s poverty line during the seven-year period between 1994 and the year 2000. Results of this plan were mixed; even though designated poor counties experienced a growing rate of agricultural GDP and rising household net per capita income, reduction of the actual number of poor was limited. A new plan – the New Century Rural Poverty Alleviation Plan – claiming to have clearer objectives, better targeting and more participatory approaches at the local level is due to counter poverty by 2010. World Bank 2004.

<sup>2</sup> Over the same period the east coast increased its participation share by 6 per cent. Cheng and Zhang 1998, p.38. The central region has comprised a different set of provinces over time. Originally it included Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan and Inner Mongolia. This last, however, is now part of the Western Region Development Program.

changes. Responsible for that delayed transformation were its close economic and political ties with the Centre as well as its limited connections with the rest of the country and the outside world. Shanxi's vast coal reserves and heavy industry were regarded by Mao to be a critical element of China's modernization, and the state had therefore channelled large investment shares into the province (Breslin 1989, p. 137). Dependence on investment from the Centre strongly influenced Shanxi's development strategies, which concentrated on the exploitation of coal and the establishment of a heavy industry base. At the start of the reform period central plans for Shanxi experienced little change; coal, steel and energy production remained crucial for China's economic development, which meant government investment continued to be pumped into the province. As throughout the period since 1949 one consequence of that policy environment was that Shanxi's economic growth became highly dependent on Central Government investment. Greater investment led to higher growth rates; decreased investment by Central Government resulted in low growth figures.

Yet, despite conservatism towards economic reform, Shanxi Province is not new to industrial and economic transformations. As early as the 1920s Shanxi province experienced its first industrial revolution, which was initiated by local warlord Yan Xishan (Gillin 1967). The establishment of the PRC would later consolidate the development of the province's coal-related heavy industry, which continues to dominate the provincial economy. For most part of the twentieth century Shanxi's conservatism and inward-looking pride mixed with progressive industrialism.<sup>3</sup> This contradictory duality was very much present at the start of economic reform. Between 1982 and 1984 national emphasis on the extraction of natural resources brought double digit – though short lived – general economic growth to the province.<sup>4</sup> Besides coal extraction Shanxi successfully developed its steel and aluminium industries, and started construction of new power plants (fed by its coal reserves) that

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<sup>3</sup> For two comprehensive accounts of Shanxi's socio-economic transformation and insights into its political and social culture see Goodman 1999 and 2002.

<sup>4</sup> In 1984, industrial output increased by 19 per cent over the previous year and GDP grew by 21 per cent. Between 1980-84 the number of large-scale State Owned Enterprises [SOEs] doubled; seventy eight per cent of transported coal in China had its origin in Shanxi, as well as 40 per cent of China's stainless steel. Goodman 1999, p. 222.

were to supply electricity to other provinces, rather than just supplying coal to other provinces for them to turn into electricity.<sup>5</sup>

Economic liberalization was to bring with it an east coast bias that shifted economic priorities and policies at the Centre, gradually reducing the amount of state investment channelled into the interior (Goodman 1989; Cannon and Jenkins 1990; Zhao and Tong 2000). With the Seventh Five-Year Plan in the late 1980s, Shanxi Province began to experience significant investment cut backs from the Central Government. The immediate result was a dramatic downturn of the provincial GDP growth rate, which fell beneath the inflation rate (Goodman 2002, p. 845). In 1992, under deteriorating economic conditions, the Centre nominated Shanxi-native and then minister of the Ministry of the Coal Industry – Hu Fuguo – to the governorship of Shanxi. As governor and later as provincial Party Secretary (1993-1999), Hu emphasized the importance of locally generated development as the only course of action to take the province out of its economic slump. The newly comprised provincial leadership disclosed a fifteen year development plan – the ‘Overtaking Strategy’ – to be introduced in 1996, and which had the goal of getting Shanxi’s economic performance to exceed that of the national average ten years later (Goodman 1999, p. 225).

Between 1995 and 1998 the provincial GDP growth rate surpassed the national average, and per capita GDP experienced an average annual growth rate of 9.1 per cent (Table 5.1), though remaining behind the national average in the latter category (Woo and Bao 2003). Thus, although the provincial economic growth rate had managed to catch up with other provinces, Shanxi’s population remained poorer than most. In fact, since the start of economic reform the gap between Shanxi’s average per capita income and the corresponding national figures has been widening. By 1999, both urban and rural average per capita income in the province remained lower than the national average. More worrying was the fact that average urban worker salary levels were the lowest in the country, while rural income levels ranked 22<sup>nd</sup> among 31

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<sup>5</sup> Shanxi’s electricity transfer to other provinces increased from 12.3 billion kilowatts in 1995 to 21.2 billion in 2002. *Shanxi Statistical Yearbook* 2003, p. 145. Unless otherwise indicated, all provincial statistics are from *Shanxi Statistical Yearbook* 2003.



provinces (Zhang 2000). The average salary of Shanxi's urban workers in 1999 stood at 6,065 yuan, only 72 per cent of the corresponding national figure (Zhang 2000).

Also worrying was the growing gap between urban and rural incomes within the province. In 1980 urban per capita income was 2.43 times that of urban residents, by 2002 that gap had risen to 2.89. Comparing consumption figures the gap becomes even bigger. Urban per capita living expenditures in 1980 (357 yuan) was 2.6 times greater than rural expenditure (134 yuan). By 2002 per capita urban expenditure (4,711 yuan) represented 3.47 times that of the rural figure (1,355 yuan). Income disparities are also widening among urban citizens, peasants and between different industries. In 1998 the highest and lowest urban per capita income levels stood at 9,043 yuan and 1,695.4 yuan respectively. The corresponding figures in rural areas were 7,163 yuan and 136 yuan (Zhang 2000). Wage disparities among industries were greater between traditional industries (i.e. mining) and service industries (usually state monopolies like finance and insurance companies). These inequalities have affected Shanxi's economic performance through low expenditure levels, hence failing to create adequate demand levels necessary to activate provincial economic growth.

**Table 5.1 Shanxi in China - National income and expenditure**

Year	Urban Income			Urban Expenditure			Rural Income			Rural Expenditure		
	Shanxi	China	C/S (%)	Shanxi	China*	C/S (%)	Shanxi	China	C/S (%)	Shanxi	China*	C/S (%)
1980	380			357	460	1.28	156			134	162	1.20
1985	595	739	1.24	595	673	1.31	358	398	1.11	273	317	1.16
1990	1,291	1,510	1.16	1,048	1,279	1.22	604	686	1.13	488	584	1.19
1995	3,306	4,283	1.29	2,641	3,538	1.33	1,208	1,578	1.30	928	1,310	1.41
2000	4,724	6,280	1.32	3,942	4,998	1.26	1,906	2,253	1.18	1,149	1,670	1.45
2002	6,234	7,703	1.23	4,711	5,617	1.19	2,150	2,476	1.15	1,355	1,810	1.33

Urban income figures refer to annual disposable income, while rural ones refer to annual net income.

\*World Bank staff estimates. Sources: *Shanxi Statistical Yearbook* 2003, pp. 189, 203-4, and *China Statistical Yearbook* 2003 (Online).

Despite the relatively minor improvements in the economic performance of the province, Hu Fuguo's development efforts did bring important changes to the way in which the province operated, gradually fostering further development. Perhaps the policy with greater and more long-term effects for the province was the extensive development of infrastructure. Shanxi's isolation had mainly been the result of the inaccessibility imposed by its geography and its poorly developed communication routes. From the mid-1990s the province underwent a massive development of roads

and highways <sup>6</sup>, greatly facilitating communications within the province and its exchanges with the rest of the country. Two major expressways serving those functions were completed in 1996 and 2003 respectively; they are: the Tai-Jiu Expressway – linking Taiyuan and Shijiazhuang in Hebei Province –, and; the Da-Yun Expressway – connecting Datong, in northern Shanxi, with Yuncheng in the southern end of the province.

China's rapidly growing energy demand also brought investment into railway lines and electricity production. The expansion of power plant's capacity extension is often a long term project, therefore there was an emphasis on improving coal transport capacity out of the province, as a more immediate response to energy shortages around the country. Improvements to a railway line between Datong and Qinhuangdao Port – in the north of Hebei Province – was designed to boost coal transportation capacity by 50 million tons. <sup>7</sup> These new linkages have enabled Shanxi to attract more investment from other provincial units, though overseas investment and trade have remained low. By the mid-1990s, Shanxi's foreign investment represented only 5 per cent of provincial GDP <sup>8</sup>, and the amount of foreign capital actually used was less than a quarter than that of its poorer neighbour Shaanxi Province (Cheng and Zhang 1998, p. 53).

Infrastructural development was a crucial component of the Overtaking Strategy, but not the only one. The realization of the need for more self-reliance made economic restructuring within the province an imperative. The economic restructuring strategy was summarized by the provincial leadership with the slogan 'The three foundations, the four key projects and the four campaigns' (Goodman 1999, p. 226). Infrastructural development was part of the three foundations, together with a stable agricultural production and the support for key industries. Due to abundant coal reserves, the coal industry leads the way in Shanxi's industrial policy. In 1992, renewed efforts by the provincial leadership to support the development of large state owned coalmines coincided with a Central Government policy to restructure key state owned coal mines to make them more competitive (Su 2004, p. 227). Coal prices were subsequently

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<sup>6</sup> According to Goodman 1999, 3.6 times more roads were developed between 1993 and 1995 than in the whole decade preceding 1993. p. 226.

<sup>7</sup> Current coal transport capacity in that railway route is 150 million tons. *China Daily* Jan. 5, 2005.

<sup>8</sup> During the late 1990s, foreign investment represented about 20 per cent of the national GDP.

partially liberalized after more than forty years of central regulation. Up until then, the Central Government had been particularly cautious in maintaining coal prices at controlled levels, since over 70 per cent of the country's energy production derives from coal (Su 2004, p. 229).

With a substantial number of state owned coal mines in the red, there were attempts at fostering the diversification of the industry, and allowing for some mines to go bankrupt. In Shanxi, efforts were also directed towards developing more high-added value coal by-products inside the province instead of relying so heavily on coal extraction. Electricity generation, for example, became one of the 'four key projects' of the Overtaking Strategy.<sup>9</sup> By 1996, Shanxi was successfully supplying electricity to Beijing, Hebei, Tianjin and Jiangsu, and would soon after become the largest national producer of electricity (Goodman 1999, p. 227). Shanxi is also the largest coke producer in the country – accounting for two thirds of national coke production – making China one of the main international players in coke markets and prices.<sup>10</sup>

Certainly the major thrust of Shanxi's development plan was directed towards the restructuring of the state owned sector, but other economic sectors were also directly and indirectly promoted. One remarkable example was the impressive surge in the number of small coalmines at the county level, run by both local governments and by private entrepreneurs.<sup>11</sup> Also at the county level, an increasing number of township and village enterprises started to produce coal by-products; carrying out coal industry-supporting activities, and; producing textiles, foodstuffs and other consumer goods.<sup>12</sup> Between 1992 and 1999 the TVE sector experienced the fastest growth in the industrial sector, developing at an average rate of 40 per cent per annum (*People's Daily Online* Oct. 17, 2000). Industrial restructuring of the state owned sector was perhaps also responsible for the development of an incipient private sector, which –

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<sup>9</sup> Coal mining, however, continued to be a 'key project'. The other two key projects were the development of the road network, and the channelling of water. Goodman 1999, p. 226.

<sup>10</sup> In 2002 Shanxi produced 58.5 million tons of coke, of which 6.1 million were exported overseas. For 2005, the Ministry of Commerce set a coke export quota of 14 million tons, the bulk of which will be produced in Shanxi. *China Daily* Dec. 28, 2004.

<sup>11</sup> This phenomenon appeared in all coal-producing provinces, to the extent that in 1994 coal production by small mines was larger than that of state key coal mines. Su 2004, p. 236.

<sup>12</sup> By 1996 the town and village enterprises [TVE] sector already accounted for about 33 per cent of provincial GDP. Goodman 1999, pp. 227-9.

according to one estimate – by the late 1990s had an industrial output only second to that of Zhejiang Province (Goodman 2002, p. 841).

Defining and delineating the private sector in the Chinese economy is a difficult task.<sup>13</sup> Nevertheless, an undisputable trend around China and within Shanxi Province is the emergence of an amazingly large number of TVEs functioning as *de facto* private businesses. In many cases they are still considered to be part of the collective sector of the economy. In terms of employment, TVEs and the private sector have made a great contribution to job creation. In Shanxi's urban areas private enterprises went from employing just over a thousand people in 1980, to employ almost 4 per cent of the total labour force in 2002. That same year, the TVE sector's share of employment was 60.2 per cent, while accounting for 62.3 per cent of the total provincial industrial income (*Shanxi Provincial People's Government*). Even though the state sector continues to be an important contributor to the provincial economy (employing 18 per cent of the labour force and producing 22 per cent of the provincial GVIO) the private sector is rapidly becoming an important economic entity.<sup>14</sup>

The paradox of this development lies in the fact that these two economic sectors are developing in a synergistic manner, and not in opposition to each other. State owned enterprises are actively subcontracting a large range of services and even part of the production processes to private firms (Wu, F. 2002, p. 1076). Services and production by private subcontractors are usually not reflected in statistics on the private sector, partly due to the high degree of vertical integration of economic activities between firms – especially SOEs – but also due to the categorization of activities in official statistical data that places those activities within the state sector (*China Development Gateway* 2003).

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<sup>13</sup> For official purposes the National Bureau of Statistics defines enterprise ownership as private when one or up to 8 people own an enterprise. Within the private sector, statistics usually distinguish between individually owned enterprises (*geti* 个体) and those owned by more than one person (*siying* 私营). Private enterprises are also sometimes referred to as people-run enterprises (*minying* 民营).

<sup>14</sup> During the first quarter of 2004 1,628 individual and private enterprises were established in Taiyuan City – the provincial capital. To that date there were a total of 77,719 individual and private enterprises in the area, employing more than 80 thousand people, with a gross value of industrial output of more than 766 million yuan. Feng 2004.

Reforms in other economic and social sectors have also been important – though not as thorough.<sup>15</sup> Social development still shows weaknesses, due to the incomplete transformation of important social sectors.<sup>16</sup> Early on, Hu Fuguo’s technocratic government saw the necessity of supporting science and educational institutions, as a way of guaranteeing the formation of a pool of qualified workers to be channelled to the newly restructured industrial sector (Goodman 1999, p. 226). Despite the enthusiasm, during the 1990s institutions of higher education and vocational schools developed at a slower pace than in the 1980s, both in number of schools and of students. It was not until the late 1990s that student numbers at university and vocational levels started to pick up. In this respect, however, statistical data sheds very little light on the actual developments in the educational sector in the province. Yet, more than the numbers, it has been the changes in both the content of educational curricula and the objective of education that have made the greatest impact not only on the education system but also on Shanxi’s modernization process.

Perhaps the most important change to the educational system in China since the reform started was the redefinition of education from being a means of spreading socialist ideals, to becoming a tool for the development of productive forces. This change in the substance and objectives of education championed by Deng Xiaoping’s followers introduced a competitive system that was able to ‘cream’ the best students, channel them into key schools, for them to then obtain the best quality education. For staunch conservatives like Hua Guofeng (Mao’s successor and a Shanxi native), however, the reintroduction of key schools would only give way to elitism (Ogden 1995, p. 329). Hua Guofeng’s ideals of mass education and the importance of political content in education had been crucial components of Shanxi’s educational system even before the 1949 Communist victory.<sup>17</sup> With the reform, the emphasis on

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<sup>15</sup> That is not to say that industrial restructuring has been problem free. What is being emphasized here is the fact that much more effort and resources have been dedicated to that sector’s transformation than to any other sector.

<sup>16</sup> According to the China Human Development Report 2002 by the United Nations Development Programme, in 1999 Shanxi province ranked 14<sup>th</sup> among Chinese provinces, municipalities and autonomous regions by its human development index [HDI]. Some of the components of the HDI include a life expectancy index, an education index, and an income index, among others. Shanxi presented a high education index (82.10), but a low income index (52.10). Woo and Bao 2003, Annex 2.

<sup>17</sup> Not only was Shanxi a stronghold during the war of resistance against the Japanese, but it also became an important experimental base for the CCP. Goodman (2000) has written one of the most

universal basic education was reinforced by the introduction in 1985 of the Nine Year Compulsory Education Law. Between 1990 and 1999, the effort put into basic education managed to reduce Shanxi's illiteracy rate from 8.5 per cent to 5.3 per cent (Lu and Lu 2001). Achievements in raising rural educational levels were particularly impressive. According to a 1996 national agricultural census, 48.41 per cent of Shanxi's rural population had completed junior middle school education, a level only lower than that of Beijing, Tianjin and Shanghai (Fan and Zhang 2004, p. 206). A lot of effort was put into the establishment (and transformation) of technical secondary institutions around the province. By 1995 there were 616 secondary schools offering vocational degrees; with over half dedicated to vocational agricultural education (*Nongzhiye zhongxue* 农职业中学). Thirty-three of the vocational schools became key schools in the major provincial cities, though a few were established at the county level (*Shanxi General History* 1999).

At the end of the 1990s the emphasis shifted from vocational to higher education, especially the hard sciences and scientific research and development,<sup>18</sup> and administrative responsibility over basic education was gradually decentralized to sub-provincial levels of government. As was explained previously, that transfer of responsibility to the county and the township levels made provision of good quality education for all an even more difficult task. Fiscal reform in the mid-1990s diminished revenue at the county level, constraining funding for rural education.<sup>19</sup> Although the nine years of tuition free compulsory education looks ideal on paper, insufficient funds have pushed public schools to charge an increasing amount of fees on student's parents. For the large majority, expenditure on education remains one of the biggest burdens of the household economy.<sup>20</sup> There is also the issue of school hierarchy, with key public schools at the top. They are for the most part located in

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detailed analyses of social and political change in Shanxi during the war against the Japanese and the later years of civil war before the formation of the People's Republic of China.

<sup>18</sup> From 1995 to 2002 the number of institutions of higher education increased from 26 to 39.

Meanwhile, funds designated for scientific development in large and medium-sized industrial enterprises more than quadrupled. *Shanxi Statistical Yearbook* 2003, pp. 488, 517-21.

<sup>19</sup> Acknowledging the severity of rural under-funding in education the Central government announced during the 10<sup>th</sup> National People's Congress [NPC] meeting held in March 2005, that starting in 2007 all rural students will be provided with free textbooks and will be waived of all school fees while completing the nine years of compulsory education. *People's Daily Online* March 8, 2005.

<sup>20</sup> In Shanxi, average per capita expenditure on education is only second to that on food. In 2002, expenditure on education for urban households represented almost 17 per cent of all household expenditures. For rural households that figure was over 15 per cent. Own calculations from *Shanxi Statistical Yearbook* 2003, pp. 188, 205.

urban centres, favouring not only urban kids but also the children of local cadres and of those with better connections. Furthermore, the better the reputation of a school, the higher its tuition fees.

As has been the case in other sectors of the economy where public investment is insufficient to promote services, the Central Government called upon social forces to participate in the provision of education. To that end, in September 2003 the Central Government introduced the Private Education Promotion Law, which finally made its support for private investment in education official (Froissart 2003, p. 26). In Shanxi's main cities private schools had been appearing since the late 1990s, and by the end of 2003 they had become very popular and highly visible.<sup>21</sup> Official figures from 2002, a year before the private education law was promulgated, show that schools run by 'social forces'<sup>22</sup> (an euphemism for non-state activities) in urban areas represented 35 per cent of all kindergartens, 3.1 per cent of all primary schools, 21 per cent of all secondary schools, and 23 per cent of vocational schools.<sup>23</sup> Given these figures, it was surprising to hear in an interview carried out in October 2003 with local cadres from the Education Department of Jiaocheng County – only half an hour's drive from the provincial capital – an emphatic statement establishing that in their county there were no private schools, and that the County Government did not support their development.<sup>24</sup>

Private education may well have constituted a good complement to public schooling, but it did very little to ease the pressure on household expenses on education, and to increase children's school enrolment and attendance. Particularly in urban areas, private schools often boast better and more modern infrastructure, but their tuition fees tend to be high. Some of those schools may have less stringent entry requirements than public schools, but their educational levels tend to be lower, even

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<sup>21</sup> During fieldwork in 2003 and 2004 a large increase in the number of English schools in Taiyuan, the provincial capital was noted. In Hongtong County, privately owned schools included kindergartens, primary and secondary schools, as well as 'cram' schools.

<sup>22</sup> Even though private schools started to appear in China as early as 1992, it was only in 1997 that the Central government promulgated a series of regulations to govern all non-governmental educational institutions – also referred to as schools run by social forces. Although there are some schools functioning as non-profit organizations, the category usually refers to private schools. Chen and DeLany 1999.

<sup>23</sup> Own calculations from *Shanxi Statistical Yearbook* 2003, pp. 498, 500, 502 and 508.

<sup>24</sup> Fieldwork interviews. Oct., 2003.

though usually both systems share the same teachers. For those with the financial resources, private education offers an alternative to increasingly competitive public schooling, with only a limited number of places.

A similar situation has been present in the healthcare system, where a dramatic growth in health care expenditure<sup>25</sup> is having serious implications for equity in access to healthcare services (Gao *et al.* 2001; Tang and Bloom 2000; Zhu 2001). On the one hand, low-income groups, both in the countryside and in the cities, are finding it increasingly difficult to afford health care services – especially the use of in-patient services – and expensive medicine. On the other hand, there has been a significant decline in the number of people covered by medical insurance, with poorer groups suffering the largest decrease. According to Gao *et al.* (2001), by 1998, nationally already 44 per cent of the population was paying for health care services with their own resources (p. 306). At the same time, rising medical costs and a rapidly growing aging population are already overburdening existing insurance schemes.

Without question the biggest challenge to the reform of the healthcare sector lies with its financing mechanisms.<sup>26</sup> Dispersion of funding contributions to the social security system, however, is yet to materialize. In Shanxi – where the state sector remains an important economic player – many ailing SOEs have been unable to provide workers with their legitimate entitlements. This is reflected in the large increase on private medical expenses in urban areas, where a growing number of workers are being left outside of social safety nets. In 1995 per capita expenditure on healthcare services by Shanxi urban households represented only 3.2 per cent of total living expenditures, whereas by 2002 that share had gone up to 7.7 per cent. In Shanxi's rural areas healthcare expenses remained stable during that period<sup>27</sup>, although that could be

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<sup>25</sup> During the 1980s the national average annual growth rate for total health expenditure (10 per cent) was higher than the national per capita income growth rate (7.6 per cent per annum). Gu and Tang 1995, p. 188. That trend continued in the 1990s and into the 21 Century. Between 1999 and 2004 annual income of urban and rural residents increased by 8.9 per cent and 2.4 per cent respectively, while medical expenses in urban and rural areas rose by 13.5 per cent and 11.8 per cent. *Xinhua News Agency* Dec. 3, 2004.

<sup>26</sup> National expenditure on health has also remained low. In 2000 it represented only 5.3 per cent of GDP, just 0.3 percentage points higher than the minimum recommended by the World Health Organization. *China Daily* Dec. 19, 2002.

<sup>27</sup> Between 1995 and 2000 rural households' expenditure on health care and medicine as a percentage of total living expenditure had only a small increase, from 5.5 to 5.7 per cent. Own calculations from *Shanxi Statistical Yearbook* 2003, pp. 188, 205.



related to two factors: decreasing availability of rural health care facilities, and; a declining number of people seeking medical care due to their inability to afford it.

During the 1990s, Shanxi's health care sector underwent a major shake up. Restructuring of medical facilities between 1995 and 1998 reduced the number of hospitals from 2,590 to 709, and the number of clinics from 2,790 to 101 (*Shanxi Statistical Yearbook* 2003). This dramatic decrease was particularly severe in the rural areas, where the large majority of those medical facilities axed were located. In 1995, for example, only 24 per cent of hospitals were located at or above county level. But by 1998, despite the big drop in the overall number of hospitals, urban hospitals experienced a small increase, from 632 to 664. Rural healthcare facilities did not disappear in that three-year period, but many were taken over by private practitioners (Lim *et al.* 2004, p. 330).

In 2003, after the catastrophe over the Severe Acute Respiratory Syndrome [SARS] epidemic, the Central Government saw the need to strengthen the overall health care budget, aiming to speed up the reform of the health sector and improve its emergency response capacity.<sup>28</sup> As one of the provinces particularly affected by the epidemic, Shanxi also embarked in a reorganization of its healthcare sector. In the frenzy of the epidemic and the pressure to control it, however, many precious resources were used to construct disease control centres and special wards for SARS patients, even in counties that had not been affected by SARS.<sup>29</sup> As of March 2005, however, there was still no provincial data on the changes in both funding and structure of the provincial health care system after the epidemic.

Moreover, the new social security and welfare model faces enormous challenges. Centralization in 1998 of the various social security schemes under the administration of the newly created Ministry of Labour and Social Security, has put a lot of pressure on this ministry to try and get as many enterprises as possible to join the system. If the membership base is not enlarged the social safety nets will remain starved of resources, and Central Government disbursement in the form of subsidies will have to

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<sup>28</sup> More than 11 billion yuan (US\$1.3 billion) were invested in 2003 and 2004 for that purpose. *People's Daily Online* Sept. 11, 2003.

<sup>29</sup> During fieldwork in October 2003 the new building dedicated to the treatment of SARS patients in Hongtong County's People's Hospital was visited. No SARS cases had been reported in this county.

continue flowing towards the provinces. SOEs, PSU and government departments with their aging staff and larger percentage of retirees are bearing the brunt of a growing health care bill and pension payments. According to provincial statistics, in 2002 SOEs alone were responsible for social security and pension expenses of 65 per cent of all retired and laid-off workers in the province. Suffering the same plight were PSU, collectives, and government departments, which were responsible for 14 per cent, 10 per cent and 7.4 per cent of social security expenses respectively. Meantime, the category of other enterprises – including foreign funded and funded by Hong Kong, Taiwan and Macao – were only responsible for 2.3 per cent of all insurance and welfare funds of retired and laid-off workers, since they are – in general – newly established enterprises with a younger labour force. Insolvency in the former group of enterprises has left many unable to honour workers' entitlements, which in the long run could have devastating consequences on social stability and on government legitimacy (Bloom *et al.* 2002, p. 5; Huang 2003, pp. 191-3).

Pressure on local governments to increase membership has in many instances driven local officials to inflate enrolment figures in their reports. According to a staff member at a local Labour and Social Security Department in Shanxi, the number of workers registered in the new labour social security system remains low, though official provincial data show an almost 90 per cent membership of urban employees.<sup>30</sup> The system has had to remain heavily subsidized, by both the provincial and the Central Government. In 2000 Shanxi's total expenditure on pensions and welfare subsidies<sup>31</sup> was 5.3 billion yuan, accounting for 18.6 per cent of total provincial expenditure (*China Statistical Yearbook* 2001).

Even though the number of retired workers is likely to increase in the coming decades, in the short and medium term Shanxi's burden from social security schemes may not be as heavy as that of other provinces with a larger proportion of an aging population. Figures from the 5<sup>th</sup> National Population Census (2000) show that Shanxi's population over 65 years of age as a percentage of the total population (6.2

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<sup>30</sup> Interview, Oct. 21, 2003.

<sup>31</sup> There are three separate expenditure categories in this area, they include: expenditure for pensions and relief funds for social welfare; expenditure for retired persons in administrative departments; expenditure on subsidies to social security programs.

per cent) remained below the national average (6.96 per cent).<sup>32</sup> The burden, however, will continue to rest more heavily on SOEs. Not only is there a problem with rising numbers of retired workers, SOE ownership changes and the growing number of loss-making enterprises have also increased the number of laid-off workers. During the late 1990s the number of laid-off workers from Shanxi state owned enterprises increased at an annual rate of 10 per cent, and it was estimated that about half of all city and county level SOEs were losing money (Qin *et al.* 2000). Unemployment payments and minimum living standard premiums for those laid-off and for poor urban households will have important repercussions on SOEs and on local government finances.

Ownership changes in the SOE sector, however, offer an opportunity for local governments and local Labour and Social Security Departments to push newly formed enterprises to include all their workers into the new social security system. In highly industrialized cities like Taiyuan and Datong – with large SOE sectors – the transition may be more difficult, but in less burdened urban areas – especially those recently granted official status as towns and cities – there is a chance to build the necessary funds to make the system viable and more inclusive. Shanxi's urban system has expanded significantly during the reform process. While in 1978 Shanxi Province had only seven cities, already by 1992 another 15 new cities had been added to its urban system. Urban growth has been particularly fast in the southern part of the province, where six of those newly established cities are located (Zhang and Zhang 2003), and where unemployment levels have remained lower than in the rest of the province (Qin *et al.* 2000). The particularities of this economic structure and development patterns at the local level are thus having a strong influence over both employment creation and on the consolidation of social safety nets. Understanding of those particularities becomes crucial for policy formulation and implementation, in an attempt to tackle inequalities.

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<sup>32</sup> The three administrative entities with the largest proportion of over 65 are Shanghai (11.53 per cent), Zhejiang (8.84 per cent), and Jiangsu (8.76 per cent). Figures based on the 5<sup>th</sup> National Population Census. *China Statistical Yearbook* 2001, Section 4-6.

## Hongtong County

The dynamics of uneven development are as much at play at the sub-provincial level as they are at the national and provincial levels (Gu *et al.* 2001; Long and Ng 2001; Wei and Fan 2000). Intraprovincial inequalities have become yet another vector in the analysis of local economic development, and – as mentioned in the previous chapter – inequalities between rural and urban areas, among city dwellers, across economic activities, within rural society and among the various regions are particularly severe in Shanxi Province. The wealthier areas, where the hubs of localized development are situated, are found in the districts of Taiyuan – the provincial capital – Datong – the mining centre to the north – and the south with Linfen, Yuncheng, Jincheng and Changzhi as its most important centres. In 2002, 12 of the 20 wealthiest counties in Shanxi were located in this southern area; that same year, the GDP of Yaodu District of Linfen City – the richest in the whole province – was larger than the combined GDP of the poorest 21 counties in the province (*Shanxi Statistics Department* 2003).

Hongtong County, also located under the jurisdiction of Linfen City, is by no means an average county. In the last twenty years Hongtong has been one of the best economically performing counties in the province. With a GDP of over 4.5 billion yuan (2003) Hongtong's economy ranks 8<sup>th</sup> among all counties, cities and districts in the province. Its economic development offers an interesting case study, different from the development paths of other rich and more industrialized areas like the industrial belts around Taiyuan and Datong. Contrary to its more urbanized counterparts, the countryside remains an important component of Hongtong's economy, together with its township and village enterprises. Furthermore, in contrast to the wide rural-urban inequalities present elsewhere in the province Hongtong County boasts a relatively well-off countryside. This is partly explained by the county's good performance in agricultural production (the largest grain producer in the province), but also by its strong TVE sector. In 2002 there were 22,714 township enterprises registered in the county, employing 89,454 people or 31.02 per cent of the total rural labour force (288,319). Though small in size (average of 3.9 workers per enterprise) together TVEs created a sizable output value close to 6 billion yuan (*Hongtong County Statistical Yearbook 2000-2002*, p. 67).

Coal related urban industries, especially large state owned enterprises, are also important employers in at least two of the towns – Zhaocheng and Guangshengsi – as well as being large contributors to the County’s coffers. The importance of coal is also reflected in the size of the mining and extraction sectors, with 48 registered coalmines<sup>33</sup> rumoured by one coalmine owner to be employing around 10,000 rural workers.<sup>34</sup> Non-state coalmines are much more important in this sector than state owned mines, and in fact a large part of the private wealth in the county has been made from coal mining. Although there are no disaggregated county statistical figures on coal sales, 2002 figures for Linfen City show that state owned mines were only responsible for 11.36 per cent of reported coal sales in all counties and cities under its jurisdiction. Hongtong County’s industrial sector includes various coal carbonisation factories; smelter factories; construction materials factories; papermaking factories; chemicals factories; and a beer factory. There are a total of 3,705 enterprises in the county, 41 of which are state owned and non-state owned above designated size. Gross Value of Industrial Output [GVIO] in 2002 stood at 3.87 billion yuan, ranking 14<sup>th</sup> among all provincial counties, county level cities and districts.<sup>35</sup> Employment wise, that same year, of the 37,386 fully employed urban citizens 21,355 were SOE employees, 2,081 were employed by collectives, and 13,950 worked for other types of enterprises (*Shanxi Statistical Yearbook* 2003, pp. 626-7).

Despite outspoken government support for the development of service industries – especially in the areas of tourism, telecommunications, transport, health and education – the tertiary sector still plays a modest role in the county’s economy. In 1995 the tertiary sector in Hongtong County represented only 19.95 per cent of the county’s gross domestic product [GDP]. By 1998 its share of the county’s GDP was 23.51 per cent, a similar share (20.92 per cent) to that of the primary sector. In the following two years the tertiary sector experienced a period of fast growth that increased the sector’s participation in the economy to 28.8 per cent, but which slowed down after 2001 to 25.3 per cent in 2003. Employment figures for the tertiary sector are not available, probably due to the less quantifiable nature of employment in that sector,

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<sup>33</sup> There are also a large number of illegal typically small coalmines around the countryside.

<sup>34</sup> Interview with a private coalmine owner in Zhaocheng Town, June 15, 2003.

<sup>35</sup> Statistical data from the *Shanxi Statistical Yearbook* and data from the *Hongtong County Statistical Yearbook* differ in some of the item categories, not only in the quantities reported but also in the category definitions. For comparison purposes (with other counties and cities in Shanxi or with national statistics) data from the *Shanxi Statistical Yearbook* will be favoured.

where informal contractual arrangements predominate and where migrant labour is more common. Despite the fast growth experienced by this sector from the late 1990s, the secondary sector has maintained and even strengthened its position as the strongest economic sector in the county (Table 5.2). This strong performance is mainly due to raising coal and coke prices from 2002, triggered by high domestic energy demand.

**Table 5.2 Hongtong County - Economic sectors**

Unit: 10,000 yuan

<b>GDP</b>	<b>Total</b>	<b>Primary Sector</b>	<b>%</b>	<b>Secondary Sector</b>	<b>%</b>	<b>Tertiary Sector</b>	<b>%</b>
<b>1991</b>	55973	13840	24.7	29572	52.83	12561	22.44
<b>1995</b>	151571	46066	30.39	75258	49.65	30247	19.95
<b>1997</b>	220570	54600	24.75	118337	53.65	47633	21.59
<b>1998</b>	244278	51103	20.92	135733	55.56	57442	23.51
<b>2000</b>	255551	39118	15.3	142717	55.84	73716	28.84
<b>2001</b>	289140	41147	14.23	166219	57.48	81774	28.28
<b>2002</b>	334683	44022	15.3	200051	59.77	90610	27.07
<b>2003</b>	452424	46967	10.38	291283	64.38	114174	25.23

Source: *Hongtong County Summary of Statistical Materials 2003*, pp. 44-5.

### **Rural development and urbanization**

The Fenhe River and the main provincial transportation routes run across Hongtong County, which is located in a flat valley between Shanxi's main mountain ranges. With a population of over 720,000 in 2003 Hongtong is the most populous county in the province. The county is comprised of 9 towns, 7 townships and 463 administrative villages. At 27.6 per cent, urbanization levels (urban population as a percentage of the total population) stand close to the provincial average level of 28 per cent, but again, lagging significantly behind the national average of 39 per cent. In recent years statistical data on urbanization has been based on the *de facto* population in urban areas, regardless of registration status (Table 5.3). This more inclusive definition of urbanization gives a clearer sense of the actual growth of urban areas in the county, since the proportion of the non-agricultural population has grown at a much lower pace than urbanization (Table 5.4). Urban areas in Hongtong entered a period of rapid growth from 2000; between 2001 and 2003 urbanization levels jumped from 17.5 per cent to 27.6 per cent.

**Table 5.3 Hongtong County urbanization and population**

	Permanent Population 常住人口	Urban Population 城镇人口	%	Rural Population 乡村人口	%
<b>2001</b>	709,266	124,556	17.5%	584,710	82.4%
<b>2002</b>	714,656	192,529	26.9%	522,127	73%
<b>2003</b>	720,043	199,165	27.6%	520,878	72.3%

Sources: *Hongtong County Summary of Statistical Materials* 2003, p. 19.

**Table 5.4 Hongtong County – Population by *Hukou***

	Total Population	Non-agricultural 非农业人口	%	Agricultural 农业人口	%
<b>1978</b>	508,103	30,140	5.9	477,963	94
<b>1985</b>	550,632	37,768	6.85	512,864	93.14
<b>1990</b>	605,064	48,950	8	556,114	91.9
<b>1995</b>	650,309	67,495	10.37	582,819	89.62
<b>2000</b>	711,578	84,796	11.91	626,782	88.08
<b>2002</b>	722,846	84,634	11.70	638,212	88.29
<b>2003</b>	726,079	85,128	11.72	640,951	88.27

Sources: *Hongtong County Statistical Yearbook* 2000-2002, p. 65; *Hongtong County Summary of Statistical Materials* 2003, p. 19.

During the second half of the 1990s urban development in the county focused on the towns along the Datong-Yuncheng expressway, with significant infrastructural development taking place in Zhaocheng Town and Dahuaishu Town – the latter the seat of the County Government. This followed provincial policy on urbanization, which called for the prioritisation of urban growth in the towns along the Datong-Yuncheng expressway (Niu 2003). Since the opening of this expressway in late September 2003 new commercial and residential areas have subsequently sprouted in Dahuaishu Town, and the majority of the villages under the town's jurisdiction are experiencing various degrees of urbanization.

Hongtong's lower than average urban growth over the reform period could be explained by the relatively good agricultural conditions and the numerous rural enterprises, which have consequently lowered the economic incentives to leave the village. This is in fact the rationale behind the national policy encouraging farmers to leave the land without leaving the countryside (*litu bulixiang* 离土不离乡). Elsewhere in China, however, empirical findings have shown a weak link between rural industrialization and both intra and inter provincial migration (Liang *et al.* 2002). It nonetheless seems the case that in Hongtong County TVEs have helped keep peasants in the countryside. Despite the instability in employment opportunities experienced by

that sector – especially after a strong downturn in 1996 – TVEs have managed to achieve a significant recovery since 2000, although to lower levels than those of 1995-6 (Table 5.5). In the year between 1996 and 1997 the number of TVEs plummeted from 27,111 to 1,060, while the number of people employed by this sector decreased from 156,948 workers to 32,151.<sup>36</sup> This sudden downturn was the result of an enterprise restructuring in which less efficient enterprises closed down, partly as a result of strained economic conditions caused by the 1997 Asian financial crisis. By 2002, however, the overall economic performance of the TVE sector managed to recover and outpace 1996's output value levels (Table 5.5).

**Table 5.5 Hongtong County - Township and Village Enterprises**

	<b>Number of Enterprises</b>	<b>Staff and workers</b>	<b>Gross Output Value</b> (10,000 yuan)	<b>Profit after tax</b> (10,000 yuan)
<b>1978</b>	72	3,398	875	108
<b>1985</b>	9,293	38,569	9674	1208
<b>1990</b>	8,786	34,357	30881	4622
<b>1995</b>	27,089	156,750	370279	39000
<b>1996</b>	27,111	157,948	428309	49885
<b>1997</b>	1,060	32,151	123100	12156
<b>1998</b>	1,126	40,127	176996	20427
<b>1999</b>	1,192	41,213	229765	29162
<b>2000</b>	22,845	91,668	383125	38213
<b>2001</b>	22,659	87,853	406035	40682
<b>2002</b>	22,714	89,454	579885	67195

Source: *Hongtong County Statistical Yearbook 2000-2002*, p. 67.

Even though most part of the shift from agriculture into non-agricultural work has remained within the county boundaries, there is a small number of workers who leaves the county every year (Table 5.7). Exact numbers for this migrant category, however, are hard to calculate and often different government departments give differing figures. According to the calculation included in the *Shanxi Statistical Yearbook* the number of rural workers from Hongtong County who had secured temporary work contracts elsewhere had declined since the mid-1990s, from 7,034 in 1995 to 5,965 rural workers in 2002.<sup>37</sup> The numbers provided by the County

<sup>36</sup> In her study of three poverty-stricken counties in Shanxi Province, Zhang Mei (2003) also observed the same dramatic decrease in the number of TVEs and their employees. In 1995 the counties in her sample had 9,851; 1,757; and 2,175 TVEs respectively, each employing 26,448; 15,217; and 39,025 people. By 1997 the number of enterprises had plummeted to 582; 172; and 485 respectively; while the number of employees had gone down to 16,657; 4,449; and 20,602 (p. 64).

<sup>37</sup> These figures do not specify whether the workers have taken jobs within or outside the province. *Shanxi Statistical Yearbook 1995*, p. 605 and 2003, p. 639.



Statistical Department were: 7,304 leaving the county in 2001, and 4,200 in 2002 (*Hongtong County Summary of Statistical Materials* 2003) (Table 5.6). A 1998 report by the Labour Department puts the number of rural workers who had left Hongtong County to work in other provinces at 3,580 (Hongtong County Labour Department 1998).

**Table 5.6 Rural employees working outside Hongtong County**

	Working outside of the County within Shanxi Province	Working in other provinces
2000	5,177	1,189
2001	5,440	1,385
2002	5,965	1,201
2003*	8,867	1,431

Source: *Hongtong County Statistical Yearbook 2000-2002*, p. 200;

\* *Hongtong County Summary of Statistical Materials* 2003, p. 18.

In general, though, population movements in Shanxi have for the most part been intraprovincial (Goodman 2006). In 1999, only 48,900 rural workers had found jobs in other provinces, accounting for 0.46 per cent of the provincial population (Lu and Lu 2001). In Hongtong County high rural incomes have actually attracted migrant workers from other parts of the country. Those workers have mainly concentrated in Hongtong's rural mining sector, which offers much higher incomes than urban service, construction and manufacturing jobs.<sup>38</sup> Local mines usually hire a mix of local and outside workers, but generally coalmine bosses prefer to hire outside workers who can work full-time in the mines. Local workers typically work only on a part-time basis in the mines, when there is less work in the fields.<sup>39</sup> Nevertheless, outsiders tend to be harder to manage than local workers, since they have a greater tendency to build informal workers' groups to lobby with bosses for higher wages, better working conditions and in some instances go as far as organizing strikes.<sup>40</sup>

<sup>38</sup> Informal interviews with villagers in Zhaocheng revealed that miners could make more than 10,000 yuan per year, whereas construction workers in the town usually can only make between 2,000 and 3,000 yuan annually. Working conditions in the mines – especially smaller ones – are extremely unsafe. In some villages a large part of the male population has died in mine accidents.

<sup>39</sup> One coalmine owner complained that local workers ask for leave to deal with family affairs and farming much more often than outsiders. Migrants from other counties or provinces tend to work full time most of the year and only go back home once or twice.

<sup>40</sup> Interview with a private coalmine owner in Zhaocheng Town. June 15, 2003.

**Table 5.7 Hongtong County - Rural labour**

	<b>Total Rural Labour</b>	<b>Total Employees</b>	<b>Agriculture</b>	<b>Industry</b>	<b>Construction</b>	<b>Transport</b>	<b>Trade and Catering</b>	<b>Other</b>
<b>2000</b>	384,034	282,378	165,923 (58.7%)	39,415 (13.9%)	21,611 (7.6%)	21,755 (7.7%)	13,919 (4.9%)	19,755 (6.9%)
<b>2001</b>	383,973	285,274	166,426 (58.3%)	39,894 (13.9%)	22,276 (7.8%)	22,156 (7.7%)	14,218 (4.9%)	20,304 (7.1%)
<b>2002</b>	393,989	288,319	167,037 (57.9%)	40,362 (13.9%)	22,870 (7.9%)	22,667 (7.8%)	14,756 (5.1%)	20,627 (7.1%)
<b>2003*</b>	398,520	291,635	168,748 (57.8%)	41,352 (14.1%)	23,158 (7.9%)	23,761 (8.1%)	15,155 (5.1%)	19,461 (6.6%)

( ) Percentage of total rural labour. *Source: Hongtong County Statistical Yearbook 2000-2002*, p. 196.

\* *Hongtong County Summary of Statistical Materials 2003*, p. 18.

As is the case elsewhere in China, non-agricultural work has become an important component of rural household income in this county. According to a 2002 provincial survey the greatest cash income increase for rural households in Shanxi came from off-farm work, with those peasant families no longer engaged in agriculture earning the highest income (*Shanxi Agricultural Survey Team 2003*). A combination of income from non-agricultural activities, good agricultural performance, and – more recently – raising coal and grain prices have helped maintain Hongtong’s high rural incomes. In 2002 rural per capita income amounted to 2,661 yuan, while the provincial and the national figures stood at 2,150 yuan and 2,476 yuan respectively. From 2002 to 2003 rural per capita income experienced a further 8.04 per cent growth, and stood at 2,875. Relatively high salaries in mining and in rural non-farm employment have kept Hongtong County’s rural per capita income above the provincial and national levels.

From 1995 rural per capita income experienced a slightly higher percentage growth than urban income, although growth in expenditure levels in the countryside remained lower than those in the towns. Between 1995 and 2003 urban and rural per capita income on average experienced a 9.5 and 10.89 percentage growth respectively; while average urban and rural per capita expenditure growth stood at 14.15 and 13.28 per cent. Growth rate differences are small and thus show a similar pace of economic development in rural and urban areas, yet the gap in income and expenditure levels has not narrowed. During the first half of the 1990s rural-urban inequalities widened, but the gap started to close after 1995 coinciding with the rise in TVE employment. This trend, however, was short-lived due to the sudden downturn experienced by the TVE sector in 1997, which caused important contractions of rural income and

expenditure up until 1999 (Table 5.8). Rural expenditure was particularly affected by the economic slowdown, reflecting perhaps lower levels of savings to which peasants could recourse in times of economic hardship. And although rural income was not as severely undermined as expenditure, the strong relationship between rural industry performance and individual income and expenditure became self-evident, showing the growing reliance of rural households on non-farm income sources.

**Table 5.8 Hongtong County - Per capita GDP and urban-rural income and expenditure** Yuan

Year	Per capita GDP	Income			Expenditure		
		Urban	Rural	Urban/Rural	Urban	Rural	Urban/Rural
1980	210	n/a	53		n/a	141	
1985	451	n/a	348		n/a	226	
1990	918	924	482	1.9	726	387	1.87
1995	2,351	3,145	1,290	2.4	1,842	722	2.55
1996	2,871	3,545	1,692	2.09	2,111	1,148	1.83
1997	3,323	3,851	2,035	1.89	2,657	1,120	2.37
1998	3,628	4,100	2,172	1.88	2,601	829	3.13
1999	3,581	4,460	2,210	2.01	3,075	845	3.63
2000	3,653	4,766	2,411	1.97	3,053	1,239	2.46
2001	4,043	4,956	2,502	1.98	3,048	1,234	2.47
2002	4,710	5,852	2,661	2.19	4,357	1,277	3.41
2003	6,307	6,468	2,875	2.24	4,995	1,586	3.14

Source: *Hongtong County Statistical Yearbook 2000-2002*, pp. 68, 138, 142; *Hongtong County Summary of Statistical Materials 2003*, pp.50-1

Apart from rural industries, urban centres around the county have also absorbed a growing number of rural labourers. In the last five to ten years towns in Hongtong County have experienced important economic and physical changes that have attracted many rural workers. In the urban industrial sector most of the jobs have been created in Zhaocheng<sup>41</sup> and Guanshengsi Towns where a large part of the heavy industry and coal-related enterprises of the county are located. A different set of employment opportunities have been created in Dahuaishu Town, which – besides being the administrative centre of the county – has now become a regional trade centre. Even though some jobs in the manufacturing and the light industry sector are available,<sup>42</sup> the majority of the peasants working and living in Dahuaishu Town are employed in the service sector or in retail sales. Though still higher than rural income, on average, urban income around the county has remained lower than that in other

<sup>41</sup> The economy of Zhaocheng Town revolves around the Shanxi Sanwei Co. Ltd. – producing synthetic fibres and other coal chemical by-products – which also provides around one quarter of the county's tax revenues.

<sup>42</sup> There are, for example, a paper and a beverages factory.

urban provincial centres. In 2002 urban per capita income was still 382 yuan lower than the provincial average.

**Table 5.9 Hongtong County - Urban labour**

	Total Urban Labour	Fully employed	Employed by state owned work units	Employed by collectives	Others	Left unit but retained labour relation	Average wage
1980		23,952	20,796	3,156	n/a	n/a	n/a
1985		26,055	21,431	4,624	n/a	n/a	n/a
1990		30,149	25,458	4,691	n/a	n/a	n/a
1995		34,472	29,539	4,576	n/a	n/a	n/a
1997		36,853	33,442	3,167	n/a	n/a	n/a
1998		32,701	22,684	2,438	n/a	n/a	n/a
2000		32,783	24,295	2,238	n/a	n/a	n/a
2001*	37,437	35,844	25,875	2,084	7,885	n/a	n/a
2002*	39,219	37,386	21,355	2,081	13,950	5,401	8,513
2003	39,408	37,832	21,660	1,884	n/a	n/a	9,071

Source: \* Shanxi Statistical Yearbook 2002, 2003. Hongtong County Statistical Yearbook 2000-2002, p. 86. Hongtong County Summary of Statistical Materials 2003, p. 124-32.

The influx of rural workers into the towns from the late 1990s, however, coincided with a period of urban lay-offs and thus the beginning of government concerns with urban unemployment. Enterprise restructuring nationwide saw the closure of many state owned enterprises, resulting in a growing number of unemployed workers in urban areas. Local governments have been pressured to speedily deal with the issue of unemployment, trying to reincorporate the majority of those laid-off back into the labour market. In Hongtong the County Labour and Social Security Department established a training centre for unemployed people, while keeping contacts with enterprises to which workers can be channelled. Enterprises pass on information to the Labour and Social Security Department about the types of positions that need to be filled, and the Department makes this information available to the public. Training workshops and short courses are usually based on job availability information from enterprises. These workshops are jointly financed by enterprises, the Labour Department and fees charged on trainees.<sup>43</sup>

Those eligible to join these courses are typically laid-off workers from SOEs and urban collectives, and other workers who have signed formal contracts with employers. Rural migrant workers seldom have a formal contractual relationship with

<sup>43</sup> Interview with the Vice-Director of the County Labour and Social Security Department. Oct. 31, 2004.

employers and are therefore usually excluded from these training opportunities. In 2005, however, the County Government started to emphasize the need to train peasants to facilitate their entrance into the urban labour market. As stated in an article in the local newspaper *Huaxiang World*, the County Government had begun to draft the guidelines to guarantee that a 'training project' for peasants would be carried out smoothly (August 30, 2005). Government and private technical schools offering courses on computer skills, electronics, and mining have been encouraged, although so far there is no specific information as to how the County Government intends to channel peasants into those training schools, or whether it will offer economic assistance to those enrolling in the courses.

Meantime, laid-off workers from SOEs have been encouraged to establish their own businesses or to go into retail sales, and some have been received small loans for that purpose (*Shanxi Xinhua Net* Oct. 31, 2003). Finding jobs for laid-off workers was recognized by the Vice-Director of the County Labour and Social Security Department to be the most pressing task for the Department in the next five years.<sup>44</sup> Besides re-employment and training campaigns, an important task laid upon local governments has been the expansion and promotion of the new social insurance system. Former labour offices, transformed in 1998 into the Labour and Social Security Department (*Laodong he Shehui Baozhangju* 劳动和社会保障局), are now responsible for incorporating enterprises into the new social security system, while overseeing acquiescence with premium payments to public funds and workers. According to a staff member from that Department, pressure from the Provincial Government to rapidly increase the number of enterprises enrolled often resulted in inflated coverage figures.<sup>45</sup>

In general, state owned enterprises, public service units, government offices and other government owned enterprises have been the only participants in the system, with very low participation rates from other economic sectors. More recent ownership changes in the state owned sector have subsequently further depressed membership numbers in the social security system. By the year 2000, around 95 per cent of

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<sup>44</sup> Interview with the Vice-Director of the County Labour and Social Security Department. Oct. 31, 2004.

<sup>45</sup> Interview carried out on Oct. 20, 2003

Hongtong's SOEs had changed or were in the process of changing their ownership structure.<sup>46</sup> According to figures from the County Labour and Social Security Department, by mid-2004 of over 3,700 enterprises in the county only 73 were taking part in the old-age pension scheme, and included 12,000 employees (Hongtong County Labour and Social Security Department 2004). Also enrolled in the pension system were 245 PSU, which had 13,000 employees insured. A total of 196 enterprises provided health care insurance to 15,143 workers; while 182 enterprises provided 15,680 employees with unemployment insurance. Even taking these figures at face value the current coverage rate is very low, encompassing less than half of the urban labour force, while leaving rural labour outside of insurance coverage.

### **Urban expansion and land redevelopment**

From the late 1990s, concerns over lagging urban development in the county were responsible for renewed investment in infrastructural development. By 2000, 95 per cent of the county villages were made accessible through a paved road; 13.5 km of water pipes had been installed in the major urban centres; and a complex network of telephone lines was put in place (Zhu 2000). Urban plans also included the development of new residential areas, public parks and the extension of green areas. In 2003 county authorities were able to secure Central Government investment for the construction of a natural gas station, the first to be built in the county.<sup>47</sup> During the second half of 2004 a new electricity grid network<sup>48</sup>, with a better capacity to cope with the increasing power demand from both industry and urban residents, had finally been completed. There is also a plan to build a new electricity plant – with a construction cost of around 1 billion yuan – for which the county government is trying to attract foreign investment. Problems still exist in Hongtong's urban areas with lack of a drainage system and underdeveloped water and gas pipelines. Nevertheless,

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<sup>46</sup> The majority of those SOEs have become share-holding enterprises (*gufen* 股份). Small SOEs have for the most part been privatized. Interview with the Vice-Director of the County Labour and Social Security Department, Hongtong County. Oct. 31, 2004.

<sup>47</sup> Interview with the Vice-Director of the county Urban Construction Department, Hongtong County. Nov. 5, 2004.

<sup>48</sup> Work on the new network was finished at the end of November 2004. During that month power cuts took place several times a day, for up to several hours. In Dahuaishu Town most businesses, shops, restaurants and hotels had acquired power generators fed with petrol. Fieldwork observations, Nov. 2004.

infrastructural development in the last five to eight years has significantly changed urban environment in the county.

Elsewhere in China urban expansion and industrialization in the past twenty-five years has triggered an alarming decrease in agricultural land (Cartier 2001; Sargeson 2004). Township governments have been signalled as the main culprits of agricultural land loss, through predatory behaviour facilitated by their monopoly over land requisitioning and conversion (Sargeson 2004, p. 644; Clarke 2000). Rampant land enclosure practices by local government, however, continued as a result of escalating pressures on local budgets brought by the 1994 fiscal reform. For most local governments land had become their most valuable asset, with revenues from land conversion and land leases accounting for a large part of local government income (*China News Net* Feb. 20, 2004 and June 26, 2004).

This indiscriminate agricultural land requisition by local governments had Central authorities concerned about the implications for grain production, food security, rural social stability<sup>49</sup> and environmental degradation (Skinner *et al.* 2001). By 2003 the country's grain acreage had dropped to under 100 million hectares, the lowest level since 1949 (*China News Net* June 26, 2004). Land conversions had reached such alarming levels that the State Council had to go as far as to ban all conversions of agricultural land into non-agricultural use from May 1997 to January 1, 1999, when the revised Land Administration Law [LAL] came into effect (Cartier 2001, p. 446). Persistent non-compliance on the part of local governments then lead the Central Government to take control over planning and development away from township governments.<sup>50</sup> In 2003 it announced that all industrial or development zones approved at the county level or bellow should be rescinded, and may not be combined with other authorized zones (*China News Net* Feb. 20, 2004).

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<sup>49</sup> It is estimated that around 35 million peasants have been made landless around the country, with numbers increasing by 3 million each year. One report predicted that by 2030 the number of landless peasants would exceed 110 million. Sargeson 2004, p. 648.

<sup>50</sup> In a further move to break local governments' stranglehold on rural land transactions, the Ministry of Land and Natural Resources allowed in October 2005 for a trial experiment to be carried out in Guangdong Province, which will allow farmers to directly lease, mortgage or sell the rights to use collectively-owned village land. Ying 2005, p. A6.

Though not exempt from this rush in land requisition, the extent of agricultural land enclosure in Shanxi Province did not reach the levels of development zones located in places like Guangdong, Shanghai and other coastal areas. For one thing, urban development and investment in real estate in Shanxi Province has not been as aggressive. In general, throughout the province the average land area of towns has been small. Shanxi's average size of the urban built up area (*zhenqu* 镇区) is 0.67 square km, only 27.6 per cent of the average land size of towns elsewhere in the country (2.42 square km) (Zhang and Zhang 2003). In Hongtong County, urban growth only accelerated in the second half of the 1990s, and by 1998 the total amount of urban land in the county accounted for 11.3 square km. Moreover, by the time urban development took off in Hongtong the Central Government was already establishing national provisions to curb land requisition. Illegal land requisition for industrial and residential development around urban areas has nevertheless taken place in the county. Some factories and real estate developers have been able to secure land outside of designated areas, with compensation for farmers being arbitrarily set by developers.<sup>51</sup> In Zhaocheng Town, local industry has been responsible for most part of the agricultural land requisition, since coal-related industries are particularly strong there.

Stricter controls over urban development have made it more difficult for corrupt officials to contravene official development plans. According to the Vice-director of the County Urban Construction Department detailed urban development plans – establishing the specific amount of land area a certain town can expand to, and dividing that land into sectors according to their future function (industrial, residential, recreational, etc.) – have to seek provincial approval before they can be implemented.<sup>52</sup> Outside of the plan some agricultural land can also be expropriated for infrastructural development.<sup>53</sup> A 2000 County Urban Plan developed by the

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<sup>51</sup> Fieldwork interviews, Zhaocheng Town. Oct. 2003. The Land Administration Law has also contributed to maintaining the cost of agricultural land low, thus keeping land compensation low. According to Article 37 of this Law, the appropriate measure of compensation for requisitioned land shall be its value in its original use. Because the original use of the land is for agriculture, its value is usually low. Clarke 2000.

<sup>52</sup> Interview, Nov. 5, 2004.

<sup>53</sup> Statistics on expropriated land for this purpose varies greatly from year to year, with data on this category no longer available from the 2003 provincial statistical yearbook. In 1995, 30 hectares of agricultural land were destined for infrastructural development. There are no data for 1996 and 1997; and in 1998 expropriated land was 350 ha. The next year that figure went down again to 30 ha, and



Urban Construction Department expected urban areas to expand to up to 19.90 square kilometers in the near future. Real estate developers are increasingly raising the stakes on agricultural land around towns – especially in Dahuaishu Town, where several new residential compounds are being developed.

In most Chinese small cities and towns rapid development of commercial housing and self-built housing has allowed a growing number of households to become homeowners (Huang 2004). Shanxi provincial authorities have been pushing forward the construction of economic housing, in order to allow more people to achieve home ownership, but also as a way of promoting the housing market. Land and property prices have indeed become one of the most popular and debated topics among Hongtong's urban residents. Particularly since mid-2002, homeownership has been intensified in the county thanks to the economic boom brought by the hike in coal prices.<sup>54</sup> Many in this coal-producing county have been able to amass small fortunes, a large proportion of which have then been invested in real estate. Growing demand for housing has pushed house prices upward, reflecting not only the high degree of marketisation in the urban housing sector but also the local government's liberal stance on the matter.<sup>55</sup> In Shanxi Province, households have mostly relied on personal savings when purchasing housing.<sup>56</sup> Profits from rising coal prices have put more cash in people's hands, encouraging home ownership, while giving new life to urban development. Hongtong's urban development since 2000 has been so rapid that it has been signalled by the Provincial Government to be likely to attain city status by 2010 (*Sina News Centre* Oct. 24, 2003).

The creation of new urban space in Hongtong County is then a relatively new phenomenon. Although some of its towns have historically been important cultural and economic centres, their size and scope remained limited until the mid-1990s.

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increased to 260 ha in 2001, the last year when this data is available. *Shanxi Statistical Yearbook* various years.

<sup>54</sup> Growing demand for coal in the domestic and international markets and insufficient supply are due to keep coal prices high well into 2006. In 2005 coal prices are expected to increase by more than 10 per cent. *China Daily* Jan. 28, 2005.

<sup>55</sup> Huang argues that urban housing behaviour in China is shaped by household characteristics and by macro level constraints and opportunities defined not only by housing stocks and housing markets but also by local government behaviours. Huang 2004, pp. 52-60.

<sup>56</sup> Average per capita savings experienced an annual average increase of 16.1 per cent, and grew from 448.6 yuan in 1995 to 1,432.4 yuan in 2003. *Taiyuan News Net* Jan. 12, 2005.

Urban development had until then advanced at a very gradual pace, with little change to their institutional, economic and social settings. It has been since the latter part of the 1990s that urbanization has taken hold in Hongtong County. In that process, the dynamics of economic, social and political change at the county level have been shaping its urban centres. Using Dahuaishu Town as case study, the aim of the second part of this study is to map the developments of urban growth, labour markets, rural-urban migration, housing, education, healthcare, welfare and social cohesion at the lower urban level as distinct from those taking place in large cities.

The analysis will focus on the experiences of urbanization as they have affected rural workers (both migrants and local rural workers) and local urban residents. In the process, the analysis will disentangle the dynamics influencing governance at the county and town levels, looking at how the various participants engage and influence local governance. Social development will be at the centre of the analysis, with the overall question being whether or not towns represent an efficient and viable urban entity for extending social safety nets and enhancing human development. What conflicts do revenue pressures create for social policy implementation? How do those pressures affect the mechanisms for assessing local needs? Who is the local government ultimately serving? Is local government behaviour intrinsically predatory? The analysis thus places itself in the intersection of Central Government support for town promotion, and the practical issues experienced at the local level to provide social services and welfare under the pressures of uneven development and reduced government revenue.

### **Dahuaishu Town: the case study**

After more than a quarter of a century of economic reform Shanxi Province has come to grips with the loss of its previous imperial and revolutionary glory, while becoming duly committed to modernization. Most cities and towns throughout the province seem to be caught in the modernization frenzy, which has dramatically changed the gray complexity of this coal heaven province. Hongtong County and its County capital – Dahuaishu Town – are no exception to this trend. Although its historical sites are still visited and venerated by millions, history and tourism are now just another industry involved in the development plan of the county. Many locals no

longer share the visitor's romanticism for the history of the place, and are more concerned with the economic prosperity of the town. Conversations among locals often revolve around prices – those of coal, food, real estate, and schooling<sup>57</sup> – and business opportunities. This signals important value changes that influence interactions among government, society and other economic actors, as well as influencing the conceptions and expectations of each of those actors towards local development.

One example of popular attitude change is the new social perception of what conveys social status. Even though a position in a government department still confers a certain degree of status, successful private entrepreneurship is now looked upon with great admiration. Yet, though many of those entrepreneurs are self-made, locals continue to regard education as the most secure and reliable path to personal and economic success. Acquiring housing with modern facilities – a bathroom and a kitchen – and putting their child through to university are the most important goals and dreams of the average urban household. It is through their home and their children's education that families show their wealth. Their construction of the urban dream is therefore not dissimilar to that of other urbanites around China, yet expectations as to how that dream is achieved can be significantly different, and are related to the new roles of the public and the private spheres.

Dahuaishu Town is not only the administrative centre of the county but is also its largest urban centre. In 2001 the total population of the town came up to 124,859, with 10,300 urban *hukou* holders residing in the town's urban area (*zhenqu* 镇区). There are 54 administrative villages under the town's jurisdiction, and six urban committees working in the town proper. Dahuaishu Town is a mix of new and old, and of urban and rural characteristics. It is representative of towns in North China: gray, dusty and highly polluted, though bustling with activity. Its fruit and vegetables markets resemble village markets, and are usually located at the outskirts of the town in formal market sites or in transitional areas where old buildings have been demolished to give way to new shopping arcades and apartment buildings. Specialized markets for items such as clothes, plastics, and yarn can also be found in

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<sup>57</sup> Interestingly enough less about health care prices and social security.

the centre of town. The duality of old and new is also evident within the new ultramodern main square (designed by an architectural firm from Shanghai), where the local government commissioned a set of carved statues of – mythical and real – famous figures of Hongtong County. The square is the largest public park in the town and is part of a new urban development plan to create more green and recreational areas for urban dwellers.

After its completion at the end of 2004, however, the grandeur of the main square was soon being rivaled by the construction of a large and elaborate gothic Catholic cathedral flanked by two smaller buildings – an ophthalmology clinic and a commercial area. Although holding no direct link to the Vatican, Hongtong County is the centre for Catholicism in the Linfen City area – with more than 300,000 followers. The new cathedral – built on the site of an old church destroyed in the early days of the Communist government, and where until recently a police station stood – is proof of the power and influence of this religious congregation,<sup>58</sup> and could be regarded as the symbol of an incipient civil society. Christian and Catholic missionaries have long influenced Shanxi Province, particularly in the southern part of the province; its rural landscape – dotted with churches – asserts to that influence. Foreign missionaries are long gone from the rural areas<sup>59</sup> but their religious teachings formed native roots that continue to develop.

Other buildings surrounding the main square include shopping arcades, restaurants and a tall modern style hotel owned by the Agriculture Credit Cooperative (*Nongye Xinyong Hezuoshe* 农业信用合作社). Some buildings are still under construction and some old houses await demolition as part of a redevelopment plan of the old centre of town (*gu cheng* 古城). New streets have been developed and old ones repaved, though narrow dirt alleyways or ‘*hutong*’ (胡同) still prevail in the old neighborhoods. Those whose houses have been demolished have been offered newly built apartments elsewhere in the town; others have instead taken a shop in the new shopping arcades or have received financial compensation. Urban renewal, however, has not been unproblematic. According to the Vice-Director of the County Urban Construction

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<sup>58</sup> The Catholic church has plans to build an even larger church, a hospital and a nursing home for the elderly on the east side of the town.

<sup>59</sup> Now present mostly in urban areas in the form of the English teacher.

Department, residents in some neighborhoods have not accepted the compensation terms of the government and refuse to move. Moreover, demolition costs, construction and compensations have become one of the County Government's main financial burdens. The construction of the main square by itself cost the local government 10 million yuan, part of which is still owed to a local state owned construction company to which the project was commissioned.<sup>60</sup>

According to the Director of the County Finance Department, apart from loans granted by state banks, County officials have had to apply for financial assistance from both Linfen City Government and provincial authorities to fill the gap of infrastructure construction costs. City governments dedicate a share of their annual budget to promote infrastructural development in the towns under their jurisdiction; often, this budget share is too small to make a real difference. Jinzhong City (a rich industrial base in the Taiyuan basin region), for example, dedicates on average 2 million yuan annually for infrastructural development for its 118 towns and townships. Even if that money were equally distributed among all urban entities, each town and township would receive less than 17,000 yuan per year. In practice, County Government seats and other larger and wealthier towns with better political connections tend to take larger fund shares. Dahuaihu Town is a clear example of that practice, where the County Government has spent more on infrastructural construction and urban beautification than on any other town.

Housing development – both public and private – saw a great boom from the late 1990s and particularly since the inauguration of the Datong-Yuncheng expressway, which has greatly facilitated communications with the rest of the province. New commercial and residential buildings – including a large closed luxury residential compound – have been constructed around the town and along the entrance route linking the town with the expressway. New restaurants, small businesses and shops have continued to sprout all over the town and in suburban villages. More up-market restaurants and hotels have opened, reflecting changing consumer patterns and higher incomes, as well as government efforts to boost tourism. At the same time, a thriving informal sector has taken over the pavement of the main streets or has temporarily set

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<sup>60</sup> The company was previously the County's Urban Maintenance Company. It is currently undergoing ownership changes, from a state owned to a shareholding entity.

up shop in lots awaiting redevelopment. Trade is very much alive in the town's streets as well as in the new shops, catering for different tastes and different socio-economic groups. Most of those selling their wares on the streets – usually rural migrants – cater for fellow migrants and peasants visiting the town.

Rising coal prices since 2002 have also triggered a sudden surge in consumption of housing, luxury goods and services. Those who have amassed a small fortune from coal, both from Hongtong and from other coal producing counties, are quickly putting their money into real estate. House prices in Dahuaishu Town and in cities like Linfen and Taiyuan have gone up as a result of the recent surge in home purchases. Some of those new rich are also said to be buying housing in Beijing. Between 2002 and 2003 Shanxi coal prices experienced an almost 100 per cent increase (from around 150 yuan a ton, to over 300 yuan), remaining unregulated by authorities throughout 2004. Coke prices went from 200 yuan per ton to almost 450 yuan by the end of 2003 (*China Coal Resource* 2003). Continued rapid economic growth has steadily increased China's energy consumption<sup>61</sup>, keeping coal prices in an upward trajectory (Thomson 2005). Increases in output, however, have not been able to meet industrial demand for coal, which consumes over 90 per cent of all coal production in the country (*China News* Feb. 2, 2005). With such an attractive coal market illegal mining has become commonplace in most counties in Shanxi and other coal producing provinces.

Partly to protect the interests of state-owned mines, the Provincial Government has launched several campaigns to clamp down on illegal mines and mines too small to produce the quotas demanded by national regulations to stay in operation. Production capacity has become the most important requirement for obtaining an operation permit. Other criteria include mine safety, efficiency in resource exploitation, and regulation of environmental repercussions. Permit grants, however, have been highly politicised, since all coal mine operation permits need to have the approval and signature of the Provincial Governor. These sorts of requirements respond to a series of issues related to the control of such a critical resource as coal. On the one hand, the government needs to control illegal mining, environmental degradation and the safety

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<sup>61</sup> About three quarters of China's energy is produced from coal.

of miners, while on the other hand it sees the need to maintain its control over coal production and coal prices, in order to guarantee a steady supply of cheap energy for China's industrial and export sectors. Unstable world oil markets have pressed China to rely to a great extent on its coal reserves to abate its rapidly growing energy demand. As the largest coal and coke supplier in China – producing two thirds of the coal national output and one-third of all coke – Shanxi's local development will continue to be strongly influenced by coal markets.

In general, from the mid-1990s economic development in Hongtong County and in Dahuaishu Town has been growing at a steady pace; reflected in significant improvements in infrastructural development, and improvement and expansion of transportation routes. Per capita income and individual wealth have also on the whole experienced an increase. Rising wealth is reflected in the appearance of the new commercial areas, new hotels, more luxury restaurants and housing developments. Advancements in social development have been somewhat slower, with local government and its subsidiaries facing budget constraints to finance social security and welfare. In education and health care diminishing government financial contributions have pushed public service providers to rely more strongly on a fee-for-service regime, while at the same time the number of private providers grows steadily.

Though not abandoning its commitment to public services and welfare provision, infrastructural development and industrial restructuring (including ownership changes) have been financially prioritised over direct welfare promotion. Local governments have seen the socialization of social security and welfare as a way of shedding their burden and that of locally owned state enterprises over the provision of social safety nets. County officials are in a constant bargaining process with higher levels of government over tax revenues and reduced local budgets. Part of that bargaining practice has been to modify revenue figures reported to higher levels of government, to stress the county's need for resources from higher levels of government. According to figures from the *Shanxi Statistical Yearbook* the County has been running a budget deficit ranging from over 58 million yuan in 1995 to close to 145 million yuan in 2002 (Table 5.10). The deficit corresponds to the difference between official tax revenues and budget expenditure, but does not include extra budgetary revenues and other fees imposed by government service industries and

government departments. On the other hand, figures reported by the *County Statistics Department* show a continuous budget surplus between 2000 to 2003 of up to 95 million yuan (Table 5.11).

**Table 5.10 Hongtong County Finances - *Shanxi Statistical Yearbook*** Unit: 10,000 yuan

Year	Total budget revenue	Total budget expenditure	Difference
1995	6823	10034	-3211
1998	9725	13490	-3765
2001	12560	20258	-7698
2002	8457	22936	-14479

Source: *Shanxi Statistical Yearbook*, various years.

**Table 5.11 Hongtong County Finances - *County Statistics Department***

Unit: 10,000 yuan

	Government Revenue	Government Expenditure	Difference
1980	990	934	56
1985	1699	2084	-385
1990	4704	4400	304
1995	6823	10034	-3211
1996	8250	11052	-2802
1997	8780	12707	-3927
1998	9725	13490	-3765
1999	17692	18098	-407
2000	20173	14757	5416
2001	24209	20258	3951
2002	25274	22936	2338
2003	38033	28498	9535

Source: *Hongtong County Statistical Yearbook 2000-2002*, pp. 68, 315.

*Hongtong County Summary of Statistical Materials 2003*, p. 112-3.

Another problem caused by budget constraints at the local level has been a process in which securing financial resources takes precedence over long term planning. Year on year development plans and resource allocation have to adapt to the secured budget and existent extra budgetary revenues in a retrospective fashion. In an interview carried out with the Director of the County Finance Department he asserted that annual extra budgetary revenue amounted to only 3.5-4 million yuan; a very small figure compared to the soaring budget deficit reported by provincial figures. The tight financial situation also partly explains the County Government's liberal interpretation of the national government's support for a larger society-run economy (*minban jingji* 民办经济). In an effort to reduce its burden on social security and welfare provision the County Government is actively promoting joint public-private and solely private initiatives to close the gap in public services and welfare, though perhaps seeming to



retreat from its social responsibilities all too soon, new public-private patterns of social provision are being created.

## Chapter 6

# Rural transformations, urban labour markets and housing

Though perhaps forgotten in the more recent history of the People's Republic of China, Hongtong County has a special place in the history of China's internal population movements. It was from this county – at the site of an old scholar tree, the *Dahuaishu* – that the early Ming rulers distributed land to millions, who were then to resettle mainly in the north-eastern parts of the country. Over a period of forty-four years – from 1373 to 1414 A.D. – millions coming from areas affected by famine and war gathered in Hongtong County to receive land as established by the imperial edicts (Zhang 2000, pp. 36-95). The large number of people mobilized through these efforts represents the largest officially sanctioned migration in the history of China<sup>1</sup> (*People's Daily* Nov. 23, 2004). In the reform period, population movements have surpassed the scale of those in the Ming Dynasty, but their main characteristic has been their spontaneous nature. No longer a state sponsored project, migration now responds to a new socio-economic logic, driven – to a large extent – by economic developments in the coastal areas.

As a result of widening regional inequalities, throughout the reform period over a hundred million rural labourers from central and western provinces have made the long journey to the coast, where they are now an indispensable part of the economic system. Parallel to this long-distance movement of people, a larger – but perhaps less salient – process of short-distance and usually circular migration within rural areas and between rural areas and small urban centres throughout the country has been taking place (Lohmar *et al.* 2000). Though responding to similar forces – primarily economic – these two migration paths and the experiences of rural migrants in large and small urban environments have been significantly different. Apart from institutional relaxation – on registration, access to housing, education and provision of social services – rural migrant workers seem to experience a greater degree of social

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<sup>1</sup> The last state-initiated population movement – though not of the scale of migration movements during the Ming dynasty – was that which took place during the Cultural Revolution, when urban youths and intellectuals were sent down to the countryside for re-education.

acceptability when moving to smaller short-distance urban destinations. This is, however, an hypothesis that has largely been taken as fact and which has therefore not been widely empirically tested or explored. Short-distance migration implies closer social, cultural and linguistic proximity between the migrant and the receiving society, which is said to facilitate incorporation of migrants, while easing their acceptability in the eyes of the host society.<sup>2</sup>

This is in fact one of the logics put forward by government officials favouring the development of small cities and towns. Yet, socio-cultural factors can only facilitate incorporation when economic conditions are favourable to the process of migrant inclusion. The same way urbanites in big cities resent the presence of migrants and their perceived threat as competitors in the local labour market, urban dwellers in small urban centres with less dynamic economic environments can show similar negative reactions to the influx of rural migrant workers. It is for these reasons that empirical studies outside of the economic boom areas are particularly crucial at this point, in order to allow for a better understanding of how developmental issues in China's less developed regions affect the sustainability of overall national development. Widening regional and rural-urban inequalities will inevitably impinge on the economic growth of the more developed areas through increased migration, environmental degradation and social instability. By including a growing share of the rural population into the newly created urban spaces of towns and small cities, China could be taking a step forward into the construction of a more equitable society. Mapping the advantages and the constraints faced by those small urban centres becomes crucial in order to predict development outcomes, but most importantly to be able to outline possible policy solutions.

Some of the problems faced by local governments – especially those located in less well-off areas – have already been delineated in the first part of this study. They are related to the regional effects of national macroeconomic policies, uneven development, and administrative and fiscal decentralization. Local governments have had to frame their development strategies within the scope of national macroeconomic

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<sup>2</sup> Theories of international migration have emphasized the importance of explaining migrant integration as a process that depends not only on the migrant's characteristics and culture, but which is also significantly dependent on the characteristics of the host society. See for example: Alba and Nee 1997; Schmitter Heisler 2000.

guidelines, while being entrusted with a wider scope of responsibilities over local development and environmental projects, as well as social services provision. Many not only lack the financial resources to fulfil those responsibilities; but also do not have the expertise and administrative capacity to carry out such a wide scope of responsibilities. The result is a set of coping strategies, which usually ensue in short-term solutions and inefficient use of resources. By analysing those coping strategies, the effects of national and sectoral policies on local development, and the nature of inter-governmental relations, while at the same time localizing the potential engines of local economic growth, recommendations can be made towards the formulation of more viable and sustainable development solutions for rural, local and regional development.

### **Hongtong County's experience with rural reform, migration and non-farm employment**

Apart from the big population movements of the Ming period, there seems to be no tradition of out-migration in Shanxi Province. Natives of this province are often described as being 'traditional' and therefore less predisposed to change or to moving into the unfamiliar. Without intending to use this statement as hard evidence for the low levels of out-migration in the province, popular narratives like this one can shed light on the socio-cultural identity of the Shanxi native, which – in turn – helps explain some of the particularities of the economic processes that have taken place in the province during the reform period. Cultural considerations aside, it can also be argued that late implementation of reform policies in Shanxi – due to strong Central government influence in the main economic sectors of the province – made the population less aware of changes elsewhere in the country. Limited knowledge about labour markets elsewhere in the country, and little or no direct kinship or friendship ties with the more developed coastal areas acted as an invisible barrier to out-migration. Furthermore, within the province, employment in the state sector was not drastically challenged until the 1990s, when financial assistance from the Centre started to run dry. Nonetheless, from early on in the reform process Shanxi Province started to experience growing economic disparities between its rural and urban populations, something that did represent a strong push factor for peasants to leave the countryside.

Existing studies and statistical data on population movements relating to Shanxi Province show that migration has for the most part been intra-provincial. However, migration within the province – as a process *per se* – has not received much attention from either the Provincial Government or from research institutions, thus the limited available information on this phenomenon. Consequently, there is also a limited understanding about the direction of migration flows within the province, and on the nature of inter and intra-county rural-urban movements. Research pertaining to urbanization processes in Shanxi Province has emphasized the need to free up the *hukou* system to allow for the growth of still mostly below average-size urban centres. So far, though, no study has been undertaken to analyse the effects of rural-urban migration and more open *hukou* policies on the growth and economic development of Shanxi's small cities and towns.

Hongtong County local officials often portray the county's large population as both a burden and an advantage to economic advancement. The burden lies in having to provide jobs, public services, social security and welfare to a population larger than most county level cities in the province. Having a large population, however, can at the same time have the advantage of supplying a large labour pool that can be readily channelled into manufacturing and service industries. A precondition to successfully incorporate such a large labour force into local industries would be to provide that labour pool with an adequate education and appropriate skills. National surveys on internal migration have shown that it is usually those individuals with the highest levels of education who leave the rural areas to engage in non-agricultural work.<sup>3</sup> This natural self-selection – if one could refer to it in those terms – presents a strong grounding on which further training of rural workers in towns could be undertaken.

Given the size of its rural population – of over half a million – and limited land resources<sup>4</sup>, a large part of the rural labour force in Hongtong County (42.2 per cent in 2003) is engaged in non-farm employment in local mines, in the more than 22,000

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<sup>3</sup> Education levels, however, are but one determinant of out-migration. Migration decisions are a complex mix of individual and household economic and demographic situation, as well as available social and political capital in the locality and elsewhere.

<sup>4</sup> The cultivated land area of the county (an average of 6,500 hectares or around 8,664 *mu* since 1995) divided by the number of people with rural registration gives an average of 0.013 *mu* per capita. In 2001 average size of farming plots in Shanxi Province and at the national level was 0.08 *mu* per capita.

TVEs, and in the towns and townships. Outside of agriculture, most non-farm jobs in the rural areas continue to be created around coal, coke and energy production. Although still an important economic activity, farming is mainly of a seasonal character. There is also the issue of land distribution, land farming quality, and irrigation. Most of the arable land is concentrated in the southern part of the county, and only around 40 per cent of the cultivated land area has some sort of irrigation.<sup>5</sup> Achieving the full potential of the agribusiness sector is specifically spelled out in the government economic development plans of towns and townships located in the southern end of the county (*Huaixiang World* August 30, 2005).

Animal husbandry is another important component of the county's rural economy. It is largely small-scale, but brings important cash returns to those rural households engaged in the trade. Cattle, pigs, chickens and sheep<sup>6</sup> are raised and bred for their meat, their milk, and other animal by-products. Farmers can make around 5,000 yuan per year from the milk of a single cow. Hongtong County is also the largest milk producer in the Linfen City area. In one animal farm visited during the fieldwork (Sept. 8, 2005), the average annual net profit made by the farm owners was 10,000 yuan. This middle-aged couple from a village in Mingjiang Town rented 2000 square meters<sup>7</sup> from the village community government, to build stables and facilities to house 50 sheep and 10 cows with a total initial investment of 10,000 yuan. Soon after the farm started operation they were able to recuperate the amount originally invested.

It is also interesting to note that most farmer cooperatives in the county have been formed in the animal husbandry sector. In order to take better advantage of the growing dairy and meat markets, small-scale breeders are getting together to find more effective ways to pool financial resources – aided by informal contacts with local government and credit associations – to build communal facilities. Farmers' associations in the county have been involved in the construction of three milk-

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<sup>5</sup> Shanxi Province, like other provinces in North China suffers from severe water shortages and limited rainfall.

<sup>6</sup> There is a Hongtong goat breed, which is renowned around the province for its milk producing capacity. This particular breed is a cross between a native and a Swiss breed introduced by missionaries in 1936. Interview with the Director of the County Livestock Department. Sept. 8, 2005.

<sup>7</sup> This piece of land had previously been an apple orchard, which was soon abandoned after the two villagers who started the business ran out of money to maintain it. The land is relatively far from the village centre and thus rent is cheaper there. Annual rent paid was 1,200 yuan.

collection stations, with the assistance of loans granted by the World Bank <sup>8</sup> and the local Agricultural Credit Cooperative, and through sale contracts with large national dairy companies like *Meng Niu* (蒙牛) and *Yi Li* (伊利).

Horticulture is another high income earning activity in rural areas. In terms of tonnage output, vegetables constitute the second most important agricultural product after grains. Vegetable greenhouses are usually cultivated by rural households living closer to the towns, where there is easy access to urban markets. This is exactly the case in the villages under the jurisdiction of Dahuaishu Town, where produce is dedicated almost entirely for the urban market. Those who sell vegetables, however, do not necessarily grow them; many buy vegetables from other villagers or act as retail sellers for their village community. Other important horticultural products include cash crops such as apples, pears, dates, and nuts.

Most agricultural crops and animal husbandry in the county, however, are not labour intensive. During the slack farming season peasants engage in temporary work in construction and mining, or in the service sector in the towns – working as cleaners, waiters, cooks, receptionists or salespeople. Many own tricycles or small trucks with which they transport farm produce, construction materials, people, or even hire for weddings to earn an extra income. Other peasants travel to the towns and to other nearby villages to sell clothes, hardware or kitchen utensils. Peasants from more isolated mountainous villages are more likely to be engaged in mining, since coalmines are typically the only type of non-farm work available in those areas.

### **Rural-urban migration patterns and urban employment**

Short-distance migration and commuting seems to be the dominating trend amongst those engaged in non-agricultural employment in the county. From the case study carried out in Dahuaishu Town it can be inferred that short-distance intra-county migration is the predominant pattern in local population movements. From the rural workers' interviewee sample (of 57 individuals) 46 were Hongtong County natives,

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<sup>8</sup> One of the milk-collection stations visited during the field research had received an 800,000 yuan loan from the World Bank, to be re-paid over a period of 20 years. Similar loans have been granted by this international institution to selected counties in various provinces. Interview with the Director of the County Livestock Department. Sept. 8, 2005.

and all but 3 came from villages no further than 10 km away from the urban built-up area (*zhenqu* 镇区). Even those from elsewhere in the province could be said to have travelled relatively short-distances, since they all came from counties within the southern part of the province, where Hongtong is located. The case of those coming from other provinces is more complex, and it is therefore hard to group them into a single category that can encompass a group with such varied traits. It seems, however, that no one community of outside migrants (*waidiren* 外地人)<sup>9</sup> predominates in the town or in any particular trade, but that there is rather a mix of individual households (or of a few households) from various provinces living and working in Dahuaishu Town. Data from the *Hongtong Statistical Yearbook 2000-2002* puts the number of outsiders living in Dahuaishu Town at a low 230.

All rural respondents shared similar stories as to the conditions that lead them to leave their home village. Even though the investigation was more concerned with the processes (the hows) rather than the reasons (the whys) behind migration, the issues are closely interrelated. Migration and off-farm work for all rural workers interviewed represented a strategy to complement the household finances or to find their own financial means to support a newly formed family. They all spoke of a lack of cash-earning activities in their home village, and of diminishing income from farming. Yet, only 9 of the 57 rural workers interviewed came from families suffering severe economic difficulties. Four had moved as a result of marriage.

All those interviewed mentioned outside non-farm work (*da gong* 打工) as one of the main economic activities in which peasants in their home villages typically engage. The majority of those interviewed had more than one family member engaged in off-farm work. 35 out of 57 rural workers interviewed had at least one other member of the nuclear family engaged in non-agricultural work outside of their home village. Some rural households had one member of the family working outside the village on a permanent basis, with other members of the family engaged in seasonal off-farm work in construction, transportation or in retail sales. Those who owned a private business in the town – a small restaurant, a hairdressing salon, hardware, tea, and vegetable

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<sup>9</sup> For both town dwellers and native rural workers, outsiders (*waidiren* 外地人) were only those coming from other provinces; the descriptor did not encompass those from elsewhere in the province.



shops – typically had several family members contributing to the business with their labour.

Kinship and personal networks were primordial to find a job and accommodation in the town and its vicinity. Finding an off-farm job was certainly a household strategy, rather than a decision made only by the individual. Rural households would make use of kinship and other personal networks to find jobs for family members, while using those networks to minimize the risk of moving out of the village. Engaging in short-distance migration also meant that the move to the town required little financial expense. Furthermore, county natives faced much less uncertainty than other rural migrant workers regarding their move to the town, since they not only possessed more accurate information about job and business opportunities there, but they often had at least one relative who was a permanent resident in the town. All county natives in the sample had secured a job before they moved out of their home village through kinship and friendship networks. They typically moved in with relatives, working as apprentices without pay for a couple of years before they could either open their own business or find a paying job.

**Economic activities available to rural workers in Hongtong County:**

**Farming** wheat, corn, apples, vegetables, cabbages, sweet potatoes and mushrooms

**Animal husbandry** pigs, chickens, sheep and cattle

**Outside work** (*da gong* 打工) construction work; mining; service sector: waiters, cleaners, nannies, kindergarten teachers, nurses, electricians, mechanics

**TVEs and other industries** glass factories; flour-making factories; paper factories; coke factories; chemical factories

**Transportation** truck and tricycle drivers (transporting coal, construction materials, agricultural products and people; taxi drivers; other drivers (usually working for government officials)

**Peddling** doing repairs; selling fruit, vegetables, food, clothes, hardware, medicinal plants

**Small businesses** shops (selling clothes, shoes, cakes, bread, noodles, tea); small restaurants; hairdressing salons

When first moving into the town, these rural migrants would typically only receive a small amount of money from their family to cover for the bus ride to the town, and a

few extra yuan <sup>10</sup> (amounting to little more than 50 yuan) for other miscellaneous expenses. Some families would also provide them with some basic necessities like soap, a towel, a bag, and new clothes. Those who move out to engage in trade or catering tend to pool financial resources at the household level, to then open a small shop or restaurant in the town or in one of its suburban villages. From the interviewee sample, two individuals had used their wedding dowry – 5,000 to 7,000 yuan – to start a business. Even though proximity to the town allowed for more frequent contact with the family back in the village, this did not necessarily translate into a larger flow of remittances, especially when the family member migrating out had brought his or her spouse and children to the town. Non-farm work, it seemed, was an attempt on both the part of the household and the individual to get those family members of working age to become financially independent. Therefore, more than an investment strategy, non-farm work was viewed as a way of lightening the burden of the rural household.

Commuting was also common among many rural county native workers; 26 out of 46 respondents commuted to work on a daily basis. Most of them rode their bicycles and it took them between 15 minutes to one hour to get to work. Others were given a lift by a relative on a motorbike or a tricycle, while a few went to work on foot. The remaining 20 county natives lived in the town, sharing accommodation with employers, living at their work place <sup>11</sup>, rented a room or house, or had privately owned housing. Of those from outside the county 5 were taking advantage of cheaper rent prices in nearby villages and also commuted to work on a daily basis. Non-farm employment is not only confined to the urban area of the town, but is also found in peri-urban villages, where rural-urban boundaries are hard to distinguish due to the high degree of urbanization existent in the majority of those villages.

All 54 villages under the jurisdiction of Dahuaishu Town are accessible by a paved road and are connected to the county's electricity grid network, although only 22 villages have tap water facilities. Industry, manufacturing and TVEs located in those villages have helped maintain rural per capita income in Dahuaishu Town steadily

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<sup>10</sup> This often represents the only financial help rural workers receive from their families once they have left the village.

<sup>11</sup> Construction sites had makeshift dorms. Apart from one interviewee working for a small hotel, all others living at their workplace had no proper dormitories, but slept on beds in office rooms, shops and restaurants, which are used as sitting places during the day.

above the county average rural income level (Table 6.1). In 2001 there were 3,426 TVEs in Dahuaishu Town, of which 455 were industrial enterprises (*gongye xiangzhen qiye* 工业乡镇企业). Of the 10,300 workers employed in the TVE sector, industrial TVEs provided jobs to about half of them (4,859 employees). In the town built up area 16 enterprises (*zhenqu qiye* 镇区企业) employed a total of 1,597 individuals. Mimicking the economic structure of the rest of the province, Dahuaishu's economy is dominated by a strong secondary sector that contributes to over 58 per cent of the town's GDP.

Statistical data on the composition of the town's economy, however, is not only limited, but its accuracy can also be called into question. Even though all throughout China there has been a long-standing tradition of compiling historical and socio-economic information of counties in County Gazetteers (*xianzhi* 县志), economic data – especially statistics pertaining to new economic categories at the town and township levels – have only recently started to be recorded in official yearbooks and other statistical materials. Yet, even in the cases where town and township data is available, category definitions are often not provided, and inconsistencies in the data are commonplace. It is important to note that all information below the county level – town, township and village figures – is only compiled for the internal use of government departments. Moreover, there seems to be little communication between leaders in the various County Government Departments and those in the Statistics Department, and – more often than not – each department will issue reports that present figures divergent to those published by the Statistics Department. The intention here is not to give more credibility to data from one or another department, but to make the point that the utility of such information – especially for the purpose of quantitative analysis – is extremely limited.

In the statistical materials accessed for this investigation, figures on the composition of the GDP at town and township levels were only available for the years 2000 and 2001 (*Hongtong County Statistical Yearbook 2000-2002*). Those figures can hardly be used to portray the trajectory of the various economic sectors in those entities, but help give a glimpse into their economic structure and function. According to those statistics, Dahuaishu Town's primary sector – over the one-year period – went from a share of 15.28 per cent to 23.3 per cent of the town's GDP, while the tertiary sector

experienced a decrease in its GDP participation, from 28.86 per cent down to 18.37 per cent. Only the secondary sector showed a stable participation, experiencing a 2.48 increase (from 55.85 to 58.32 per cent) in its share of the town's GDP over the same period. In the case of the tertiary sector the big variation in the numbers could be the result of data collection problems, related to the largely informal nature of the economic activities in that sector, which consequently leads to the underestimation of the sector's participation in the local economy. What is interesting from these figures is the fact that in a place like Dahuaishu Town – the administrative centre of the county but also its largest urban centre – the primary sector can have a larger participation in the economy than the tertiary sector. Yet, as already noted, what those statistical figures show could be a mix of faulty data collection and an atypical year in the economic arena that caused changes in the flow of capital and investment into these two economic sectors over the 2000-2001 period. Unfortunately, that sort of information – which would be immensely valuable to the mapping of the development trajectory of the town – is unavailable. The behaviour of those two economic sectors in the county economy as a whole does not reflect the changes experienced in Dahuaishu Town.<sup>12</sup>

**Table 6.1 Dahuaishu Town's Economy** Unit: 10,000

	2000	2001
<b>GDP</b>	25 886	19 072
<b>Primary Sector</b>	3 956	4 444
<b>Secondary Sector</b>	14 457	11 123
<b>Tertiary Sector</b>	7 473	3 505

*Source: Hongtong County Statistical Yearbook 2000-2002, p. 161*

First hand observations and empirical data collected in Dahuaishu Town, however, indicate the existence of a thriving service sector. Although a large percentage of the rural population within the town's jurisdiction is still engaged in agriculture, the primary sector no longer provides sufficient cash income to rural households, and therefore the suggestion that there should be a larger tertiary sector in which rural workers make their living. Already the tertiary sector employs more people than the secondary sector, even though agriculture continues to be the main economic activity for those with an agricultural registration (Table 6.1). The number of fully employed workers reported in the statistics is relatively small compared to the size of the total

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<sup>12</sup> See Chapter 5, Table 2.

population. In 2001 Dahuaishu Town had a population of 124,859 and an active labour force of 42,552 workers (34 per cent of the total population) (*Hongtong Statistical Yearbook 2000-2002*, p. 161). By comparison, that same year 44.6 per cent of the county's population were reported as being fully employed.<sup>13</sup> The argument put forward here is that the number of people employed in the tertiary sector must be larger than the statistics attest.

Among those interviewed, off-farm permanent and seasonal work was for the most part undertaken in the tertiary sector, usually in informal activities not always quantified in official records. In fact, many rural workers try to avoid any sort of registration with government departments in order to evade fees. Both to try and control informal activities, but also to tap on this vulnerable captive group, various County Government departments dispatch their representatives to collect fees from food stalls, small restaurants, and peddlers. Respondents often complained of the random nature of the fees, and of the fact that they were never sure what type of fees would be imposed, nor how much they would be charged. According to one street peddler selling baked sweet potatoes, government departments tend to step up their fee-collecting activities during the holiday seasons. Each year during the Spring Festival – when trade invades most streets – department representatives patrol the streets on a daily basis in order to collect fees, such as: a public health fee (*weisheng fei* 卫生费); a fee on street vendors (*zhandao fei* 站道费); a fee to protect the environment (*huanbao fei* 环保费). Fees are relatively low – ranging from 1 to 10 yuan – but when combined they can take up a sizeable part of a peddler's profit.

### **Functional features of Dahuaishu Town**

Although in many cases there seems to be no direct relationship between fees collected and government action (or specific intervention by the departments that collect fees), the local government has taken steps to relocate street peddlers into formal markets. By 2001, the County Government – through the Urban Construction Department – had built 6 trade markets (*jimao shichang* 集贸市场) in Dahuaishu Town, two of which are specialty markets. Located to the south of the town, one of these

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<sup>13</sup> The total number of employed persons (rural and urban) in Shanxi Province represented 31.67 per cent of the total population. Calculated from *Shanxi Statistical Yearbook 2003*, pp. 37-8.

specialty markets is dedicated to agricultural products, where peasants can rent stalls at prices below commercial rates. Between 2001 and 2005 another 3 markets and a large department store in the centre of town were built. Even though there is little in terms of innovation in the layout of the infrastructure being developed in the town, the establishment of those physical markers – department stores, modern squares, high rise buildings, and so on – have become a critical component of the urban fabric, and of the construction of a ‘modern’ space in the town. The town’s functional structure hence follows the goals of urbanization established by Central authorities, but mediated by local conditions and local development possibilities.

Urban planning in Dahuaishu Town has strengthened the role of the service sector as the main pillar of the town’s functional structure. Within the tertiary sector, administrative and commercial functions have taken precedence. Dahuaishu Town has become the largest and most important trade centre for agricultural products, as well as the location channelling modernization to the surrounding countryside. Apart from those functions, it is in the town where agricultural machinery, seeds and fertilizers are bought, and where veterinary medicine is dispensed. It is where all government departments and centres related to agricultural development are based. Apart from the four main agricultural departments – the Department of Agriculture, the Livestock Department, the Forestry Department, and the Fisheries Department – there is a Centre for Rural Management and Administration (*Nongcun jingying guanli zhongxin* 农村经营管理中心), a Centre for Agricultural Mechanization Development (*Nongji fazhan zhongxin* 农机发展中心), as well as the former Township and Village Enterprises Department, which in 2005 changed its name to the Department for Small and Medium Enterprises (*Zhongxiao qiyeju* 中小企业局).

Wholesale and retail sales of a wide variety of products – everything from foodstuffs to home appliances, computers, clothes and motorcycles – are also widespread in the town. This expansion of trade activities has also created a demand for other services, such as transportation, financial and communication services. Private operators dominate transport services, while formal credit and financial services continue to be dominated by the state’s oligopoly of banks, rural credit cooperatives, and – more recently – post offices. Similarly, the big government telecommunications companies have established branches in the town. Internet connections have become more

common in many urban homes, and internet bars are the norm. From 2000 the service sector has become much more sophisticated, catering to the needs of a larger and better-off urban society. Though certainly not a huge entertainment hub, residents now have more entertainment options in a series of karaoke bars, restaurants and a cinema. Another indicator of the sophistication of the service sector, for example, is the presence of spas, private gyms, and massage centres.

The cultural scene has also been reinvigorated both through community groups and through government initiatives. Whereas before schools and work units were the sole organizers of community activities, nowadays private individuals organize their own dancing troupes, *taiqi* groups, or get together at a local church or club to organize festivals and charities. Culture and history have also been ‘revived’ by the government to promote the tourism industry. Two of the best well-known historical sites of Hongtong County are located in Dahuaishu Town.<sup>14</sup> These are the sites of the old scholar tree (*Guhuai* 古槐) commemorating the Ming Dynasty migration movements (designated as one of the 10 famous tourists sites in Shanxi Province and a National AAAA tourist site), and the old jail where a Ming Dynasty courtesan was wrongfully imprisoned – and which inspired the famous Peking Opera ‘Susan under escort’ (*Susan qijie* 苏三起解).

The *Dahuaishu* memorial transformed itself in a few years from a modest park and worship location, into a grand ‘Ancestral Park’ (*Dahuaishu Genjizuyuan* 大槐树寻根祭祖园) that includes a large temple scheduled for completion at the end of 2005. Visitors and patrons from various provinces within China and from Taiwan have generously poured money – 1.1 billion yuan – into what they consider to be their ancestral home (*Shanxi News Net* Oct. 24, 2005). Although still without a huge economic return, the efforts put into the promotion of tourism are coming to fruition. Between 2000 and 2002 alone, the number of tourists entering the county increased from 20,000 to 60,338; while income from tourism over the same period rose from 2.9 million yuan to 18 million yuan (*Hongtong County Statistical Yearbook 2000-2002*, pp. 156, 158). This influx of tourists has directly benefited the hospitality sector, which is an important employer of rural workers. Health care, education, and real

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<sup>14</sup> The other well-known tourist site in the county is the temple of Guangsheng in Guangshengsi Town. Its lacquered tiles pagoda appeared on the first postage stamp of the People’s Republic of China.

estate development are other service sectors experiencing rapid change, but which will be discussed in separate chapters.

### **Labour market for permanent urban residents**

So far this chapter has described the employment and business opportunities that rural workers have in the town. The following section will try to discern if and how they collide with those available to local urban residents, while trying to determine what role urban registration plays in getting access to certain job categories. Employment opportunities for urban residents have not been without change, stemming on the restructuring of state owned enterprises, and on the organizational reform of government departments. Even though towns have typically had a smaller state run sector than cities – and thus fewer employees under their payroll – unemployment has also become a thorny issue for town governments. From the late 1990s the main problem with unemployment in the towns has been the inability of many SOEs to afford compensation and unemployment insurance payments for laid-off workers. This inability to deliver unemployment insurance benefits has been further complicated by the difficulty experienced by many laid-off workers to re-enter the labour market. Those being laid-off are usually middle-aged workers too young to retire, but too old to compete with a growing young labour force. Many of the jobs available to them are physically too demanding, or are perceived as demeaning.

At provincial level, reemployment service centres (*Zaijiu ye fuwu zhongxin* 再就业服务中心) were created precisely to help middle-aged laid-off workers (those who became part of the labour force before 1986) find new jobs or open a business (Qin *et al.* 2000). In Hongtong County, although there is yet no reemployment service centre, the Labour and Social Security Department has been actively training laid-off workers from ailing SOEs to help them get re-employed.<sup>15</sup> In 2004, the Department introduced a re-employment campaign for laid-off workers between 40 and 50 years of age. A Department report from that year went as far as to suggested that, if needed, special posts would have to be created to accommodate unemployed workers under the ‘40/50’ category (Hongtong County Labour and Social Security Department 2004).

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<sup>15</sup> Reemployment service centres in Shanxi Province have been set up only at provincial and city levels.



<sup>16</sup> Working closely with other government departments and with local enterprises the Department of Labour and Social Security has tried to channel the unemployed back into employment. Part of that collaboration entails enterprises making financial contributions for training and reemployment campaigns. In 1998 the Labour Department had already secured from government and enterprises 990,000 yuan for its reemployment campaigns (Hongtong County Labour Department 1998, p. 4).

Some of the interviews with urban residents illustrate how generational divisions affect employment opportunities in Dahuaishu Town. One respondent (Interviewee B), who had worked nine years for a state owned papermaking factory and seven years at another state owned beverages factory was made redundant in 1997 at the age of 47. He received no compensation after his dismissal and was made to wait for re-assignment to a new job that never happened. In order to make a living he started selling calligraphy – a skill he had learned when young, before the start of the Cultural Revolution. Many of his ex-colleagues had also been laid-off and had thereafter taken up jobs as taxi drivers or had opened their own small businesses.

In another case (Interviewee C), a female technician was laid-off in 1998 (at the age of 32) from a state owned machinery factory, after working there for ten years. Since 1997 the ailing SOE had started to delay workers' salaries. After being laid-off she received no compensation, but was allowed to continue living in the factory's housing compound. Her husband – a worker at the same factory – kept his job at the enterprise but stopped receiving a salary from 2000. To complement their income the couple opened a small photocopying business near their factory. Although initially successful, by 2002 the business started to deteriorate (due to increased competition) and was no longer profitable. Without breaking his relationship with the enterprise, the husband left for Linfen City where he found work in a private factory. At the time of the interview (October 2003) the woman was considering closing the photocopy shop and move to Linfen City with her husband.

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<sup>16</sup> Elsewhere in China studies have shown that these practices of channelling laid-off workers from one work unit to another has been responsible for over-staffing, and in the case of the health care sector – for example – it has resulted in a growing proportion of employees with no medical qualifications. In this case study sample, however, none of the respondents had been re-assigned to another government owned enterprise or another government department.

Some of those who had managed to maintain their positions in SOEs and government departments had fears of losing their jobs and their social security benefits if their work unit went bankrupt. From interviews and informal conversations with local residents it became clear that salary arrears were a common occurrence in state owned enterprises, and that many laid-off workers from ailing SOEs had lost access to social insurances and welfare benefits. Yet, despite the grim outlook, many workers in loss-making enterprises kept hope of a ‘government rescue operation’ that would allow enterprises to stay afloat in order to comply with their welfare obligations toward their employees.

This was the logic expressed by one local woman (Interviewee H) working for the Urban Water Company (*Zilaishui gongsi* 自来水公司)<sup>17</sup>, which run into financial problems starting in 1998. Delays in salaries and worker dismissals became the norm, and – as in the case of this respondent – many workers stopped receiving their salaries. She was convinced the County Government would not allow the Water Company to go bankrupt, and thus she was unwilling to relinquish her work relationship there. Although ten years away from retirement, she was determined to stay with the company in order to be eligible for a pension and other social insurances. While still a staff member, in 2002 the woman opened a teashop to make up for her lost income. In a similar case, another respondent (Interviewee A) working for the Environmental Protection Department, also expressed his desire to stay with his work despite his low salary. Working for that government unit, however, allowed him to keep his social security and welfare benefits. A large proportion of his household’s income came from a small shop run by his wife.

With their employment and income threatened, these workers and civil servants saw it as the moral responsibility of the state to provide them with the appropriate safety nets. Yet, as many came to realize, the government no longer had the capacity to guarantee entitlements for all its urban citizens. Aware of this situation, those unemployed, working for ailing SOEs and for government departments have had to seek for alternative sources of income in the new economic sectors. To diversify their salary many have opened a private business or have resorted to moonlighting – a practice

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<sup>17</sup> The Urban Water Company operates under the administration of the Urban Construction Department (*Chengjian ju* 城建局).

common amongst urban workers in most Chinese cities. These alternatives, however, have only benefited some. Respondents agreed that it had become more difficult to make money, because so many people had decided to go into business. From the late 1990s there was an explosion in Dahuaishu Town of teashops, photocopy shops, clothes shops, and restaurants. Naturally, not everybody has been able to make a profit.

Urban private industries have so far offered only limited employment opportunities, trying to keep their payroll low to allow for higher profit margins. Moreover, new industries – like the telecommunications sector – tend to employ young workers, who are usually better acquainted with new technologies than the older employees laid-off from SOEs. Training for the unemployed continues to be high on the Labour and Social Security Department's work agenda, but the facts remains that job opportunities in the secondary and tertiary sector are often not open for that group of workers. Nonetheless, some achievements have been made. By mid-2004, in conjunction with other government departments, business circles and labour unions the Labour and Social Security Department had successfully trained 752 unemployed workers, and had helped 1,351 workers secure new jobs (Hongtong County Labour and Social Security Department 2004). Even though there are no comprehensive urban unemployment figures for the county, in 2002 there were 3,875 workers registered as unemployed (*Hongtong County Statistical Yearbook 2000-2002*, p. 159), and 5,401 workers registered as having left their unit though retaining a labour relationship (*Shanxi Statistical Yearbook 2003*, p. 627).

When laid-off workers are referred to the Unemployment Insurance Service Centre (*Shiye baoxian guanli fuwu zhongxin* 失业保险管理服务中心)<sup>18</sup> within the Labour and Social Security Department, where they apply for training and can claim unemployment insurance benefits. Insurance premiums vary according to the years worked for the enterprise or work unit. In 2004, on average, unemployed workers in Hongtong County received 240 yuan per month, and were eligible for this insurance payment for up to two years. Unemployment insurance payments levels are pegged to inflation, but are also largely dependant on the financial capability of the county.

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<sup>18</sup> Previously know as the Laid-off Workers Re-employment Centre (*Xiagang zhizai jiuye zhongxin* 下岗再就业中心).

According to the Vice-Director of the County Labour and Social Security Department insurance premiums in Hongtong County were one of the highest in the Linfen City area. Unemployment insurance fund pools – as is the case for all other social insurance schemes – continue to be subsidized by the Central Government. Each provincial government receives a share of the subsidy according to the estimated number of unemployed workers in the province.<sup>19</sup>

Laid-off workers and those attached to SOEs facing bankruptcy experiencing severe economic difficulties (because of salary arrears and/or lack of an alternative source of income) are also eligible for the government minimum living standard insurance (*Zuidi shenghuo baozhangjin* 最低生活保障金) for up to six months. Minimum living standard insurance payments stood at around 120 yuan per month in 2004. If after six months the worker has not been able to find a job, he or she can apply for an extension of compensation payments for another 2 to 4 months. In 1998 – within Hongtong County – 120 workers (plus 417 family members) were registered as being ‘impoverished staff and workers’ (*pinkun zhigong* 贫困职工) receiving financial help from the local government (Hongtong Labour Department 1998, p. 8).

Overall, despite the problem with salary arrears and employee dismissals, there was a general sense among urban dwellers that living standards in the town had experienced significant improvements, particularly since the mid-1990s. Improvements are visible in the life style changes of urban residents, which are not only reflected in more conspicuous consumption practices, but also in residents’ changed life expectations. People are more concerned about the quality and nutrition of the food they eat at home, while at the same time being able to afford eating out more often. Similar attitudes have been adopted in regards to health care, with households spending a larger share of their income on health products and preventive medicines. Other visible changes in the urban environment related to private consumption include higher proportions of private ownership of cars, motorcycles, and mobile phones. Similarly, housing and choice of education providers for children have started to become important markers of socio-economic status. Private wealth has become an important yardstick of personal achievement; a status previously only achieved

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<sup>19</sup> Interview with the Vice-Director of Hongtong County Labour and Social Security Department. Oct. 31, 2004.

through government positions and Party membership. Those two positions, however, do retain some social prestige, and hence continue to have some appeal among private entrepreneurs looking to legitimise their wealth.<sup>20</sup>

Formal urban employment shares in the county remained largely dominated by the state sector, which by 2003 still accounted for 58.6 per cent of the total urban labour force (Table 6.2). Within the public sector employment is concentrated in public service units (i.e. health care and education), which employ more than half of all state employees in the county. Many of these jobs in PSU are based in Dahuaishu Town, where government departments and the service units of the county are located. Appointment of professional staff (*Keji gongzuorenyuan* 科技工作人员)<sup>21</sup> to feed into those departments and PSU is undertaken directly by the County Personnel Department, following strict appointment quotas set by the Linfen City Personnel Office. As previously noted, government departments and PSU are allowed to hire extra staff, but salaries of out-of-quota workers have to be directly covered by the work unit.<sup>22</sup> In general, salary payments of civil servants and other government employees has been a priority of the County Finance Department, hence the quota limits on personnel appointment. According to the Director of the County Finance Department, in most cases government departments are assigned a budget according to the size of their permanent staff body, since the official county budget typically only covers for salaries.<sup>23</sup> Changes in budget allocation to any specific department, however, can be influenced by policy priorities from higher governmental levels, in order to raise financial support for more immediate high priority tasks.

**Table 6.2 Hongtong County – State Sector employment**

	<b>2002</b>	<b>2003</b>
<b>Total Urban Employees</b>	39,210	39,408
<b>State Employees</b>	23,099	22,900
Employed by SOEs	6,241	5,786
Employed by Public Service Units	12,248	12,903
Employed by Government Departments	4,411	4,410

Source: *Hongtong County Summary of Statistical Materials* 2003, p. 90.

<sup>20</sup> This refers to social legitimacy; apart from the more direct material benefits that can possibly be gained from holding a government or Party position.

<sup>21</sup> Higher ranking positions in County Government departments are directly assigned by Linfen City Personnel Office on the advice of provincial authorities.

<sup>22</sup> Interview with the Vice-Director of the County Personnel Department. Nov. 10, 2004.

<sup>23</sup> Departments and PSU have to raise any extra income to keep their units running. Interview with the Director of the County Finance Department. Nov. 10, 2004.

Positions in the civil service and in PSU <sup>24</sup> remain only available for individuals holding an urban registration. Elsewhere in the country there have been attempts at allowing rural residents to enter the civil service, but so far pilot experiments have only opened up township level positions (Feng 2002). In Hongtong County, even though urban registration continues to be a prerequisite to join the civil service, access to this sector is not confined to urban residents. Gaining access to a government job – though still connected to skills and educational attainment – is more closely related to personal networks (*guanxi*) than to urban registration. Changing a rural *hukou* into an urban registration can be easily attained given the right connections, and thus subsequently overcoming the barrier to joining the civil service.

This was the experience of one young woman (Interviewee 13) from a poor village in Longma Township. At 16 she left her village to join her cousin who was then working at the first private hotel in Dahuaihu Town. She started off as a cleaner and worked her way up to become the manager of the hotel staff. Seeing her potential, her female boss used her connections to change her registration, while at the same time lobbying for her to get a position in the County Coal Mine Security Supervision Department (*Meikuang anquan jianchaju* 煤矿安全监察局). In 2002, after four years living and working in the town, she had successfully changed her registration, and had been appointed to a secretarial position at the Security Department. Meantime, she continued to work for the hotel on a part time basis. Even though her case might not be the norm, but it does help illustrate the importance of connections (*guanxi*) over urban registration. As stated by another respondent (Interviewee 54), education and urban registration were only secondary to *guanxi*. The case of Interviewee 13 also highlights the openings and opportunities being created in the town for rural migrants who have relatively low levels of schooling.

Jobs in government seemed to have a strong social role, rather than being a path toward economic achievement. Salaries in government offices are more or less on a par with the average wage in the county <sup>25</sup>, but below salary levels in enterprises outside of the state and collective sector (Table 6.3). Rural workers, in general,

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<sup>24</sup> Permanent positions, providing full coverage of social insurances and welfare.

<sup>25</sup> The average wage for the whole of Linfen City (prefecture) in 2002 was 8,823 yuan.

continue to perceive a career in the civil service as the natural path toward achieving social status, but only after one has attained certain economic standing. One respondent (Interviewee 15) from Fengzhang village (south of the town built-up area) expressed the desire for his son to hold a government position, in order for him to win the status and recognition he had never enjoyed even as a successful private businessman. Entitlement to social insurances and other welfare benefits has been another factor attracting some to the public sector.

**Table 6.3 Hongtong County average wages**

Unit: yuan

	<b>2002</b>	<b>2003</b>
<b>County average</b>	8,513	9,071
<b>Average state sector</b>	7,986	8,620
<b>SOEs</b>	8,406	9,729
<b>Government Service Industries</b>	7,555	8,016
<b>Government Departments</b>	8,529	8,932
<b>Non-state owned enterprises</b>	9,557	9,949
<b>Share-holding enterprises</b>	10,927	n/a
<b>Mining</b>	10,869	14,514

*Sources: Hongtong County Statistical Yearbook 2000-2002, p. 103; Hongtong County Summary of Statistical Materials 2003, pp. 130-2.*

The civil service has particular appeal since – enjoying better government funding – social insurances for bureaucrats offer more generous benefits than those available through the labour social security system. Yet, as previously noted, the size of the personnel of government departments continues to be strictly controlled for both financial and political reasons. Government departments, PSU and SOEs do hire outside those quotas, but they do so through temporary appointments, which do not require them to enrol workers in any insurance scheme. Therefore, although a significant number of rural workers have been appointed to temporary positions, the number of those with a permanent position in government departments remains small.

### **Housing options, availability and access**

Urban housing in China is increasingly becoming a marker of occupational status and economic wealth (Yu 2006; Zhang, X.Q. 2006). Particularly in large cities, housing tends to more accurately reflect the socio-economic position of households. As a growing proportion of public housing becomes privatized and individual home ownership expands, income inequalities get translated into housing inequities, and new forms of residential segregation start to appear (Pu 2003; Laurans 2005; Tomba

2005). Commercialization of housing has also meant that those at the bottom of the income ladder – including rural migrant workers – are finding it increasingly difficult to enter the housing market. This reconfiguration of residential areas in large cities has in this manner created new spatial demarcations along socio-economic parameters.

Housing development in small cities and towns has enabled a more open, diversified and accessible housing market. Differing socio-economic structures between large cities and small urban centres permitted small cities and towns to break away more easily from the previous system of welfare housing based on the work unit, while allowing for greater commercialization and competition in the housing sector, as well as for higher rates of private home ownership. Housing investment in those small urban centres is increasingly coming from individual households rather than from work units or local governments (Zhang, X.Q. 2006). Commercial housing has been but one available option, with self-built housing also a common choice. Housing options in small urban centres are also said to be more affordable than those available in large cities, even with the almost total absence of welfare housing in the former. Developments in the housing sector in small urban centres have thus created a different pattern of home ownership from that existing in large cities; one that is not only more equitable, but also one that is less prone to foster residential segregation and social exclusion.

From the late 1990s Hongtong County Government began to invest substantial amounts in the redevelopment of its urban centres. It has already been noted that as the seat of the County Government Dahuaihu Town has been the main site of that urban development, in an effort to transform the county town into a modern (though small) city. Developing a new face for Dahuaihu Town is also part of a plan by the local government to attract domestic and foreign investors to the county. As has been the case all over China, construction and redevelopment of public spaces and government buildings has been a major endeavour for the County Government. Urban renewal of the centre of town involved the relocation of dozens of families, since a large part of the old housing stock in the area had to be demolished to give way to a new public square and to wider streets. By 2004 the government had spent about 40



million yuan to demolish old houses and buildings, and 7 million yuan to set up new streets and pave old ones.<sup>26</sup>

Relocation agreements between the County Government and those moved have been negotiated on an individual basis. Families were to receive monthly allowances to rent housing until the new apartment compounds are completed. Each family was to receive a new apartment with modern conveniences. Moreover, for those who had their businesses demolished, a new commercial building was constructed next to the main square, where they were assigned a shop. Informal interviews with individuals who had had or were going to have their houses or businesses demolished showed a high level of satisfaction with relocation settlements. The prospect of moving into a dwelling that would have a gas stove, tap water, a flushing toilet and central heating was easily welcomed. Other than tap water, most houses in the town previously had little or no modern conveniences, and many still do not. Throughout the county drainage systems remain very limited and most houses only have latrines. Small warehouses for storing coal – used for heating and cooking – are still a common feature of local housing. Very few households have made the transition to gas or solar energy, since coal is cheaper and more readily available.<sup>27</sup> Even housing compounds built by work units lack modern facilities. It was therefore understandable why for many of those relocated the move was so readily accepted, since many of them would have otherwise not been able to afford housing with modern comforts.

Apart from the more straightforward advantage of gaining a modern living place, residents would lose housing space with the relocation. Houses in the centre of town were typically built according to traditional architectural styles, with a spacious courtyard and a small garden. Some of those houses were built relatively recently (during the 1980s), and would have most likely involved a substantial investment from the families living in them. It was therefore surprising to see an apparently general agreement with relocation proceedings. In one case, a doctor (Interviewee 16) had his house-clinic demolished, for which he had in 1985 initially invested around 20,000 yuan, at a time when he was only making 30 yuan a month. To build the house he had borrowed money from friends and relatives, and had struggled financially for

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<sup>26</sup> Interview with the Vice-Director of the County Urban Construction Department, Nov. 5, 2004.

<sup>27</sup> There is yet no natural gas station in the county and gas pipelines need to be installed.

several years to repay that debt. The house would later be expanded to serve also as his private clinic, where he practiced until the house was demolished in 2005. When interviewed in October 2003 he expressed agreement with the relocation settlement (rent money and acquisition of a new apartment), even though it meant he would lose his workplace. There have been, however, some households that have not been so eager to accept relocation. According to the Vice-Director of the County Construction Department, disagreements with those households had caused delays in project development, and had made the relocation effort more costly. Infrastructural development had the County Government already seriously indebted; by 2004 several million yuan were owed to construction companies involved in urban renewal.

Apartments for those relocated were being built to the south of the town, which has developed into a new residential area. Apart from government sponsored housing, more up-market commercial housing was under construction in that area, including a gated compound of luxury villas. In 2004, within the housing market prices per square meter went from a low 900 yuan to over 1,200 yuan. Private rentals of housing and commercial space have also been widely available. The spectrum of rental prices was very broad and was, in general, open for negotiation. Annual rent contracts for commercial space could be obtained for as low as 2,000 yuan, while rental prices in newly built apartments could be as high as 1,500 yuan per month. Overall, rental prices depended on the location and conditions of the dwelling or building, with size being secondary to those two determinants.

### **Home ownership and financing**

Enquiries about the housing situation showed high levels of private home ownership in Dahuaishu Town. Among urban respondents 8 out of 10 owned their house or apartment; one lived in public housing (renting a work unit apartment); and the remaining one was at the time of the interview (2004) still living in the parental home. Home ownership among rural workers was also relatively high; of 56 respondents<sup>28</sup> just over half of them (29) had private housing. Within this sub-group of rural workers with private housing, 14 owned houses in their home village (usually a

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<sup>28</sup> Out of the 57 rural respondents one did not provide information about his housing situation.

suburban village within the jurisdiction of Dahuaishu Town). Another 6 respondents (who owned private housing) had bought or built a house in a village other than their home village, but also within Dahuaishu's jurisdiction. Eight more had bought a house or apartment in the town. Among rural workers who did not own the place they lived in (27 respondents), 11 lived in accommodation provided by their employer; another 11 leased; and 5 more lived with relatives or with friends.

Home ownership and construction of self-built housing in the county experienced a boom from the mid-1980s to the early 1990s, when inflation seemed to have slowed home ownership. Housing reforms in the late 1990s again triggered a rapid increase of housing purchase and construction. Renovation and expansion of old housing has been ongoing, since it does not always necessitate of a large investment. Financing of home purchase and construction of housing among respondents in this study was done entirely through households' savings and resource pooling among friends and kinship. None of the respondents – whether they were urban or rural workers – had sought financial help from a public bank or any other financial institution, nor had any made use of the Housing Provident Fund [HPF] for housing related purposes (be it home purchasing or house renovation).

In all cases the amount disbursed to acquire housing was significantly higher than the household's annual income. Particularly for those who bought or built housing during the late 1980s and the early 1990s, house prices were exceedingly higher than average wages at that time. Average monthly salaries in the public sector went from 30 to 70 yuan per month, at a time when 20,000 to 30,000 yuan was needed to buy an apartment or to build a house. Unavailability of formal financing mechanisms meant households had to make use of personal savings and of kinship and friendship networks in order to put together such a large sum. When purchasing housing, payments typically had to be made up front in their entirety. Money borrowed from friends and relatives is often repaid without interest, although one respondent (Interviewee 56) did mention having to pay 10 per cent interest on money borrowed from a friend.

## **Urban dwellers' experience with home ownership**

Housing patterns among local urban residents in Dahuaishu Town match the situation observed in other small cities and towns elsewhere in China where public housing has been fairly limited and private home ownership more widespread. Of the 10 urban respondents, only 2 were living in housing built by their enterprise or work unit. In 1985 Interviewee D and her husband (both public teachers) were assigned an apartment in a compound built by the County Education Department. In 1990, when the Department began to sell those apartments at discounted prices, this couple decided to buy. Their savings at the time accounted for only 1,000 yuan, compared to the 30,000 yuan needed to pay for the apartment. They borrowed money from the husband's extended family, which provided them with individual loans of around 3,000 yuan each. In order to repay their debt the couple had to look for external sources of income (apart from their job at the public school): the husband opened a picture frame shop; and the wife became manager of a weekend 'cram' school. The couple took almost 10 years to repay their debt.

The other respondent also associated with public housing was a laid-off worker (Interviewee C) from a state owned machinery enterprise. The factory started to run into financial problems in 1997-1998, and many employees – as in this respondent's case – were laid-off. Her husband remained attached to the SOE, which allowed them to stay in the factory's assigned apartment under subsidized rentals. This tacit housing agreement, however, became uncertain when the factory started a privatization process in 2002. In the following two years the husband moved to Linfen City, where he stayed in housing assigned by the new employer. His wife was soon to join him.

Those who owned private housing had bought or built their house or apartment during the reform period, and only one respondent (Interviewee B) had an older house inherited from his parents. His parents – interestingly enough – had bought the house after the Communist Liberation (1949), at a time when the newly established Communist Government had begun to expropriate all private housing. The family managed to stay in the house, which has since been renovated and expanded. Self-built housing was the most common form of housing acquisition among respondents with private housing. Only two respondents (Interviewees F and I) from that sub-

group had bought ready-made commercial apartments. These last two respondents were both young college graduates who had recently married, and who made the purchase in the year 2000. Interviewee J, a young doctor recently married also expressed his desire to buy one such apartment.<sup>29</sup>

Young and better educated couples were less willing to put the time and effort to build a house, and would rather buy the newly available modern apartments. This has also to do with the fact that financing mechanism to buy newly built apartments are now more widely available. At least two respondents mentioned having knowledge about those financing facilities, yet none of the respondents had made use of them to purchase housing. In 2000, a two bedroom flat with modern conveniences cost around 70,000 yuan, or over 14 times the average annual urban income. Average wage income among urban residents that year was 3,021.45 yuan, while average non-wage income stood at 1,755.80 yuan (*Hongtong Statistical Yearbook 2000-2002*, p. 138). Other than age, another important difference between those buying housing and those building their own home in the urban district of the town was income levels. At least among respondents in this study, those in a better financial situation were more likely to have built their own house. In one case a respondent (Interviewee E) had spent over 500,000 yuan to build and furnish his home.

### **Housing experiences among rural workers**

Given that responsibility over rural housing has been left to the household, most villagers have their own self-built house. Moreover, the family home is usually the most important and valuable (in economic terms) household asset. Rural homes are usually built over several years, depending on the financial and labour resources available to the household. Therefore, although rural households invest a substantial amount of money (in relationship to their total income) for housing purposes that investment is commonly committed over a relatively long period. The experience of one respondent (Interviewee 19) is a good example of that process. The family had spent eight years making their own bricks to build their new home; in 1990 when they

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<sup>29</sup> At the time of the interview he, his wife and a newly born child were all still living in his parents' house.

had enough bricks they borrowed money from relatives and started construction of the house.

When a new family is formed it is the responsibility of the husband to build or buy a house. The parents of the groom would have well in advance saved money for their son to achieve that goal. Respondents narrated the circumstances in which they built their home (i.e. how and from whom they had received or borrowed money). Those with grown up children also talked about making provisions to buy housing for their children, while some had already purchased a home for them. Yet, not all parents were able to afford housing for their children, who would then have to rely on money collected during their wedding ceremony, and on loans from friends and relatives. Interviewees 5 and 11 had gotten married in 2004, but were unable to put together enough money to buy a house. Instead, they decided to use their wedding money to buy equipment for a hairdressing salon. They rented a one room commercial space that served as their home and business; apart from tap water and electricity the shop had no other conveniences.

The nature of the movement of people out of agriculture and into urban non-farm work is an important influencing factor of housing needs, expectations and access. In Hongtong County internal movement of labourers over relatively short distances has been much more common than out-migration (out of the county) or in-migration (from other counties, districts and provinces), and this has had consequences for housing demand in the county's urban centres. 46 out of 57 rural respondents in the study were Hongtong County natives, and all but 3 came from villages relatively close to Dahuaishu Town. The large majority commuted to work on a daily basis, and had therefore no need to seek urban housing. Among this group of Hongtong natives, 14 owned houses in their home village in the vicinity of the town; some commuted to work, while others ran businesses at home. Those suburban villages are highly urbanized and have a relatively well developed formal and informal service sector.

Another six respondents owned houses in one of the peri-urban villages of the town, other than their home village. They were originally from villages within the county and from other counties. Eight more respondents had bought or built housing in the town, which is in general a more expensive option than settling on village land. Both

of these groups of home owners were long term residents, and some had been living in Dahuaishu Town and its vicinity for over 20 years. Many of them had come on their own and had later on married locally; others had moved because of marriage. In that process they made use of various housing options until they were able to afford private housing; their housing strategies including living with employers and relatives or renting. Anecdotal examples from respondents illustrate that housing transition. Interviewee 4 moved to Dahuaishu in 1998 after a few months working as a construction worker in Xincun Township. He was offered a job as a cleaner at the County Environmental Protection Department, where for five years he worked and slept in one of the office rooms. During that time he had also become the driver of the director of the Department and a fairly successful business man. He married in 2004 and bought a house in the town soon after. He was able to pay for the house up front from his own savings.

In 1979 at 17 years of age Interviewee 20 arrived in a village near Ganting Town in the southern part of Hongtong County. There he learned the skill of hairdressing and got free accommodation in the house of a fellow villager from his native Changzhi City (prefecture). In 1982 he moved to Dahuaishu Town and married a local woman. They then rented a small house in one of the suburban villages, where they also opened a hairdressing salon. They were able to afford a house in that same village until 1998. They borrowed 20,000 yuan from friends and relatives, which they added to their savings to pay for the 60,000 yuan house price. By 2003 they were still unable to repay the money they had borrowed. From their hairdressing business they could make around 1,500 yuan each month, with which they had to sustain a family of five, pay rent (2,000 yuan annually) and taxes. They were content with their situation and felt more secure for having a place of their own, but also admitted that most peasants in the village where they lived enjoyed better living conditions than they did.

Those respondents who lived in rental property (11) formed an heterogenous group, making it difficult to draw generalizations about their characteristics. All but one respondent, however, were relatively young (mid-20s to early 30s). These respondents had not yet managed to save enough to buy a house, and probably did not have the social capital necessary to pool financial resources for that purpose. Regarding this last point, it could be implied that this lack of social capital stemmed from the fact

that some of those respondents were not natives to the county. 4 out of the 11 respondents in rental property came from other counties – one of them from outside the Linfen City area. Yet, three out of these four respondents had been living in Hongtong County for at least 5 years and for up to 7 years. From their accounts about other aspects of their everyday life and work they seemed to have built substantial social networks in the area, to such an extent that they now saw Hongtong as their home place. The one respondent (Interviewee 22), who did not hold this feeling of belonging, had been in Hongtong County for less than a year, during which time she and her husband had experienced bullying and harassment from local residents. They were at the time of the interview renting one room in a suburban village, where they prepared and baked bread, but where they also slept. They had paid 1,000 yuan to rent the room for a year.

Hongtong County natives were also to be found in rental property. There were seven county natives renting housing, four of whom had private housing in their home village (either their own or their parental home), but who had decided to rent in the town, where they could potentially attract more customers to their businesses. Rental property prices were typically set as an annual amount and paid up front; tenants could, however, negotiate monthly instalments directly with the owner. Especially in the case of commercial space, leases can be made for short periods. Rental prices paid by respondents in the sample oscillated from a low 1,000 to up to 6,500 yuan per year. Two respondents (Interviewees 18 and 25) were renting rooms in private housing, each of whom paid 60 yuan per month for a room. Choosing to rent rather than to buy was thus not a practice reserved to outsiders, but was a housing strategy also commonly used by county natives.

The two remaining groups of respondents were those living with employers, and those staying with relatives and friends. Among the ten respondents living with their employer or at their workplace three worked as nannies (*baomu* 保姆) (Interviewees 3, 17 and 51); three more worked in construction (Interviewees 40, 42 and 43); one was a teacher in a local kindergarten (Interviewee 10); another one was a night watchman in a government office (Interviewee 6); and one more was a mechanic (Interviewee 35). Accommodation and meals were provided by employers free of charge. Yet, this accommodation arrangement also meant they would have to be available any time the



employer required their work and help. Although often this represents a temporary form of housing for rural workers, some spend several years living with employers.

Accommodation in relatives or friends' homes represented an even less stable housing arrangement than living with employers. There were six respondents in the sample living in this type of accommodation. Their cases are a reflection of personal circumstances rather than the consequence of specific socioeconomic factors. Three respondents (Interviewees 41, 45 and 46) were still living in the parental home; one (Interviewee 26) lived with a relative for whom she managed a small business; and another respondent (Interviewee 21) lived with a friend, whose wife had recently died. All six did not pay for accommodation, and only Interviewee 21 paid for his meals.

### **Changing housing needs and land use conversion**

As rural workers make the transition from agricultural work into the urban economy, not only their housing needs change, but their relationship to rural land is altered as well. The general trend in housing ownership among rural respondents in this study showed a preference for housing in the peri-urban villages of Dahuaishu Town. Living close to the town – though on village land – allowed rural workers to take advantage of the benefits of the urban economy, while enjoying the lower cost of village life. Land, in particular, is one item that is cheaper and usually more widely available in the villages than in urban areas. Many rural households engaged in the urban economy no longer have the time or the incentives to carry out farming. Given the continued imposition of government grain quotas, land is usually leased (through official transfers or through informal oral agreements) to other rural households or ceded to the village for reallocation. Land transferred back to the village often involves unused land, which is generally leased for purposes other than farming, in order to bring in extra income to the village.<sup>30</sup>

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<sup>30</sup> Market allocation and auctioning have been common practices in the primary market for unused land in China. Use conversion of unused collectively owned land has been more rapidly liberalized, and lease contracts for the use-right of this land have been extended to up to 100 years. Ho and Lin 2003, p. 705 (footnote 57).

It is not uncommon for rural families to lease extra land <sup>31</sup> to develop small private enterprises (*getihu qiye* 个体户企业). In Xin Jianqiao Village (a suburban village of Dahuaishu Town) non-farm work and migration has left a growing amount of agricultural land unfarmed. <sup>32</sup> The village government has been leasing that land since the early 1990s for various entrepreneurial endeavours. One early experiment involved fruit trees. Three village households leased over 2000 square meters from the village to plant apples and date trees. The large initial investment and the slow returns caused the experiment to fail. In 2002 the land was leased again and turned into a private animal farm. Annual rent for the use of this land was 1,200 yuan. Net income from the farm went up to 10,000 yuan per year. The household running the farm still owned a house in another part of the village.

Rural households no longer involved in agriculture are also opting to build housing in villages close to the town. This was the case with six respondents in the study sample, who had acquired housing in one of the peri-urban villages of Dahuaishu. No longer able or willing to farm their land in their home village most would leave relatives or other village households to look after it. Sub-contracting of agricultural land has become a common practice throughout rural China. Once a land transfer has taken place, however, the relationship between those moving out and the agricultural land left behind becomes an ambiguous one. Some respondents had been away from their home village for many years and were thus unsure about their continued use-rights over the land they had left behind. <sup>33</sup> Others had made specific arrangements with local families in an attempt to comply with grain quota requirements and to maintain their claim over the land.

This was the logic behind the experience of Interviewee 19. She and her husband had left their home village in the late 1980s to open a restaurant in one of the suburban

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<sup>31</sup> Land assigned to rural families according to the household responsibility system, through which land use rights are given to households for 30.

<sup>32</sup> Land readjustments at the village level are done according to demographic and individual household changes (marriages, migration, births, deaths, and so on). Reallocation of land had typically taken place every 5 to 7 years, and often involved only those present in the village at the time of the reallocation process. Although outlawed by the last modifications to the Land Management Law (which came into effect in January 1999), land reallocation practices continue to take place in the rural areas but usually only involve marginal land.

<sup>33</sup> Most women lose their agricultural land when they leave their home village. For migrant households it is usually only the land of the husband that can be safeguarded.

villages of Dahuaishu Town. Unable to look after their agricultural land they made an agreement with a household in their home village, by which this family would farm the land and provide the annual 500 kg grain quota to the village authorities. The agreement did not involve any lease payment from the new tenant farmers. In another case, one respondent (Interviewee 36) bought land use rights from her neighbour in order to expand the family home. The household paid 5,000 yuan for the land transfer, but it was unclear whether this had been done through the official procedures. These are practices no longer limited to members of the village community, but which have been extended to outsiders. Transfers and conversions of land in peri-urban villages are in general more affordable and less complex than those involving urban land.<sup>34</sup> As long as rural land conversions – from agricultural to non-agricultural use – comply with the overall provincial land utilization plan the change can be processed at the local level with relative ease.

Economic and administrative considerations aside, many rural workers still find the quality of life in the village to be better than that in the town. Pollution is not as severe, and overcrowding is often not a problem in the villages. At the same time, however, the pace of urbanization has continued to minimize lifestyle differences between peri-urban villages and the town, introducing some of the urban illnesses to the villages. Among rural county natives about half preferred living in the village and considered their housing situation to be superior to that of town residents. They cited space, a cleaner environment, security and community as the elements making rural lifestyle and accommodation better. Staying in the village also constitutes for some a social strategy; there they have a sense of community that might not be as easy to construct residing in the town. Moreover, local households staying in the village are able to keep their agricultural land (which continues to be rural household's main asset and insurance) while still enjoying a quick and easy access to the urban economy. A similar attitude was observed in regards to *hukou* conversions (from rural to urban), due to the implications it carried for land entitlement. Those who had completely severed their claim over agricultural land had either already been able to

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<sup>34</sup> Conveyance tax and other stipulated land transfer fees are significantly higher in urban areas. Land management and regulation in China is done according to ownership type. Land in urban areas is owned by the state. Ownership of rural land is a mixture of collective and state ownership. According to a 1996 national survey on land resources 53 per cent of China's territory was owned by the state and 46 per cent by collectives. Ho and Lin 2003, p. 683. For a detailed analysis of land tenure changes and emerging land markets in rural China see: Brandt *et al.* 2002; and Ho and Lin 2003.

afford other safeguards in the town (i.e. purchasing a property, establishing a business, securing a stable job and access to social security), or had had no land at the time they moved out of their villages.<sup>35</sup>

The other half of county natives comprised a younger group of respondents who were less keen on village life and agriculture. Even though some of them continued to reside in the village, they were accustomed to an urban lifestyle. The main aspect of the appeal of the town – and of urban environments in general – were the accessibility to a wider range of opportunities for personal development, be they economic, educational or professional. For some, however, their rural status made them uncertain about their place in urban society. One of the concerns among those respondents was with their social capital (or lack of it), which continues to be a crucial means to taking advantage of available opportunities. In most cases, however, county natives felt comfortable switching between the rural and the urban environment, which again demonstrates the narrowing differences between suburban village life and the urban environment in Dahuaishu Town.

Perhaps more revealing of the character of Dahuaishu's urban environment were the attitudes of those respondents from outside of the county. These respondents either came from poor villages or were members of relatively poor households, and thus described living conditions in Dahuaishu Town as being far better than those in their home village. All but one respondent expressed a highly positive opinion of their experience in Hongtong County, which made them more confident about their continued residence in the area. Housing investment decisions by this group of respondents reflects that intention of permanent settlement. Of the ten non-county natives in the rural workers' interviewee sample, 6 had made most – if not all – of their housing investment in Hongtong County (by buying land to build a house or by purchasing a house), while the four remaining had their main residential space back in their home village. Of these last four respondents, however, all but one had been living in Hongtong County for just over a year.

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<sup>35</sup> This is the case of some young boys and girls (between 16 and 19 years of age) who go out in search for work after graduating from middle school.

Two of the respondents (Interviewees 42 and 43) were construction workers who were constantly moving from one place to another, including movements across provinces. For those respondents the nature of their work presents little incentive for them to invest in housing outside; particularly since their families often remain in their home village. The experience of Interviewee 43 illustrates their case. Originally from Henan Province, this respondent had been engaged in construction work in Beijing, Tianjin, Gansu and Shanxi Province for over twenty years. Back in his home village he had built two houses and had already started construction of a third one; intended to be his legacy for his three sons. Being constantly on the move permanent housing investment had thus been only made in his home village. Private home ownership among rural workers in the study was nonetheless relatively high (about 50 per cent of respondents had private housing) compared to, for example, the less than 1 per cent private home-ownership among migrants recorded in Shanghai and Beijing in 1997 (Wu, W. 2002, p. 100). Even among non-county natives home ownership was high, cementing those rural workers' decision to stay permanently in the locality.

Comparing housing access between urban and rural respondents in this study might not be a fruitful endeavour given the limited number of urban respondents in the sample. The analysis of interview results, however, does give a glimpse into the processes by which urban households in towns have acquired housing in the last twenty five years or so. It also confirms the presumption that towns have higher levels of private home ownership. Location of housing can perhaps serve as a variable for comparing the housing situation between urban and rural respondents. Urban housing continues to be mostly unaffordable to rural workers, who instead have settled in the suburban villages of the town. This settlement pattern, however, is a very different process to that taking place in large cities, where rural migrants live in crowded and poor housing conditions in peri-urban areas. Instead, the rural workers in this study who own private housing have been able to build or buy housing that is at times superior – at least in terms of size – to that available in the town. That is to say, suburban villages have not become the slums of the town, but are increasingly turning into expanded residential areas for the growing *de facto* urban population. And although most of those villages have little agricultural land left, some are yet to be incorporated into the town's urban district. Those villages have offered an opportunity for the development of (mostly self-built) private housing for rural workers – both

locals and outsiders. The new luxury housing and apartment compounds being built in the outskirts of the town, however, do point to a certain degree of housing segmentation along income lines, though not necessarily following rural-urban divisions.

## Chapter 7

### County level social safety nets

Contrary to experiences in other provinces in China, Shanxi had until the late 1990s largely not experimented with the funding and management guidelines established in the new social insurance system. In Hongtong County, the old social security and welfare systems – based on funding and provision by the state – remained almost unchanged until 1998. By that time, a significant number of SOEs as well as some government departments, were no longer able to comply with their social security and welfare responsibilities, and had thus started to shift the burden of social insurance benefits provision – especially pension delivery – to the County's Department of Finance. In 1998, when the County Labour Department took responsibility over the management of the new social security system for urban workers, the main problem faced by the Department was settling disputes between various work units and the County Government over financial responsibility of workers' insurance payments.<sup>1</sup> The state owned sector of the county economy was going through a difficult stage, and ownership changes of SOEs became widespread. With this ownership transition many workers were dismissed, and only a limited number of employees maintained their welfare benefits. Introducing a new insurance system thus necessitated strong financial backing from the County Government, which became directly responsible for subsidizing pension payments for SOEs retirees, and for covering all pension expenses of all other government employees.

Social funds for the new insurance system had practically to be built from scratch, given the continued financial deterioration of SOEs, many of which had stopped contributing to workers' insurances. At the same time, contributions from the non-state sector remained minimal. Worker enrolment figures in the social security system remained low as well, due – again – to SOE lay-offs and the limited number of enterprises participating. In 1998, for example, the number of employees in state owned enterprises had decreased by over 30 per cent from the previous year. The employment downturn was experienced in the urban economy as a whole; the overall

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<sup>1</sup> Interview with staff member from the Social Insurance section of the County Labour and Social Security Department. Oct. 20, 2003.

number of those fully employed had also declined in absolute terms – from 36,835 workers in 1997, to 32,701 in 1998 (*Hongtong County Statistical Yearbook 2000-2002*, p. 68). To those figures one must add the number of workers who left their unit though retaining their work relationship and retired workers. There are, however, no statistical figures for those sub-groups of workers. Given this lack of consistent statistical information (or in cases outright non-existence of data) on workers' social security enrolment, the actual number of urban workers covered by social insurances at the time of the introduction of the new system can only be estimated approximately. As noted before, the economic restructuring of the state owned sector was leaving a growing number of workers outside of the social safety net, and thus – in practice – insurance coverage was highly fragmented.

One of the first tasks taken over by the newly created Labour and Social Security Department – formerly only concerned with labour issues – was related to dispute settlement over wage arrears and laid-off workers' unemployment compensations, as well as carrying out strong re-employment campaigns for laid-off workers in the state sector (Hongtong County Labour Department 1998). This shows a rapid response on the part of the local government to an increasing number of dismissals resulting from SOE overhauling. Since many of those laid-off had lost all insurance and welfare benefits, there was a need to try and channel them back into the labour market where they could earn their livelihood, but also in order to keep unemployment levels low.

Up until 1998, when the new unified and compulsory social security system for urban workers was introduced, most social development indicators were not registered in county statistical materials. Five years after the new system was put in place, information on social development – including social security and welfare – remained limited. It is thus not possible to make here an accurate calculation of the number of workers covered by the social safety net before 1998; the number of workers who continued to receive benefits with the introduction of the new system; and how many new enrolments took place subsequently. Using the number of fully employed urban workers as the lowest threshold of enrolment in the social security system, by 2002 there should have been over 37,000 workers participating in the various social insurance schemes. Among those fully employed, there were 22,900 work unit



employees in the state sector (*Guoyou danwei ren yuan* 国有单位人员).<sup>2</sup> Within that sector 4,591 workers had left their unit but had kept their working relationship, and 810 had retired (*Hongtong County Statistical Yearbook 2000-2002*, pp. 90-1). Available data on worker enrolment figures in the pension system (usually the insurance scheme with the highest rate of participation) – 25,000 participants – from 2004 roughly coincide with the number of state employees in the county (Hongtong County Labour and Social Security Department 2004). Which would imply that it is mainly those in the public sector – including those with permanent positions in SOEs – who have access to social insurances.

As stated before, county social development indicators are hard to come by, not least because they have until recently not been computed. As was the case with worker enrolment numbers, data on total accumulated funds in social risk pools of insurance schemes is largely unavailable. Data is available, however, on the actual amount spent by the County Government to guarantee pension payments and to subsidise other social safety nets. In 2002, the subsidy for the social insurance system (*Shehui baozhang buzhu zhichu* 社会保障补助支出) amounted to 5.69 million yuan, while expenditure on retired workers' livelihood was 5.26 million yuan (*Hongtong County Statistical Yearbook 2000-2002*, p. 98, 316).

A separate expenditure category is kept to record pension payments for civil servants and workers in public service units. That same year, pension payments for retired workers in those categories alone topped 34.29 million yuan, a contribution 3 times larger than that of the combined social security subsidy and of pension payments to other retired workers. In fact, pension payments for public servants amounted to almost 15 per cent of total County Government budget expenses (Table 7.1).

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<sup>2</sup> Including workers in SOEs, public service units [PSU] and government departments.

**Table 7.1 Hongtong County - Budget expenses on social security**

Unit: 10,000 yuan

	2000	% of total expenditure	2001	% of total expenditure	2002	% of total expenditure
<b>Total Expenditure</b>	<b>14757</b>	<b>100</b>	<b>20258</b>	<b>100</b>	<b>22936</b>	<b>100</b>
Pensions of retired public servants and workers in service industries 行政事业单位离退休经费	2330	15.98	2874	14.18	3429	14.95
Social Insurance Subsidy 社会保障补助支出	119	0.80	220	1.08	569	2.48

Source: *Hongtong County Statistical Yearbook 2000-2002*, p. 316.

This large gap between funding for social security and funding for state employees welfare reflects the continued moral preoccupation of the Party-State with the fate of its own staff. Funding prioritisation of state employees' safety nets comes as no surprise, given that those workers represent the Party's support base at the grassroots level. Civil servants and those working for PSU have certainly fared much better than those working in SOEs. Maintaining support for the Party, however, is only part of the equation; this group is also the one that holds the strongest sense of entitlement. In a system where government and Party intersect in almost every field it has been crucial – on the one hand – to secure the loyalty of government employees, while – on the other hand – building legitimacy for the Party. So far the Party-State has been willing to pay the financial toll of keeping its bureaucrats secure.

The real dilemma for governments throughout the whole administrative hierarchy rests with the restructuring of State Owned Enterprises and consequent worker dismissals. In Hongtong County, for example, by the first half of 2005 around 95 per cent of all SOEs had undergone ownership changes, many as a result of bankruptcy. Exact numbers for those who lost their jobs as a result of these ownership changes have not been documented. Pressure fell on the County Labour and Social Security Department to train and help those who had been laid-off to find new employment, while at the same time having to mobilize resources to cover for unemployment insurance and other welfare payments for these workers. Recruiting new enterprises into the new social security system had to remain a secondary goal for an already overwhelmed Labour and Social Security Department.

Growing unemployment and limited risk pools to cover for insurance premiums presented little incentive for non-member enterprises to join the new social security system. Ailing state owned enterprises relied on the County Government to cover for their social security liabilities, while most non-public enterprises chose to remain outside of the social security system and offering no insurances to their workers. During fieldwork observations this appeared to be hardly an issue among workers in the private sector. There seemed to be little awareness about the new social security system, and even those who were enrolled in the system had no clear knowledge of which insurances they were entitled to, and which ones were actually provided by their work place; nor did they know much about percentages contributed to the various insurance funds.

### **Social security: entitlement, access and perceptions**

Low coverage figures have been the result not only of structural economic changes and the relatively recent introduction of the new insurance system, but are also related to limited information made available to both enterprises and to workers pertaining to the new system. With the old system, generous entitlements meant urban workers seldom worried about the exact details of the functioning of social security. Until the mid-1990s the government's paternalistic social security system – delivered through the work unit – had remained highly reliable. Workers' confidence over the social security system, however, was to be undermined by Premier Zhu Ronji's policies promoting the inevitable overhauling of the state owned sector. SOE bankruptcy and the consequent rise in unemployment would also put in doubt the governments' ability and willingness to support and protect workers' welfare.

Confidence in the new system was also to be undermined by the delayed process by which relevant rules and regulations governing the various social insurance schemes were passed. Even though workers' entitlement to social security had been safeguarded since 1994 under the Labour Law, the White Paper establishing the *Uniform Basic Insurance System for Enterprise Employees* was made public by the State Council until 2002. Most rules and regulations governing insurance premiums (for pension, medical, unemployment, and childbirth insurances) were passed by the State Council and relevant Ministries starting in 1995 (Labour Bureau Notification No.

504; People's Republic of China State Council Decree No. 259), but regulations for the work-related injuries insurance scheme were decreed until 2003 (People's Republic of China State Council Decree No. 375). Enterprises and workers have thus made the transition to the new system with only partial knowledge about the new schemes, new regulations, and workers' entitlement rights.

This limited or lack of knowledge about the functioning of the new system was evident among respondents. Most interviewees – both rural and urban workers – were unsure about their entitlement rights, and even some of those enrolled in the system were unsure about which specific insurances they were covered by. Under the 1994 Labour Law all workers should be covered by all four social insurances stipulated by this law, that is: old-age insurance; health care insurance; unemployment insurance; and work injury insurance.<sup>3</sup> In practice, however, this has not always been the case. Insurance provision varies from one workplace to another. In general, most workers from the interviewee sample enrolled in the social security system were covered by at least one of the three insurances – old age insurance, health care insurance, and unemployment insurance. Only civil servants, public teachers and doctors in the public sector were covered by all social insurances, plus the housing provident fund. Not all employees in government departments and public service industries were included in the social security system. As was stated before, government departments and PSU have to follow strict annual hiring quotas; those hired outside the quota can be included in one or more of the social insurance schemes, while those hired on a temporary basis – to carry out menial jobs – are not included at all.

Disinformation about insurance coverage had also to do with uncertainties about the financial well-being of the work place, and the capacity to afford insurance premiums. Interviewees working for ailing SOEs, were particularly concerned about being able to enjoy the benefits of any of the social insurance schemes they were members of. From the interviewee sample of local urban residents all ten respondents were or had been state employees (employed by SOEs, government departments and PSU) yet, only four – one doctor, a teacher, and a staff member of the Public Security Department (Interviewees D, E and J) – were at the time of the interview covered by

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<sup>3</sup> As well as Childbirth Insurance for female workers.

all social insurances. Two respondents (Interviewees B and C) had lost all social security benefits when laid-off. Another respondent (interviewee H), working for the ailing Urban Water Company, had at the time of the interview no access to the benefits of her insurances – i.e. health care. She had not received a salary for over two years, but remained attached to her work unit in the hope of receiving a pension after retirement. The remaining four respondents (Interviewees A, F, G and I) were unsure as to which insurances they were covered by, since they had not made use of any of their insurance benefits.<sup>4</sup> Interviewees A, F and I were relatively young – one was in his late 30s, but the other two were in their mid and late twenties.

Among rural respondents, of those who had changed their registration into an urban one (25 out of 57) only 12 were covered by at least one insurance. Rural public teachers were the only ones covered by all social insurances. Interviewees 2, 34, 37, 48 and 49 had started off as village teachers under the category of community teachers (*minban laoshi*) – holding an urban hukou<sup>5</sup> but paid by the village government – and had later on been turned into public teachers (*gongban laoshi*) gaining access to all social insurances. One music teacher (interviewee 34) – pregnant at the time of the interview – was to receive half a year's extra salary from her school as part of her childbirth insurance.

Length of membership in the system also impacted on some of the benefits received, particularly in the case of pension premiums. Three of the teachers (Interviewees 2, 48 and 49) who were close to retirement, were to receive pension payments according to their length of service as public teachers. Interviewee 2 had been a public teacher since 1989, while interviewees 48 and 49 had become public teachers late in their work lives. When in 1997 interviewee 48 was appointed as headmaster of Fengzhang Village primary school he was turned into a public teacher, and – in his own words – was 'forced' (*qiangpo* 强迫) to join the social security system. He would have been

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<sup>4</sup> Part of the explanation for this could be the age of these respondents. Interviewees A, F and I were relatively young – one was in his late 30s, but the other two were in their mid and late twenties.

<sup>5</sup> All teachers in the public educational sector are classified as government cadres (*ganbu* 干部), and are therefore eligible for urban registration. The *minban* category, however, allowed teachers to hold an urban *hukou* without losing their agricultural land. From July 2001 remaining *minban* or community teachers started to be converted into *gongban* or public teachers (giving up their agricultural land). This process was related to a State Council mandate that shifted responsibility over rural teachers' salaries from the village to the County Government. World Bank 2005, p. 40.

part of the system for only ten years before he retired, and therefore was unsure his pension would be sufficient to cover for all his family living expenses. Therefore, he viewed insurance contributions as eating away at his personal income, rather than giving him security for the future.<sup>6</sup>

Another five respondents (Interviewees 1, 22, 29, 38 and 54) had previously been employed by an SOE and had at that point had access to some social security benefits. Nonetheless, they had lost their job and welfare benefits as a result of their enterprises running into financial difficulties. One respondent (Interviewee 44) working for an ailing state owned papermaking factory had been able to keep her job, as well as her old age and medical insurances thanks to the successful privatisation of her work unit. Two respondents (Interviewees 12 and 55) who worked as nurses<sup>7</sup> in local public hospitals were covered by pension insurance, medical insurance and unemployment insurance. Another two respondents (Interviewees 4 and 5) had been able to acquire an urban *hukou* while working for the County Environmental Protection Department<sup>8</sup>, and had medical insurance coverage. These two respondents also mentioned receiving in-kind gifts (food, flour, new uniforms, and so on) from the Department during national holidays.

The case of these two last respondents (Interviewees 4 and 5) are significant because, again, they help illustrate the prevalent importance of personal connections (*guanxi*) in gaining access to services. Department leaders – especially those with experience at the grass roots levels – typically take under their wing individuals who had previously worked for them at the township and village levels. Individual's support networks have been shown to encompass ties that go well beyond kinship links. Friendship ties, especially, play a strong supportive role in practical – non-personal – matters, such as career development and financial support (Zhang and Ruan 2001, p. 45). The relationship cannot be described solely in terms of favouritism or nepotism, but as one

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<sup>6</sup> His wife was also a public teacher and would hence also be eligible for a pension. Both pensions would allow them to secure a relatively comfortable lifestyle in the village. Yet, their concern was about affording the education expenses of their 17 year old daughter, whom they needed to support through university.

<sup>7</sup> They were able to change their registration into an urban one when they enrolled in the nursing college.

<sup>8</sup> One worked as a driver for the Director of the Department, and the other was the hairdresser of the Department.

in which a complex mix of human capital and development potential, as well as an individuals' social capital intermingle. Nevertheless, as has been argued by Zhang and Li (2003), those in the rural areas without access to such connections can be disadvantaged when searching for non-farm employment, a situation that has direct repercussions on the household's income. The personal relationships of interviewees 4 and 5 not only secured them an urban job, but were also a means through which they were able to change their registration and gain access to social security and welfare benefits.

The cases of both urban and rural workers with access to social security and welfare provide evidence that only the state part of the economy had been providing employees with insurance coverage. Yet, even within the state sector, insurance coverage (and honouring of insurance payments) depended greatly on the financial capabilities of the work unit – particularly in the case of SOEs. Interviews also attest to the fact that in other sectors of the economy – including collective, share holding, as well as private enterprises – employees are not offered insurance coverage. In Hongtong County, compulsory enrolment in the social security system has only applied to SOEs, PSU, and the administrative branches of the government. Furthermore, by 2005 the County Labour and Social Security Department had yet not been granted any legal powers to make enterprises from the non-public sector of the economy join in the system.

### **Participation in the pension insurance scheme**

The previous analysis evinces on the one hand the continued relationship between the overhaul of state owned enterprises and the configuration of the social security system; and on the other hand the still limited participation of enterprises outside the public sector. Overall, among the existing insurance schemes, old age insurance is the program with the most members, both in terms of enterprise and worker numbers. Higher enrolment figures are the result of the direct transfer of most state employees from the old PAYG system into the new system, and of a government commitment to

guarantee pension payments for the growing number of retirees.<sup>9</sup> Within the first half of 2004, Hongtong County Labour and Social Security Department had 73 enterprises registered as participating in the old age insurance program for urban workers, with 12,000 employees (Table 7.2). This represents a minuscule share of total registered enterprises, given that by 2002 there were 3,692 registered enterprises in the county (*Hongtong County Statistical Yearbook 2000-2002*, p. 160).

By mid-2004 there were also 245 government departments and PSU participating in the separate pension system for public servants (*Xingzhengshiye yanglaobaoxian* 行政事业养老保险), with a total of 13,000 employees participating. Despite the pension scheme for civil servants having only 1,000 more members than the urban labour scheme, fund accumulation in the former was 4.6 times larger (Table 2). Although presenting only a snapshot of the enrolment and funding situation of the pension system; the figures give evidence of the advantages still held by government administrative offices and PSU.

**Table 7.2 Hongtong County - Old age insurance participation**

<b>First Half of 2004</b>	<b>Enterprises participating</b>	<b>Employees enrolled in the system</b>	<b>Raised funds (yuan)</b>
Old age insurance for urban workers 养老保险	73	12,000	3,650,000
Old age insurance for government employees 机关事业单位养老保险	245	13,000	16,960,000

*Source:* Hongtong County Labour and Social Security Department 2004, *Work Summary of the first half of 2004*.

Although there is no publicly available listing of enterprises taking part in the social security system for urban workers, two assumptions could be made about the profile of participant enterprises: the first would be that they are most likely to be SOEs; while a second assumption could be that financially better-off enterprises – thus better prepared to shoulder the cost of social security coverage – would be more strongly represented in the various insurance schemes. In 2003 there were 44 ‘above average size’<sup>10</sup> enterprises in Hongtong County, 15 of which were privately owned (*siying qiye* 私营企业), 12 were cooperatives (*jiti qiye* 集体企业), and only 3 were state owned

<sup>9</sup> After all, many of those retirees were pushed into early retirement as a way of reducing the burden of over-staffed SOEs.

<sup>10</sup> Those with a total income of over 5 million yuan.



(*Hongtong County Summary of Statistical Materials* 2003, p. 74). In the large and medium size category <sup>11</sup> there were altogether 12 registered enterprises, including 4 private enterprises, but only one SOE (*Hongtong County Summary of Statistical Materials* 2003, p. 90).

The most notable feature of these figures is the low number of SOEs, and the high proportion of privately owned enterprises among this group of financially better-off businesses. What this statistical data also makes clear is the economic strength of the non-state sector, and the potential for it to make important financial contributions to insurance funds – but which has so far not been exploited. Empirical findings give support to the suggestion put forward before stating that it is mainly SOE employees who are enrolled in the social security system. Those findings, as well, help imply that among the 73 enterprises participating in the old age insurance scheme in 2004, the majority must have been SOEs. Yet, as evinced by the statistical data on enterprise size, many of those SOEs would probably not be as financially sound as some of their counterparts in the non-public sector.

Recruiting enterprises from the non-state sector into the various social insurance schemes has proven to be a difficult task for Labour and Social Security Departments all over China. At the county level the Department has little power, resources and personnel to enforce compliance. To make matters worst, a high percentage of enterprises already enrolled in the system are not paying the prescribed minimum amounts or default payments. In Shanghai, for example, data from audits undertaken in 2002 by the Bureau of Labour and Social Security [BOLSS], showed 81.8 per cent of audited firms paid less than their minimum obligatory share for social insurance funds (Nylan *et al.* 2006, p. 201). More worrying, however, was the fact that large firms were found to be more likely to engage in evasion (Nylan *et al.* 2006, p. 209). The analysis on enterprise participation in Hongtong County mirrors these findings from Shanghai: that many of the larger more profitable firms are not contributing to social insurances. <sup>12</sup>

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<sup>11</sup> No explanation is given in the statistical materials relating to the size (in economic terms) of the enterprises falling under this category.

<sup>12</sup> In terms of ownership type, Nyland *et al.* (2006) found that SOEs, collectives and private enterprises in Shanghai showed a lower non-compliance rate than foreign owned enterprises (p. 211). In Hongtong County participation of the collective sector in the local economy is small, and that of foreign owned

As a consequence of low enterprise participation fund raising for insurance risk pools has proceeded at a very slow pace. Available fund levels were even more precarious than worker membership levels. Annually raised funds in the old age insurance fund (*Baoxianfei shouru yanglao nianjin* 保险费收入养老金) managed to grow after 2001. Beforehand, pension payments had been met through direct government subsidies. Over the one-year period between 2001 and 2002 funds raised grew by 4,602 per cent, going from a low 1,170,000 yuan up to 53.8 million yuan (Table 7.3). This large increase, however, did not seem to be related to new employee enrolments, which actually experienced a small decline between 2000 and 2002 – from 195 new enrolments to 77. By 2003, however, membership saw a substantial surge of 7,207 workers (Table 7.3). Given that worker membership remained relatively constant until 2002, changes in the funding levels can only be explained as the result of larger subsidies from higher governmental levels – Provincial and Central Governments – that may remain unrecorded in county statistical materials.

**Table 7.3 Hongtong County - Annual raised funds in old age insurance**

Unit: yuan

	2000	2001	2002	2003
<b>Annual funds</b>	990,000	1,170,000	53,850,000	59,033,000
<b>New worker enrolments</b>	195	167	77	7,207

Sources: *Hongtong County Statistical Yearbook 2000-2002*, p. 318; *Hongtong County Summary of Statistical Materials 2003*, p. 119.

After five years of implementation, building up social risk pools for social insurances has become a top priority of the Provincial Labour and Social Security Bureau. In order to do that the Bureau launched a campaign to try and recruit the numerous enterprises outside the urban domain. Township and village enterprises [TVEs] continue to employ a substantial part of the labour force, and remained financially sound despite the economic downturn of the late 1990s. In April 2004, the Bureau started to encourage TVEs to enrol in the old age insurance program with the promise of tax exemptions on various tax categories (including the business tax (*yingyeshui* 营业税), the interest tax (*lixishui* 利息税), and the personal income tax (*geren suodeshui* 个人所得税) (*China's Human Rights* April 13, 2004). Dubbed 'one factory, two

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enterprises is negligible. Moreover, the SOE sector was significantly weakened since the late 1990s. It is the private sector which has gained strength, and which is still largely not taking part in social security schemes.

systems' (*Yichang liangzhi* 一厂两制), the campaign intended to channel those workers employed in the TVE sector holding urban registration to the old age insurance scheme for urban workers, and those with a rural registration to be incorporated into one of the local rural pension schemes. The move was as much an attempt to boost the social pools in urban areas, as well as an attempt at building and organizing social risk pools in the rural areas. The effectiveness of this new policy can only be assessed in the coming years, when its implementation becomes more widely spread at the county level. During the empirical undertakings in Hongtong County there was no mention of this policy initiative, not even by local cadres.<sup>13</sup> Moreover, none of the rural respondents were participating in any rural old age insurance scheme (*Nongcun shehui yanglaobaoxian* 农村社会养老保险).

### **Private insurance schemes**

Private insurance coverage is an even more recent phenomenon at the county level. Rather than being acquired as a complimentary insurance to public schemes, it has been used by those without public insurance coverage. In spite of their almost negligible participation in insurance provision (of public goods and welfare), insurance companies have launched aggressive publicity campaigns promoting their products. Though operating on commercial grounds, a small group of insurance companies hold an oligopoly over the insurance market. These companies have targeted their products mainly toward the urban population, but have also offered insurance alternatives to better-off rural households. Interview results from Hongtong County showed that it was actually among rural workers that private insurance was most mentioned. Four respondents (Interviewees 15, 33, 54 and 56) had some form of private insurance, all acquired with China Life Insurance Company Limited (*Zhongguo renshoubaozhang gongsi* 中国人寿保障公司). All four interviewees were rural entrepreneurs running small-scale but successful businesses in the town. None of them had access to public insurances, although two held an urban registration. Insurance packages acquired by these interviewees included health insurance, life insurance, education insurance (to guarantee their children's education), and job injury insurance.

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<sup>13</sup> Nationally, just under 5 per cent of TVE employees – or 138 million workers – were participating in the social security system. *China's Human Rights* April 13, 2004.

One respondent (Interviewee 15), a businessman from Fengzhang village, argued that since he did not want his wife or himself to become a burden for their children he had bought private life insurance. In 2001 he acquired life insurance for himself, and did the same for his wife the following year. Insurance premiums included 80 per cent coverage of medical expenses, and in case of death the children were to receive the full amount paid into the insurance account.<sup>14</sup> In general, those interviewees who had private insurance had better and more detailed knowledge about the insurance program they had acquired, than those enrolled in insurance schemes within the public system. Furthermore, private insurance providers seemed to offer a wider range and more personalized insurance choices, which contrasted with the more rigid public schemes.

Given the limited access to social security and welfare among rural workers, those searching for some security and who can afford it have used the private alternative. For them private insurance is a way of guaranteeing a lifestyle in their old age, and a way to insure that their children will be financially protected in the event that they may fall seriously ill or die. Moreover, private insurance offered them more suitable products for their needs, and were perceived as being more reliable than public insurance schemes, particularly those based in the rural areas. Thus, despite much publicity for rural old age insurance schemes, none of the interviewees was a member of such a program in their home village. Insurance programs in the rural areas have been built upon voluntary enrolment, severely limiting their operability and hence resulting in a lack of confidence in the system. With the right support and proper regulation from the County Government, private insurance could offer a better alternative in villages where public insurance has failed to create adequate safety nets. Financial support from the government, however, would be crucial to guarantee equitable access to insurance schemes.

Private insurance is still far from closing the gap between the rural and urban populations regarding the provision of adequate social security, basically because

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<sup>14</sup> His insurance scheme involved annual payments of 1,500 yuan during a period of 10 years, while his wife's annual payments were double the amount but over a five-year period. Interview carried out on October 14, 2003.

only a small minority of rural households with the financial means are able to afford it. Private insurance costs and instalments are often higher than the average annual rural per capita income. Limited development of insurance markets and the prevalence of fee-for-service practices have in fact made insurance coverage a potential financial hindrance rather than a safeguard to many households. Wagstaff and Lindelow (2005), for example, found that urban health insurance schemes – both public and private – can increase financial risk for insurance holders, because of the high levels of out-of-pocket expenditure induced through the use of medical insurance services.<sup>15</sup> In the countryside, cooperative insurance programs have been found to significantly reduce financial risk for rural households, yet their functionality is dependent on the financial situation of the area and of each individual household (Liu *et al.* 1996; WHO 2004). Therefore, commentators have questioned the feasibility and sustainability of cooperative schemes without adequate financial contributions from the Central Government (Liu *et al.* 1996; Hao *et al.* 1998; Liu, Y. 2004). Fieldwork findings in Hongtong also point to the need to reassess the role of private providers, particularly the ways in which they can supply insurance alternatives to those not included in public safety nets. Further research needs to be done to find out whether reduced employment in the public sector has persuaded more workers –in the private sector but also those laid-off from the public sector – to join the private insurance market.

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<sup>15</sup> Nonetheless, the poor and the uninsured continue to be even more vulnerable to health shocks than those insured. Lindelow and Wagstaff 2005.

## Chapter 8

# Delivering Health and Education

During the reform process local governments in China have often been accused of engaging only in those activities that bring the most income to the government coffers or in outright corrupt practices (Cody 2006; Sisci 2006). They have also been portrayed as being unresponsive to local needs (Wang R. 2002). Local governments have been blamed for turning a deaf ear to social issues, particularly to the plight of peasants. Part of the problem has lain in the top-down nature of information flows and the decision-making process, which have no reciprocal institutionalized mechanisms of expression from below (Zhu 2003, p. 154). Rather than being unaware of those issues, fieldwork observations showed a relatively good grasp of existing social problems on the part of county cadres. Whether or not they decided to act upon those issues usually depended on availability of financial resources and the perceived urgency of each specific problem.

Empirical case studies elsewhere in China have found that under-prioritization of social development at the local level has come about – to a great extent – as a result of increased responsibilities in social security and welfare provision, many of which are not backed by corresponding tax sources (Jun 2002). Central directives and the need to deliver results to upper levels of government have pushed local officials to prioritize specific policies and campaigns (Solinger 2004; Edin 2003), a situation that is directly reflected in budget allocation considerations. Nonetheless, local governments have maintained almost full control over extra-budgetary revenues – a major source of income for local governments – that they continue to use for more particularist objectives.

Although less responsive to actual needs and often less efficiently spent, extra-budgetary income has been crucial to bridge the gap for unmet financial needs in official budget allocations. Extra budgetary revenue [EBR] (*waiyusuan* 外预算) and funds have become a lifeline for many local governments, and there is some evidence indicating that extra-budgetary spending can help support public service provision. Ping and Bai (2005) have found that given the right fiscal incentives at the local level

extra-budgetary expenditure for the health care sector can be positively stimulated (p. 18). Existing incentives, however, have steered local governments and their departments to focus on developing their entrepreneurial skills with the aim of advancing economic returns to strengthen their financial situation and that of their employees. Some cadres and bureaucrats have taken advantage of existing legal loopholes and weak regulations for personal benefit, yet most government profit-seeking activities and businesses cannot solely be described as purely rent-seeking.

Government entrepreneurial activities, as Duckett (2001) explains, are a hybrid form of governance that reflects the changing nature of the Chinese state. State entrepreneurialism – as she calls it – is bureaucrats' way of adapting and accommodating to economic liberalization and marketisation, in the context of a changing political climate. As this systemic transition advances, however, local governments are gradually moving away from direct economic involvement, into less straightforward intervention through taxation and regulation, while promoting greater social participation, particularly in the area of public services and welfare provision. The interrelationship between state and market and between government and society (Goodman 2001) has fostered greater cooperation between local governments and the private economy, to fulfil tasks previously deemed solely within the public realm.

Public services provision is one such area where public-private involvement has become more evident and relatively operational. Localities are finding their own strategies for balancing public-private provision within the framework of existing national policy and regulations. Analysing the strategies implemented by local governments in the provision of public services can help gain a better understanding of those public-private interactions, as well as shedding light on the ways in which local cadres are redefining governance and government functions. International experiences have proven the feasibility of steering alliances and partnerships between public and private institutions toward the achievement of public goals, particularly in the delivery of public services (Hanson and Berman 1994; Kumaranayake 1997). Examining successful strategies, failed programs and implementation issues should be the first step for guiding future policy formulations.

## Delivering health care and expanding insurance coverage at the local level

Since the start of economic reform county governments have been both reluctant and unable to channel more adequate funding levels to the public health care system. Emphasis on preventive care had until the late 1970s meant that the health sector could be run relatively effectively with only a modest budget. Nowadays, given the unprecedented increases in health care costs, that is no longer possible. Even though it is widely known that a growing share of health care expenditure has been assumed by private users, quantifying County Government participation in health care financing over time was far from an accurate exercise. A recurrent problem when analysing the empirical data, the lack of consistent information on social indicators at and below county level, meant the analysis had to rely heavily on qualitative data (mainly interview responses) when making assumptions about the pre-existing conditions in the health sector. Figures for 2000 showed that County Government expenditure on health care provision was much lower than that on education and pension funds for retired civil servants (Table 8.1). By 2002 health accounted for 5.69 per cent of total budget expenditures, while shares for education and pensions stood at 26.5 and 14.95 per cent respectively. An additional contribution to the health sector is provided through the social insurance subsidy, which includes allocations for the social health insurance fund pool. In the short to medium term, however, as the number of insured workers increases, the County Government will need to increase subsidies for social security – at least until fund pools have been strengthened.

**Table 8.1 Hongtong County - Budget expenses on public services and social security**

Unit: 10,000 yuan

	2000	Variation (%)	2001	Variation (%)	2002	Variation (%)
<b>Total Expenditure</b>	14757	106.43	20258	137.28	22936	113.22
Education	3978	109	5420	136.25	6091	112.38
Health	710	111.5	1123	158.17	1306	116.30
Pensions for Retired Public Servants	2330	120.9	2874	123.35	3429	119.31
Social Insurance Subsidy	119	201.7	220	184.87	569	258.64
Government Administration	2352	112.4	3211	136.52	3441	107.16

Source: *Hongtong County Statistical Yearbook 2000-2002*, p. 316



Despite the context of escalating health care costs and low insurance coverage around the country, it was surprising to find that interviewees did not show a great concern for health care expenditures in relationship to their household finances. Findings from the 3<sup>rd</sup> National Health Services Survey [NHSS] (MOH 2004), on the contrary, showed that by 2003 medical and health care expenses had become the third largest family expense after food and education (p. 13). It can be assumed, however, that the age of respondents in this case study was a strong influencing factor of interviewees' health situation and health risks perceptions. In the two interviewee samples – of rural and urban workers – a large proportion (42.6 percent) of respondents was under the age of 30. Among rural respondents, over 80 per cent fell within the 16 to 48 age bracket, while half of that sub-sample was under 29 years of age. Urban interviewees comprised a relatively older group with only three respondents under the age of 30. Of the seven remaining interviewees five were between 35 and 44 years of age, and the other two were aged 51 and 55. Only one respondent, among all interviewees, reported to have suffered an illness of some seriousness in the year before the interview.

Even though no direct questions were posed regarding exact or approximate amounts spent on health care, some respondents offered that information. During interviews respondents were asked to comment on their choice of medical provider, and were queried about membership in public or private medical insurance schemes. Their experiences accessing and making use of both public and private medical facilities were also documented.

### **Private providers enter the health care scene**

Private practitioners have been operating in Hongtong's rural areas since the early 1980s, while urban private clinics started to appear later in the same decade. In Dahuaishu Town private health care providers have started business all over the town and in peri-urban villages. The large majority of these private providers consist of small clinics (with only a few rooms), with one senior doctor, and an apprentice doctor or a nurse as permanent staff. From interviews and visits to several of these private clinics it became evident that the doctor-owners of these clinics have done

relatively well financially – especially those located in the town and who have at least one doctor with full medical qualifications.<sup>1</sup>

The story of Interviewee 16 is a good example of a success story. In 1971 as a first-year secondary school student, when schools were closed with the start of the Cultural Revolution, this respondent left his village and went to Dahuaishu Town where he worked for 5 years in one of the town's public hospitals. After Mao's death he was chosen by the County Government to take Shanxi University's examination to enter medical school there. In the early 1980s, after he completed his studies, he was assigned a job at No. 1 People's Hospital in Dahuaishu Town. In 1985, as a young doctor married to a nurse he started construction of his home, which was later to be expanded to include his private clinic. The house took a couple of years to build and cost a total amount of around 20,000 yuan. He explained that at that time few people were able to make more than 10,000 a year; his own monthly salary at the public hospital was only 30 yuan. He had to borrow money from friends and relatives, and started to see patients privately in his house to make an extra income to repay his debt.

In 1987 he acquired a permit from the Public Health Department to operate as an official private practitioner. As the number of patients increased he was able to repay his debt and to start construction of a second floor to his house, in order to expand the clinic. During this time he continued working for the public hospital, and gave evening private consultations at his home. At the time of the interview, this doctor's monthly salary at the public hospital was 1,030 yuan, while the annual net profit from his private clinic was as high as 100,000 yuan. The clinic had 10 staff members, including himself, two assistant doctors, four nurses and three janitors.

Doctors working for or retired from public hospitals – who had acquired a certain clientele during the 1980s – were the first to open private clinics. Private practice was officially sanctioned by the State Council in 1985, giving way to the Ministry of Health's permission for doctors in public hospitals to carry out part-time private medical practice (Lim *et al.* 2004, p. 330). By 1998, nationally there were officially

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<sup>1</sup> Those who have completed a university degree in medicine, and who are either general practitioners or specialists.

120,000 private health care institutions employing 164,727 medical personnel.<sup>2</sup> At the county level, obtaining the proper business certificate to open and operate a private clinic has been a relatively easy procedure. Doctors need to register with the Public Health Department, which is in charge of checking qualifications of all medical personnel, as well as making sure medical facilities are safe and that proper hygiene practices are followed. The procedure, however, is far from institutionalised, and thus to obtain or speed up issuance of a certificate often necessitates an appeal to a ‘special relationship’ with someone in a position of power.<sup>3</sup> Once approved, private clinics receive annual inspections by the County Public Health Department, while licenses have to be renewed every four years.

One other example of successful career development in the private sector is the case of the former Director of the county’s No. 1 People’s Hospital, currently the manager-director of a private hospital. During the early years of the Cultural Revolution, after going through medical college, this respondent was recommended by the village leadership to go to university. After graduating in 1977 he was assigned to No. 1 People’s Hospital, where he served as director in the early 1990s. He retired in 2002 but was soon sought after by a private investor who offered him the directorship of the first private hospital to be established in Hongtong County. Construction of the hospital started in 2003 and opened to the public in January 2004. The hospital had at that time 23 permanent staff members and 20 hospital beds.<sup>4</sup> Recruitment of medical staff had been done through connections with other doctors in the public sector.

The interview with this manager-director was carried out only 10 months after the opening of the hospital, yet he already described it as being a promising business. Although complaining about harsher imposition of regulations on private providers – particularly on service price benchmarks – this doctor seemed positive about the economic success of this medical institution.

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<sup>2</sup> ‘A Report on China’s Hospital System and Medical Equipment Market’. <http://www.chinavista.com/database/cides/hospital.html> By 2002 that number had gone up to over 200,000. Liu *et al.* 2006, p. 214.

<sup>3</sup> Interview with local doctor (Interviewee 16), Oct. 14, 2003.

<sup>4</sup> Including 5 doctors, 5 nurses, a pharmacist, an accountant.

### **Choice of medical provider: service attitudes, quality and affordability**

When requiring medical treatment for illnesses considered non-life threatening the majority of rural respondents mentioned self-treatment and private clinics as their first choice of medical provider. This was the case even among respondents covered with medical insurance who were living in peri-urban villages<sup>5</sup>, and was mentioned by one urban respondent. Either in the town or in surrounding villages, patients usually visit the clinic of a doctor they already know and trust, in order to get more personalized consultation and treatment, which they might otherwise not enjoy in public hospitals. Visiting a private clinic was also mentioned as being more convenient, both in terms of proximity and waiting time for receiving treatment; corroborating findings made by similar studies (Meng *et al.* 2000; Lim *et al.* 2004; Liu *et al.* 2006).

Choice decisions of medical provider for out-patient services was related to cost differentials, but also seemed to be more closely linked to service considerations and convenience. At public hospitals and health centres (*weishengyuan* 卫生院) most patients have no means for choosing a particular doctor for consultation, but are often randomly assigned to the medical personnel on duty, which might not always be the more senior or experienced staff. Therefore, although public hospitals have more advanced medical equipment and facilities than their private counterparts, patients cannot always be guaranteed to get the most experienced physicians when seeking medical treatment there. Poor hospital techniques, bad service attitudes, and long waiting times at public hospitals were complaints also raised by surveyed individuals in the NHSS survey (MOH 2004, pp. 8, 13).

Evidence from a national study also showed that consumer satisfaction – in certain dimensions – is in fact higher in the private than in the public health care sector (Liu *et al.* 2006). According to the manager-director of the first private hospital in the county, having worked for the public and for the private sector his impression was that private hospitals had a better service attitude than public ones; they provided cheaper services as well as offering more flexible payment methods. Private hospitals,

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<sup>5</sup> For example, the case of public (*gongban*) village teachers.

in general, compete with public ones on service differentiation and price. In the particular case of the private hospital this doctor was in charge of, patients could negotiate the price of the treatment once a medical examination had been carried out. Prices need to be kept at competitive levels, not only to attract customers, but also to comply with price regulations. Both public and private hospitals have to abide by price benchmarks set by the Central Government. In his experience, however, it was much easier for public hospitals to disregard those benchmarks, since the Price Regulation Department often showed a more lenient attitude to pricing practices in public hospitals.<sup>6</sup>

Respondents thought the quality of the treatment provided in private clinics was adequate. Only one respondent – a migrant peddler (Interviewee 21) – had complaints about the quality of the treatment he had received at a local private clinic. After receiving the wrong treatment for a common cold the interviewee's health situation deteriorated; he subsequently sought treatment in another private clinic until his health improved. During the time he was ill, however, he could not afford to stop working, since he now had the extra burden of paying for his medical treatment. Altogether he spent around 500 yuan on medical consultations and medicines in the two clinics.

In a survey of 720 doctors carried out in Guangdong, Shanxi, and Sichuan, Lim *et al.* (2004) found that half of the respondents agreed on the importance of private medical practice in China's health care system, yet, the majority continued to question the quality of the service those practitioners provided (pp. 333-4).<sup>7</sup> Even though quality problems in private medical provision – especially in the rural areas – are certainly an issue; low service quality has been a structural problem also faced by rural public health providers (Meng *et al.* 2000). Many of the problems affecting health care provision at the village level stem from the lack of adequate technical advice and supervision of health practitioners by either health administrators or health

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<sup>6</sup> In their study on hospital price regulation Liu *et al.* (2000) found that although the Price Regulation Bureau conducts frequent audits on public hospitals, price violations are a common occurrence. In most cases public hospitals negotiate a fine with the department after the annual audit (p. 160).

<sup>7</sup> In a study undertaken by the Beijing University School of Public Health (2002), respondents gave a higher satisfaction score to private health providers than to public ones. Nevertheless, the most frequently cited problem with private providers was their relatively lower quality of services. Liu *et al.* 2006.

professionals at township and county levels (Liu *et al.* 2006, pp. 218-9; Meng *et al.* 2000, p. 354). Deficient guidance is often the result of capacity and organizational constraints, and the limited resources allocated for training and supervisory activities. In Dahuaishu Town, rural doctors practicing in villages in close proximity to the town often have regular communications with urban counterparts. Two barefoot doctors (Interviewees 32 and 37) practicing in one suburban village of Dahuaishu Town mentioned having frequent consultations with urban doctors; from whom they sought advice or to whom they referred patients. Those contacts, however, were based on personal ties<sup>8</sup>, rather than being government initiated or sponsored.

Apart from the one case detailed in a previous paragraph – that of the itinerant peddler (Interviewee 21) – all respondents considered treatment by private providers to be adequate and more affordable than was the case in public medical institutions. Affordability has been the main factor influencing demand for private health care services around China; services provided by private practitioners have in fact been more equitable than those offered by the public health care sector. A study based on results from the NHSS (MOH 2002) found that a high percentage of people using private medical providers came from low-income and low-education groups (Liu *et al.* 2006, p. 217). Although widely used for out-patient consultations, private providers seldom have the capacity to provide in-patient services for the treatment of serious and chronic diseases.

At the county level public hospitals have been the only medical facilities offering in-patient services. High costs and low health insurance coverage levels, however, leave most unable to afford in-patient treatment. Expenses on catastrophic illnesses have been found to be a major cause of poverty in rural areas (Liu *et al.* 2003; Wagstaff 2005); significantly reducing household investment in areas critical to the well-being of rural households, such as: food consumption, education, investment in farming, and participation in social activities (Wang *et al.* (forthcoming), pp. 8-10). Most affected are poor rural households and households with a hospitalised family member, for whom medical expenses often become the single largest expenditure of the household

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<sup>8</sup> Both village doctors received training at a local People's Liberation Army [PLA] hospital, while one of them had also worked in one of the county level hospitals in Dahuaishu Town. Their links with urban doctors had been initiated while working in these two hospitals.

(Wang *et al.* (forthcoming), p. 6). Most rural respondents in the study were able to save a small amount of money during the year, which after a few years added up to several thousand yuan. Those savings, however, are typically allocated for a series of specific purposes, of which the most significant would include paying for wedding ceremonies; investing in a business; buying or building a house; and paying for their children's education. Respondents did not mention making any special provisions to cover for potential catastrophic health expenses.<sup>9</sup>

Among urban dwellers health care provider choices have also been influenced by financial considerations. Even for those covered by public health insurance out-of-pocket payments for medical services have risen substantially. Limitations on the types of outpatient services and medicines that can be paid from insurance accounts have lead many to seek medical consultation outside the public sector. Nonetheless, urban residents continue to view medical insurance as an important safeguard against the high cost of ill health and hospitalisation. While out-patient services were overwhelmingly sought after in private clinics, in-patient treatment was undertaken in public hospitals, at county level or above. Seeking better quality services, many often bypass township and county level hospitals to be treated directly at larger city hospitals.

When asked where they would seek medical treatment if they became seriously ill, most respondents – both rural and urban – suggested they would visit one of the three county level public hospitals in Dahuaishu Town. Several respondents, however, considered that county hospitals do not have the expertise to treat serious illnesses, and would therefore prefer to get medical treatment in Linfen or Taiyuan City. In fact, at No. 1 People's Hospital in Dahuaishu Town – the largest hospital in the county – only basic surgery is performed.<sup>10</sup> Patients suffering from chronic diseases, or needing to undergo more sophisticated surgical procedures are actually referred to hospitals in Linfen and in Taiyuan. Because of its proximity – located only half an hour away from Dahuaishu Town – Linfen City is usually the first option for those seeking in-patient treatment outside the county. Transportation costs are not a

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<sup>9</sup> Low premium coverage from social pool funds means that they could end up paying substantial amounts of money in insurance co-payments when affected by a catastrophic or chronic illness.

<sup>10</sup> Patients undergoing an average surgery pay between 4,000 and 5,000 yuan for the operation and hospitalisation costs.

prohibitive extra expense for those able to afford medical treatment there. This underlines the finding that quality medical services remain accessible only to those who can afford them.

### **Urban hospitals: under-utilization issues and financial well-being**

Respondents' choice of medical provider – for both outpatient and in-patient services – point to a fundamental underutilization of public medical facilities in Hongtong County. Demand for medical and health care services, however, has continued to increase, as demonstrated by the growing number of pharmacies and private medical facilities. Meanwhile, public hospitals remain unresponsive to demands for cheaper services and a better service attitude. In trying to maintain their financial solvency public hospitals around China have been forced to look inwards, to try and protect the jobs and incomes of their personnel. Public hospitals in Hongtong County seem to be trapped in this dilemma as well. Despite underutilization problems, employee numbers in the public health sector have experienced an increase since 2000 – from 1,260 in 2000 to 3,142 employees in 2003 (Tables 8.2 and 8.3). During the same period the number of public medical facilities remained stable.

In 2003, within the county there were a total of 37 public hospitals and health care centres (including 7 county level hospitals) officially employing 3,142 people. Those medical facilities had 1,076 staff members with various levels of medical training<sup>11</sup> and 129 with no medical qualifications. The rest of the staff (1,374 employees) consisted of village doctors and other rural health personnel (Table 8.3). Actual employee figures, however, seem to be higher than those reported in the official statistics. According to one accountant from No. 1 People's Hospital in Dahuaihu Town, in 2003 that hospital alone had 3,070 employees on its payroll.<sup>12</sup> Those accounted for in official employee figures are only those with permanent positions, whose salaries come directly from the County Government's coffers. Nonetheless, as evinced by internal employment figures public hospitals support a much larger number of employees.

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<sup>11</sup> Doctors in Chinese health care institutions have varying levels of training and education. Those categorized as doctors can have either a one to three-year college degree or a university degree in medical sciences.

<sup>12</sup> Interview carried out on Oct. 16, 2003.



**Table 8.2 Hongtong County - Public health care providers and employees**

	2000	2001	2002
<b>Hospitals and other health care centres</b>	32	36	32
<b>Technical staff</b>	1,268	1,513	3,007
<b>Doctors</b>	730	748	755

Source: *Hongtong County Statistical Yearbook 2000-2002*, pp. 156-160.

**Table 8.3 Hongtong County - Public health care sector composition**

	2002	2003	Variation %
<b>Total public health care facilities</b>	477	526	110.3
<b>County level public health care facilities</b>	10	13	130.0
<b>Hospitals</b>	6	7	116.7
<b>Town and township level public health care facilities</b>	25	24	96.0
<b>Village level public health care facilities</b>	434	488	112.4
<b>Total staff numbers by level of training</b>	3,007	3,142	104.5
<b>Tertiary education</b> 高级职称	21	18	85.7
<b>Secondary or vocational training</b> 中级职称	355	315	88.7
<b>Primary education</b> 初级职称	763	743	97.4
<b>Without any training</b> 没有职称	390	129	33.1
<b>Rural level health personnel</b>	1,478	1,374	93.0
<b>Number of hospital beds</b>	1,105	1,319	119.4
<b>At county level units</b>	639	836	130.8

Source: *Hongtong County Summary of Statistical Materials 2003*, p. 122.

Throughout the 1990s and into the 21st Century, PSU – including health care providers – have been using a growing share of budget appropriations and self-raised revenue to increase employment, wages, and salary bonuses (World Bank 2005, p. 9). According to a World Bank report, in 2002 staff cost accounted for 29 per cent of PSU's total expenditure, followed by other regular expenses (43 per cent), and project investment (22 per cent) (World Bank 2005, p. 3). Expenditure shares on staff were found to be as high as 60 per cent at the county level, and over 80 per cent at the township level. The case of No. 1 People's Hospital in Dahuaishu Town corroborated those findings; around 60 per cent of budget appropriations in that hospital were used to pay staff salaries.<sup>13</sup> Extra revenue is raised through service fees and medicine sales. Special arrangements and contracts with pharmaceutical companies allowed the hospital to sell the drugs at prices lower than those offered by pharmacies, while still maintaining a reasonable profit margin. Public hospitals were also able to request extra funding from the County Government to buy new equipment or to build or

<sup>13</sup> Interview with hospital accountant. Oct. 16, 2003.

extend premises. Detailed plans for purchase and construction had to be submitted for consideration before funding could be approved.

Extra funding provision is not always guaranteed, and hospitals need to be self-reliant in most of their undertakings. This situation creates a high incentive for hospitals to focus on increasing their revenue, while rewarding those employees who bring in more financial resources. According to the former Director of No. 1 People's Hospital, with the start of economic reform the various departments within public hospitals began to have different goals, and some started to gain more power than others.<sup>14</sup> Those with more financial resources would often be the ones hiring more staff, owning better equipment, and offering higher salary bonuses.<sup>15</sup> Some positive outcomes have been achieved with the introduction of market incentives (such as improvements in performance of both medical facilities and their personnel) but these have unfortunately taken place at the expense of equity and the overall efficiency of the health care system. These findings confirm the trend observed in most provinces around China, of access to health care being largely dependent on household socio-economic factors (Grigoriou *et al.* 2005).

Low levels of medical insurance coverage have further aggravated inequalities in access to health care services. And even among those covered with medical insurance, insufficient social funds offer limited financial coverage for those affected by a catastrophic illness. Rural workers in urban areas and those working in small scale industries have remained mostly uncovered (Su *et al.* 2000; Li, B. 2006), while few in the countryside are joining community-based rural health insurance programs (Zhang *et al.* 2006). From the sample of rural interviewees, 12 out of 57 had social health insurance cover and all 12 had changed their rural registration. One respondent (Interviewee 54) had bought private health insurance. Of the 10 urban residents interviewed 6 had social health insurance cover. Of the remaining three urban respondents, two had lost all social security benefits after they had been laid-off from

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<sup>14</sup> Interview carried out on Nov. 4, 2004.

<sup>15</sup> A hospital in Shenyang City introduced in 2003 a performance-based compensation system, by which doctors are guaranteed 30 per cent of their salary, while the remainder is based on performance – and by performance meaning revenue attraction. This system translated into wage differentials of more than 9,000 yuan; doctor's monthly salaries started from as low as 700 yuan to up to 11,000 yuan. *Sina News Centre* June 7, 2004. Cited in World Bank 2005, p. 14.

their work unit; while one could in practice not make use of insurance benefits since her work unit was at that time experiencing financial difficulties.

None of the respondents mentioned having made use of in-patient services in the year prior to the interview or even previously, limiting the ability for this study of making an assessment of the implications of large hospitalization expenses on household finances or of the adequacy of coverage of public medical insurance premiums. Official statistical materials and local departmental reports offered no relief to this information gap.

According to figures from the County Labour and Social Security Department, by mid-2004 196 enterprises were registered as offering health insurance to their employees, though no separate categorization was made between enterprises enrolled in the urban labour scheme and those which were part of the scheme for government employees (public servants and PSU staff) (*Jiguan shiye yiliaobaoxian* 机关事业医疗保险). Participating enterprises and work units had 15,143 employees enrolled in the health care insurance system. Raised funds for the mid-year period (2004) reached 6.13 million yuan, a figure significantly lower than that available for pension insurance (Hongtong County Labour and Social Security Department 2004). On all accounts medical insurance was far below old age insurance schemes. For that same period pension schemes had 122 more participant enterprises; covered 9,857 more workers; and had accumulated funds over triple the amount of those raised in health insurance pools.

**Table 8.4 Hongtong County - Participation in the social security system**

<b>First half of 2004</b>	<b>Enterprises participating</b>	<b>Employees enrolled in the system</b>	<b>Raised funds (yuan)</b>
Health insurance 医疗保险	196	15,143	6,130,000
Unemployment insurance 失业保险	182	15,680	450,000
Old age insurance for urban workers 养老保险	73	12,000	3,650,000
Old age insurance for government employees 机关事业养老保险	245	13,000	16,960,000

*Source:* Hongtong County Labour and Social Security Department 2004, *Work Summary for the first half of 2004*.

Levels of insurance coverage for other social insurance schemes are even lower (Table 8.4) but given the early stage of implementation, low levels of coverage were

to be expected. At this stage, perhaps, more important than the actual scale of coverage are people's expectations about the right level of social protection the government should be providing to its citizens. Those expectations are greatly influenced by each individual's pre-reform access to social security and welfare. Hence, SOE workers – particularly those who have lost their jobs and their access to welfare benefits – typically hold a more negative view regarding the new social protection policies (Wong and Lee 2000; Tang 2001). In the towns, however, where the state owned sector has had a more limited participation, the number of disaffected laid-off workers has been smaller.

Even though Dahuaishu Town has long acted as a regional urban centre, it was not until the early 1990s that it started to acquire an 'urban feel' in the sense of contemporary urban spaces. The town grew through expansion into neighbouring rural areas, where many peasants saw their registration change overnight. Many current urban residents in Dahuaishu Town have never been attached to a SOE or a government department, and have therefore had no access to social security benefits. Having been mostly self-reliant in the pre-reform era, many have little knowledge about their entitlement rights to social protection. Interviews carried out in Hongtong County showed most workers have limited or distorted knowledge about the new social security system. For many rural workers becoming part of the social insurance programs was not even a consideration, since they often only had informal agreements with employers. In general, however, social insurances did not represent a strong incentive when attracting prospective employees. High salaries still hold a much stronger pull for both rural and urban workers.

Amidst its inability to provide affordable health care services for all, the local government in Hongtong County has allowed private medical practice to develop. Many of those private practitioners are doctors from the public sector who feel they have not been able to fully develop their capacity professionally and financially. They are aware of the demand for cheaper health care services and are responding to it. Public hospitals have been less responsive to those demands, while continuing to focus on raising enough revenue to stay financially sound. Budget shares for health care are increasing but not yet to the levels needed. Financial support is especially crucial to expand health care insurance fund pools, in order to make public insurance

a real safety net. Part of the solution rests on the task of bringing in more enterprises from all economic sectors to contribute to health care and other social insurances. Official statistical sources show a financially strong non-public sector that could positively contribute to the strengthening of insurance funds. In the short to medium term, increased enterprise participation and larger fund pools can positively influence employer and employee's perceptions of social security schemes, to help build confidence in the system. Given rapidly increasing health care costs, small towns can achieve a more equitable access to health care if they are able to include a greater number of workers from all economic sectors in the health insurance system.

### **Delivering education at the local level**

Education – like health – has been regarded as a fundamental right of citizens. Yet, unlike health, education – particularly tertiary education – is increasingly being perceived as a private rather than as a public good. Externalities from education not only vary throughout a person's lifecycle, but also differ among individuals from different social groups. It is nonetheless undeniable that education serves a crucial role in the socio-economic development of all members of society. Furthermore, expanding educational opportunities to the majority becomes a crucial stepping stone towards building the human resources necessary to foster economic development. Basic education – with its high externalities – is considered to bring the highest benefit to society (Cai 2005, p. 91). This idea was enshrined in China's 1986 Compulsory Education Law, which introduced a system of nine years of compulsory education for all school-age children. The goal of this law was to form a labour pool of workers with a basic set of skills and knowledge that could – to a certain extent – fill China's growing demand for skilled labour.

Although already achieved in most cities, with around 80 per cent of the country's school-age children living in the countryside, establishing universal basic education in rural areas remains a major challenge. Many of those rural children will later on in life migrate to the cities, contributing to the already important presence of rural labourers there. Rural education is therefore not only a concern for the countryside, but has implications for the development of human resources in the urban areas as well. The scale of rural-to-urban migration throughout the reform process has stressed the need

to turn out better educated and better trained rural students. Policy implementation has nonetheless continued to favour urban educational institutions.

Compulsory education, in general, consists of 6 years of primary education and 3 years of junior secondary schooling. The majority of schools follow a regular academic curriculum, but there are also vocational schools where students can complete their junior secondary education. Vocational and technical schools have been strongly promoted since early on in the reform process, as part of the government emphasis on training students for the workplace (Yang 1998; Lo 1999). County level vocational schools were supposed to teach students the necessary skills to match the job opportunities available in the area, partly as a strategy to avoid massive out-flows to the cities (Lo 1999, p. 43). Vocational and technical secondary education's relevance to local labour market demands was also deemed crucial due to the limited number of places available for students at senior secondary schools, and an even smaller number of places open at public universities. In 1996 nationally only 48.8 per cent of junior secondary school graduates were able to enter senior secondary schools (Lo 1999, p. 37). In 1999, at tertiary level, around 60 per cent of applicants for university places were turned down. In Hongtong County the highest level of education attainable is senior secondary schooling. Those attending county high schools aim to enter university in one of the provincial cities or elsewhere in China. The majority of those who complete only junior secondary education tend to directly enter the labour market, while some might seek further education in technical colleges in nearby cities.

### **Compulsory education**

Responsibility over financing and provision of compulsory education for all school-age children represents a big financial and administrative task for county governments. Central Government emphasis on getting all school-age children through the 9 years of compulsory education means local education departments have to devote most of their efforts to comply with the Compulsory Education Law. As in Zhang Yimou's 1999 movie *'Not one less'* (*'Yige duo buneng shao'* '一个多不能少'), teachers are usually made personally responsible for the enrolment of all children and their completion of the nine years of compulsory schooling (Liu, F. 2004, pp. 8-9). In terms

of financing, the bulk of government budgeting for education is channelled into primary and junior secondary schools. Government appropriations for primary education are particularly crucial in the rural areas, where village schools have limited ways of raising extra income. Although in theory tuition-free, local governments allow primary and junior secondary schools to charge additional fees up to a pre-established maximum ceiling. In Hongtong County, government established fee levels for primary education were 40 to 50 yuan per student per year; and 60 to 70 yuan for junior secondary education.<sup>16</sup> These, however, were only benchmarks, and parents often end up paying several hundred yuan each year on school related fees.

In March 2000 the Central Government began to implement pilot tax exemptions for poor rural students (*China Internet Information Center* July 11, 2002) and pledged to abolish school fees for all rural students by 2007. In urban schools, however, education is a hot commodity, and parents are usually willing to pay higher fees to get their children into the best schools. Academic attainment has been and continues to be the main path through to the next educational level, and hence to social advance. Nonetheless, with schools relying more on tuition and other miscellaneous fees, apart from worrying about their children's good grades, parents have to make sure they are able to afford school fees. With only a limited number of places in local senior secondary schools, competition to secure a space in the best urban schools is strong. Students coming from village and township schools are often at a disadvantage to those from urban schools, which are better equipped and have better trained teachers.

In 2002 in the county there were altogether 433 primary schools, 65 junior secondary schools, one vocational secondary school, and 6 senior secondary schools. Compared with figures from the year 2000, the number of primary schools had decreased from 495 to 433 schools. Junior secondary schools were on the increase, going from 57 to 64 during the same period; and there were no changes in the number of vocational and senior secondary schools. Responsibility over primary and junior secondary schools fell under the township governments. Two of the senior secondary schools – located in Dahuaishu Town – came under the jurisdiction of Linfen City since they are district level schools. The other four senior secondary schools are run by the County

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<sup>16</sup> Interview with the Director of the County Education Department. Oct. 16, 2003.

Government and are located in the main county towns: Zhaocheng Town to the north; Quting Town in the south; Wanan Town in the west; and, Wangshengsi Town, to the east of Dahuaihu.

This division of responsibilities over the management of schools influences the budget each school gets. First, the education budget is set by the County Finance Department based on the sector's budget from the previous year and on the size of the overall official county budget. Once decided, shares are distributed to the towns and townships, who in turn apportion it to the various schools under their direct responsibility. A large share of those funds tends to stay in the bigger towns, especially in the county capital. The overall quality of a school typically reflects this hierarchical division of the monies. District level schools are often better off than other county schools, as they receive their budget directly from the City Government (prefecture) above the county. No. 1 Senior Secondary School, one of the two district level schools, for example, receives teachers' salaries and other school expenses from Linfen City Government appropriations, although a substantial part of the school's budget comes from tuition fees.<sup>17</sup> County education authorities, nevertheless, remain involved in the running of these schools.

In spite of the fact that education accounts for over 26 per cent of total budget expenditures of the County Government, government appropriations alone are not sufficient to sustain compulsory education. Schools are increasingly reliant on fees, extra curricular activities, and on private and community donations to improve the curriculum, to give benefits to teachers (to compensate for low salaries), and to improve the physical conditions of schools (Lo 1999, p. 48). According to official figures, between 1981 and 1991 in Shanxi Province 68.26 per cent of funding for the improvement of operation conditions in public schools came from 'multiple channels' other than government appropriations (Lo 1999, p. 47). In Hongtong County, for example, private and community contributions were crucial to restore the buildings of 221 schools deemed too dangerous to continue operating. On the celebration of Teacher's Day in 2005 the County Education Department published an article in its daily newspaper to express gratitude to the 124 individuals who had donated over 40

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<sup>17</sup> Interview with the Director of the County Education Department. Oct. 16, 2003.



million yuan to help repair schools (*Huaixiang Education Park* Sept. 10, 2005). All the names and the amounts contributed by each individual were published in the news article. Eight people donated over 50,000 yuan, while the minimum individual contribution listed was 5,000 yuan. Other than serving as a note of gratitude, this sort of advertisement gives face to participants and encourages others to donate.

Individual schools use a wide range of strategies to raise extra revenue. Primary and junior secondary schools – who by law are not authorized to charge tuition fees – resort to fees for text books, school uniforms and extra curricular activities, as well as running additional study programs to assist students obtain better grades. A popular subject taught after school-hours is maths. Teachers, as well, use these extra classes as a way to supplement their salaries. One teacher working for a primary school in Dahuaishu Town, for example, made 2,000 yuan per month teaching maths on weekends, but received only 800 yuan in her monthly school salary. Schools directly organize these extra classes or rent out classrooms to teachers and other private individuals. In one case, a primary school rented out classrooms over the weekend to a private English school.<sup>18</sup> Parents are keen to enrol their children into these extra classes, in order to improve their children's chances to get into senior secondary education and later on into university.

### **Access to schooling**

According to the then director of the County Education Department all school-age children in the county were attending school at primary and secondary level. The County was therefore fully compliant with the Law of Compulsory Education. Statistics are of little help when trying to corroborate whether that is in fact the case. County statistics (available from 2000) only give figures of the total number of students enrolled in schools in a particular year. Without the exact numbers of new school enrolments and of graduates it is impossible to calculate the percentage of students from primary school who continue on to and complete junior secondary education. In 1996, national figures established that 92.6 per cent of primary school

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<sup>18</sup> The rent fee was 280 yuan per month. Interview with private English school operator. Sept. 4, 2005.

graduates entered junior secondary schools, while only 48.8 per cent of those graduates managed to secure a place in a senior secondary school (Lo 1999, p. 37).

In Hongtong County, the unavailability of data means those transitions, from primary into junior and on to senior secondary schools, cannot be quantified. A rough comparison could be attempted to test how many junior high students manage to get into senior secondary schools, given that both schooling systems have three class levels. In 2002, there were 41,323 students enrolled in junior secondary schools (including one vocational school), compared to 7,174 students enrolled in senior secondary schools. The number of senior high students was roughly 17 per cent that of junior secondary school students. These results coincided with a comment by a local teacher who mentioned that only around 20 per cent of junior secondary school students manage to get into senior secondary schools.

This large gap in the number of students between junior and senior secondary schools is the result of a combination of factors, a crucial one being cost. Parents who have a child in a junior secondary school can expect to pay between a couple of hundred yuan to about a thousand yuan per academic year on miscellaneous fees. For those who intend to get their child into senior secondary school need to pay over 6,000 yuan per year in tuition fees<sup>19</sup>, but are expected to pay for the three years of schooling in advance in order to secure a place for their child. The two district level senior secondary schools in Dahuaihu Town are the ones with the largest number of applicants, since they turn out the highest percentage of students passing university entrance examinations. According to the former Director of the County Education Department about a thousand high school students manage to enter university each year.

Those with the means also opted to send their children to boarding schools in Linfen City or in the provincial capital. One respondent had her daughter studying in a boarding senior secondary school in Linfen City, where she paid over 30,000 yuan for her daughters' school tuition and living expenses. For most households putting such a

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<sup>19</sup> This amount includes tuition fees, textbook fees and boarding. Most senior secondary schools are set up as boarding schools, since many of the students come from other towns, townships, and villages. Sometimes, even children whose parents reside in the town where the school is located will also board in the school and go home over the weekend.

large amount of money up front is not an easy task; yet, most households are willing to devote large shares of their savings and income or even borrow to get help their children complete their education. Rural households, unless they are fairly well-off cannot afford to give their children a high school education, let alone support them through university.

### **Rural students and migrant children's access to education**

The transition from primary into junior secondary education is harder to quantify than that from junior into senior education, and thus to determine whether – as stated by the director of the County Education Department – all primary school children in the county are completing the three years of junior secondary education. Data from interviews in the present study serve as a guide to discern whether the majority of students do indeed complete the 9 years of compulsory education, while helping to determine which of those students are most likely to continue on to senior secondary schooling. In general, throughout China nearly all urban children complete the nine years of compulsory education. It is in the rural areas where drop-outs more frequently occur. Of the 54 rural respondents from the study sample who gave information about their level of education (three respondents did not give information on this matter) only one was illiterate (Interviewee 42), and one other had only completed 3 years of primary school (Interviewee 47). Interviewee 42 came from an isolated village in Gansu Province, six hours away from Lanzhou City, the provincial capital. Interviewee 47 was born in a village near Dahuaishu Town to a poor peasant family. Early on she had to drop out of school to help her parents with farming.

Four respondents had only finished primary school education. Three of them were born in the early 1950s; and by the time they graduated from primary school the Cultural Revolution had started and were hence unable to continue studying. After completing primary school the fourth respondent became a village barefoot doctor; he received no formal training but learned basic medical procedures while working at two county hospitals. Another 30 respondents had entered junior secondary school, but only 24 had graduated; the remaining 6 dropped out after the first year. Two of the drop-outs (Interviewees 19 and 39) stopped studying with the start of the Cultural Revolution; another two (Interviewees 20 and 21) left school to work outside; one

more (Interviewee 46) had to leave school to take care of a sick parent; while the remaining one (Interviewee 11) left school because she did not enjoy studying.

While carrying out interviews with rural workers, one common answer given by those who had dropped out of school was that they did not enjoy studying or that they did not like going to school. On a first evaluation this answer appeared as a way for these respondents to save face for their low educational level, or to hide the fact that they are unable to afford a higher educational level. Nonetheless, after further interrogation, it became clear that economic factors often had little to do with their decision to leave school. Informal interviews with students and parents gave clues about students' lack of interest in continuing their studies. Some talked about bullying by fellow classmates and even by teachers, and of the pressure of doing well in the exams. One student explained how at the end of the school term the school would post on the walls a ranking of all students according to their grades. This student came out second last of his class, which made him lose face.

Bullying and ranking practices were also observed by Liu (2004) in fieldwork undertaken in rural schools in Hebei Province (pp. 14-6). Junior secondary school teachers tend to select the students with greatest potential for gaining entrance into senior secondary school, and devote most of their time and efforts to them. Those with low grades are either bullied or ignored. The aim, as Liu (2004) explains, is to achieve a higher rate of students passing public examinations in order for the school to gain a better position among all county schools (p. 15). Teachers responsible for getting more students through the 9 years of compulsory and into senior secondary school often get recognition from the County Government and the Education Department at a big celebration held on Teacher's Day. During the 2005 Teacher's Day Celebration in Hongtong County 23 schools were awarded for their excellence in teaching, and 608 teachers were given diplomas for their work as instructors. Improving their reputation is crucial for every school if they want to attract more students, who have become a major source of income for schools.

Parents whose children do not do well in school might encourage them to withdraw from school and look for work. One respondent (Interviewee 11) explained how after she dropped out of junior secondary school, her mother pressured her to go and work

with her aunt in the town so that she would stop being a burden to the family. Among rural students, working outside (*da gong* 打工) has become a much more enticing option than continuing with school. All 24 respondents who left school after graduating from junior secondary school had secured jobs before they left their villages. They followed friends and relatives working in nearby TVEs, in the service sector in the town, or else opened their own business. Many started off as apprentices without pay, learning various traits such as hairdressing, computer skills, and other technical skills. They looked up to their peers and friends who were already working and making their own money, and felt attracted to the economic freedom work could bring them. Some of them also admitted they had never been outstanding students; realizing they had little chance of getting through to university they did not want to *waste* their parents' money on their education. Many parents who cannot afford to pay for their children's education encourage them to look for work, in order for them to become financially independent, even if they do not contribute to the household finances.

Although cost did not seem to be a major determinant of access to education during the nine years of compulsory schooling, affordability did become a factor influencing whether or not a rural student would go on to senior secondary school. At secondary level pursuing education became a matter of rational consideration of cost and benefit. If a student was not outstanding – even when the household could afford senior secondary school tuition fees – he or she would typically opt to work outside, rather than go through the disappointment of failing the university entrance examination. One respondent (Interviewee 45) had been supported by her parents throughout to senior secondary school, but had failed the university entrance examination twice. She felt she had let her parents down because she knew there was little chance for her of getting into university. Nonetheless, she was intending to further her qualifications by doing a college degree in nursing.

Even though gender dimensions were not a focus of examination in this study, males showed a greater tendency towards choosing work to continuing their studies. Both males and females were attracted to the economic returns of paid work, but there appeared to be more pressure from parents on males to earn money from early on. This had primarily to do with wedding customs, by which the groom's family

typically takes on most of the financial responsibility of organizing the wedding and of providing the newly wed couple with a lump sum of money with which they can start their own household. In the countryside most males still marry in their early twenties; taking on the responsibility of supporting a family at a relatively young age. A large part of parental savings and whatever amount the son has been able to earn and save through his work will be devoted to his wedding. Females are not bound by this responsibility. If they show an interest in school, providing their parents can afford it, they will usually pursue higher levels of education. Among rural respondents, of the 25 individuals who had gained a high school or above diploma 21 were women. Liu Fengshu (2004) explains this gender-educational dimension with an interesting anecdote encountered in his field site:

*'For most parents, if a girl does well in her studies and shows enough promise to go to university, all well and fine. If she fails to continue to the end of schooling, still fine. Anyway, as soon as she reaches about 19 years old, someone will surely come and ask the family for her hand. In the local custom, this, in most cases, means that extra money will come into the family treasure house (Caili). A daughter seldom proves to be a financial burden to the family. Therefore, it all boils down to one point. That is, it does not matter how much schooling she has had.'*  
(p. 14).

Moving on to senior secondary education, there were five respondents who had successfully graduated, and two who had entered but not finished the three years of high school. Two of the senior secondary school graduates were village school teachers (Interviewees 48 and 49); another two (Interviewees 22 and 54) were laid-off workers from local SOEs; and the remaining one (Interviewee 45) worked for a privately owned paper factory. Those who dropped out had left school for work (Interviewees 25 and 33). Interviewee 25 left school to become an apprentice at a motorcycle repair shop, and was able to open his own repair shop in Huozhou City<sup>20</sup> a year later. For interviewee 33 studying was not something she enjoyed; after she left school her parents found her a job at a government shop attached to their work unit. She married soon after and moved with her husband to Dahuaishu Town, where they opened a private business.

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<sup>20</sup> About an hour away from Dahuaishu Town.

Altogether, out of 54 rural respondents, more than half (55.5 per cent) had left school after completing nine years of compulsory education. Of those who were county natives (46 respondents) 40 (or 86.9 per cent) had completed at least junior secondary schooling. This level of completion of compulsory education is far from the 100 per cent mark stipulated by the former Director of the County Education Department. Yet, on a closer examination of interview results it became clear that the majority of those who had not completed junior secondary school were older workers who had left school during the Cultural Revolution. The completion rate among younger respondents was closer to 100 per cent, which reflects important achievements in the provision of basic education within the county's rural areas.

Those who had attained an education higher than or equivalent to the senior secondary schooling formed a relatively large group in relationship to the total number of respondents. 11 out of 54 rural respondents had gained a technical, a college or a university degree. Seven interviewees had completed a technical 3-year degree (*zhongzhuān* 中专) equivalent to a high school certificate.<sup>21</sup> Another three finished a 3-year college degree (*dazhuān* 大专), and one had attained a university degree. Among those who had completed a technical degree three were village teachers (Interviewees 2, 9 and 10); two were office workers (Interviewees 24 and 44); and two (Interviewees 12 and 55) worked as nurses. Those who had completed a college education (Interviewees 18, 34 and 37) had degrees in music, education, and medicine.<sup>22</sup> The one respondent with university qualifications was a doctor (Interviewee 16).

Education and health care were the two occupational sectors that attracted most in this group better educated respondents. Although certainly both of these sectors offered these individuals potential for economic advancement, their main appeal – perhaps – was that of carrying a certain social prestige. Education and health care were also sectors individuals can gain access to with relatively limited specialist knowledge, but

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<sup>21</sup> Although equivalent, these technical degrees usually have a higher standing than the regular senior secondary school degree. They are, however, different from vocational schools, which are usually seen as providing education of lesser quality.

<sup>22</sup> In China there is no formal differentiation between medical practitioners. Someone with a college degree as well as a specialist are both referred to as doctors.

with the possibility of upgrading skills through work-based training. Particularly in the public education sector training is obligatory for all teachers, school head masters and other personnel in the education sector. Training sessions take place at least twice a year, and usually consist of 10 days to a month of intensive training by senior teachers or by other education personnel from the County Education Department or from higher administrative levels, and sometimes foreign teachers are also invited to assist with English language training programs. At the village level teachers are often only given training materials from the Education Department to run the training courses themselves. Though not always free, the cost of training sessions consists of only a few yuan. During the summer of 2005, 5988 teachers<sup>23</sup> and administrative staff working for the public education system received training in maths, essay writing, English and on other major school subjects (Hongtong County Education Department Sept. 10, 2005). The Education Department runs a teacher's training school (*jinxiu xiao* 进修校) in Dahuaishu, where most new teachers – particularly village teachers – undergo training for at least a year before they are assigned to a public school.

*Hukou* differentiation did not seem to present a barrier stopping rural students from entering urban schools. Competition among schools to attract students had virtually removed discrimination on the grounds of registration status. Reflecting this situation, in 2004 the Linfen City Government issued a new regulation by which all school-age children from the area – irregardless of their urban registration – could enrol in any public school within the jurisdiction of the city. The new guidelines, in theory, left out those children born outside of Linfen City. In practice, however, schools are also taking in rural migrant children from outside the county, and most have abolished extra enrolment fees for outsiders. Hence, although favouring local children over those from outside the Linfen area, this attempt to regionalize the provision of educational services has not necessarily made access for 'outside' students more difficult.

26 out the 57 rural respondents gave information about the education of their children and – where applicable – also gave information about their children's occupation.

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<sup>23</sup> That same year there were altogether 5,731 teachers in the County.



Among these 26 respondents 20 were Hongtong County natives, 2 were from a city or county within the Linfen City area, and the remaining 4 were from other parts of Shanxi or from outside the province. Of the two non-county natives from within Linfen City, only one respondent (Interviewee 7) had his two sons enrolled in local primary school. At the time of the interview this respondent had already been in Hongtong County for seven years. He mentioned his connection (*guanxi*) with a local school headmaster as an important factor for his sons being accepted in one of the leading public primary schools in Dahuashu Town.<sup>24</sup> The other respondent (Interviewee 23) from Jishan County (Linfen City), had left her two children behind with her parents-in-law, who were enrolled in a rural primary school. This respondent had been in Hongtong County for less than a year.

Of those from outside the Linfen City area two had enrolled their children in schools in the Dahuashu Town area (in both rural and urban schools). They were long-term migrants, who had been living in Hongtong County for over 5 years and who were planning to stay there permanently. Only one of these respondents (Interviewee 20) mentioned paying extra fees (100 yuan per school year) for his child's education.<sup>25</sup> Of the two other respondents whose children were studying back in their home province, one (Interviewee 21) had been living in Hongtong County for no longer than a year at the time of the interview. The one remaining respondent (Interviewee 43) had his two sons already enrolled in junior and senior secondary schools in his home province at the time he migrated to Hongtong County. This respondent had been working in the county for four years. On the whole, what these findings suggest is that rather than place of origin, it is the migrant's locally built social capital over the year that has proven to be most effective in securing access to schooling for their children.

Respondents' children consisted of an heterogeneous group ranging from ages 4 to 29. Six respondents had their children enrolled in local village schools within the jurisdiction of Dahuashu Town, while 8 had their children studying at urban schools in the town. At the time of the interview 6 Hongtong County natives had their

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<sup>24</sup> One of the sons held a local urban *hukou*.

<sup>25</sup> The children of this respondent were actually enrolled in a rural school within Dahuashu Town's jurisdiction.

children studying in educational institutions outside of the county, while the children of another 3 county natives had already completed tertiary education outside of the county. The children of those studying outside of the county often achieved a higher educational level than that of their parents, or reached at least the same educational level. Linfen City was the most popular destination for those children entering junior and senior secondary schools. Those in tertiary education studied in a wider range of universities and colleges in Linfen, Taiyuan, Beijing and Shandong Province.

This suggests a significant improvement of the educational opportunities for the children of rural workers, mainly for county natives living or working in the town. Not surprisingly, however, this group of county natives who could afford to send their children to more prestigious institutions outside of the county were also among the better-off and/or better educated from within the sample of rural respondents. Among this group of 9 respondents 6 were private entrepreneurs, one was an office worker in a private enterprise, and two were public teachers.

### **Vocational education**

Despite the Central Government's strong drive to vocationalise secondary education (Yang 1998; Lo 1999), vocational and technical public schools had almost no presence in Hongtong County's education scene. By 2001 there were only 2 vocational schools (offering high school level education), one of which was closed the following year because of the low quality of the education and training it provided.<sup>26</sup> In fact, vocational education was not part of the educational development plan of the County Education Department. After the failed case of the medical technical school and the low enrolment rate in single county vocational school (150 enrolled students in 2002) the Department was keener on pursuing a general academic stream of education. In general, vocational schools are seen as a last resort, since they often take in students with lower grades, who have been unable to enter the academic main stream schools (Yang 1998, p. 302; Lo 1999, p. 40). Separately, the County Labour

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<sup>26</sup> The school trained nurses and other medical personnel. Interview with the Director of the County Education Department. Oct. 16, 2003.

and Social Security Department also runs vocational and technical courses for laid-off workers and the unemployed.

Those learning a trade will normally start off as apprentices without pay for six months or up to a year. Apprenticeships are mostly taken over by rural students, and are usually undertaken with relatives or friends. When they have mastered the necessary skills these students will look for paid work or will borrow money to open their own business. Following the demand for vocational and technical skills small private training workshops have started to appear in the county. These are typically run by technicians holding a technical or a college degree. One such training centre visited in Dahuaishu Town consisted of one classroom with a blackboard, a large TV, and several other electrical appliances that apprentices use for their practical work. The centre is run by one technician who takes in 4 to 8 students each semester, who have to pay 800 yuan for tuition per semester and an extra 160 yuan for textbooks. The course runs similarly to informal apprenticeships in family or friends' businesses. Most students come from nearby villages and are thus able to commute to school; although the teacher also took in students coming from villages further away and allowed them to stay in his house without charge. As part of their training, students had to accompany the teacher when doing repair work outside.

One of the students explained his decision to join this training centre. He was 16 years old at the time of the interview and had just graduated from junior secondary school. Paying 960 yuan a semester was not a small expenditure for his family; nevertheless, it represented a much smaller investment than having to pay for a senior secondary education. Furthermore, becoming an apprentice in such a training school would allow him to learn skills that would more easily allow him to find a job to more quickly start making money. If after graduating from junior secondary school they still have not secured a job, most rural students – like this respondent – will try to learn the skills that will more easily insert them into the local labour market. In small towns like Dahuaishu it is still the case that many of the jobs available do not require specialized knowledge or high levels of education. For this reason, those who obtain university degrees outside of the county tend to look for work in larger urban areas.

## Educational attainment among urban students

In urban areas completion of compulsory education is less of an issue than it is in the countryside. Close to 100 per cent completion rates are the norm, and attainment rates for senior secondary education are also high. Competition for school places start at senior secondary school level and becomes fiercer during the national week of university entrance examinations. Local students have to undergo the ultimate test, which is to compete with students from around the country for a very limited number of places in national universities. On average between 40 to 55 per cent of examinees will gain access to university. From Hongtong County, each year, around 1,000 high school students will go on to university. Though feeling proud of the increasing number of students entering university, the Director of the County Education Department lamented the fact that few of them would come back to benefit the county with their acquired knowledge and skills. Results from interviews carried out with urban residents, staff of government departments and with local officials reflected that scarcity of university trained people across occupations in the county.<sup>27</sup>

Among the 10 local urban residents interviewed only one had the lowest level of school attainment of junior secondary education. This interviewee, however, had only become an urban *hukou* holder in 1980, when his village was incorporated into the jurisdiction of Dahuaishu Town. This late registration change might partly explain his lower level of education compared to other urban respondents. Another urban respondent had completed only senior secondary education, and four others had completed a 3-year technical degree. Three more held a college degree, and one was a university trained doctor. Government staff members – including County officials – held either a technical degree or a college degree, and only one had university qualifications. Findings from interviews with rural and urban respondents thus demonstrate that the gap between the educational attainment of rural workers and that of urban residents in Dahuaishu Town is not as wide as has been the case between rural migrant workers and urban dwellers in large cities. It is for the most part a gap of three years of schooling, since technical degrees are only equivalent to senior

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<sup>27</sup> Among those three groups of urban respondents (altogether 22 individuals) only two held a university degree; both were doctors.

secondary education. Furthermore, even among the county leadership there are few who hold a university degree.

### **Private education**

Unlike private health care provision private education has been openly promoted by county officials. The presence of private kindergartens and childcare centres is particularly salient because of their abundance. The emergence of a growing number of these private institutions is a response to the demand by a growing number of parents trying to build their children's educational background from as early as possible. It is also a reflection of the limited number of public facilities available at that level. These kindergartens are a convenient and cheap alternative for working parents. In one of the private kindergartens visited parents drop their children early in the morning (between 7 and 7:30am) and pick them up late in the afternoon. The kindergarten also functions as a boarding school, with one or two teachers staying in the school to look after the children. Conditions are simple: old cave houses were turned into classrooms and dormitories. Classes often include children of different ages, and the curriculum includes Chinese language, mathematics, and even English. Monthly tuition fees are low (25 yuan to 50 yuan) compared to local wages, and thus accessible to most rural families.

Apart from kindergartens the majority of private schools consist of specialized schools and 'cram' schools teaching various school subjects such as maths, English and music, which are meant to complement children's regular school hours. One English school visited also offered teacher training courses for local teachers interested in improving their English language skills. By 2005, however, there were only two comprehensive private primary schools, catering to wealthier students. School buildings and facilities in these two schools were far superior to those available in public schools. Since school curricula were not accessed, no comparisons regarding their educational quality can be made. Yet, given that public and private schools often share the same teaching body, subject content in private schools should not vary greatly from that of public schools. Moreover, students in those private primary schools will most probably be aiming to return to the public system for

further education, and would therefore need to be familiar with examination requirements in public schools.

Private schools are thus not challenging the public educational sector, but are rather aiding students in their attempts to enter public schools at higher educational levels. Moreover, as noted by Kwong (1997), private schools have focused on providing knowledge and skills, but have refrained from offering any moral or political subjects (pp. 254-5). Cram schools prepare students to pass public entrance examinations to gain a place in the still limited number of public schools. Comprehensive private schools provide an alternative for students who have not been able to secure entrance into selected public schools, but whose ultimate goal is to go back into the public system at senior secondary or university level. Those private schools are serving a small elite who can afford the high tuition fees. Quality considerations between private and public education are locally constructed (Liu, F. 2004, p. 14), and are continually changing. In Hongtong County private education has been positively viewed by local officials, and widely used by local residents. Complaints about the quality of education can be heard about private as much as about public schools.

For rural students, competition from urban peers and schooling costs put them at a disadvantage in their attempts to further their education. Apprenticeships with friends and relatives or at private training centres and workshops have become one of the strategies allowing them to more rapidly insert themselves into the local labour market. These differences in educational expectations and attainment do to some extent tend to channel rural and urban students into differentiated job markets. Nonetheless, even jobs dominated by urban residents do not demand exceptionally high educational levels, thus factors other than educational level are at play in labour market segmentation. Overall educational attainment among rural and urban respondents in this case study (including government staff and officials) showed that jobs in Dahuaishu Town – both in the public and in the private sector – seldom require no higher than a college degree, and it was only in the health care sector that there seemed to be a demand for university graduates. As noted before, apart from educational attainment, there are other factors at play influencing carrier paths for rural and urban students. Particularly in the public and government sectors, permanent jobs have been only available to those with an urban registration. Nevertheless,

employment in the public sector seems to be no longer in as high demand as it previously was, given relatively lower salaries and bad performance of many state owned firms.

## Conclusions

China's rapid urbanization since the late 1970s has concentrated much intellectual attention on the socio-economic development of its big cities and metropolises. Those large urban centres have become important economic and commercial hubs, attracting capital but also millions of rural migrant workers to their factories and service sectors. Those cities highly competitive environment has nonetheless resulted in growing social differentiation and social tensions. Nonetheless, this is but one of China's urban realities. Its vast urban system is also formed by thousands of small towns that actually house the majority of the urban population. Through the examination of Hongtong County and its county town Dahuishu this study has presented a different account of China's urbanization process. That analysis has suggested alternative development processes to those taking place in the larger cities. Dahuishu Town's distinct development experience has at the same time allowed for the construction of a more inclusive social environment, one which provides all inhabitants, including rural workers with a platform towards advancing their economic and social well-being.

### **Urban space and the relationship between state and society**

Urban China has been in a constant state of change since the start of the Reform Era. Central to these processes of change has been the qualitative transformation of the relationship between the state and society. Whilst that dialectical relationship could be said to have increasingly limited the capacities of the state in relationship to economic forces, society and the individual, it has also allowed for a realignment of functions by which the state remains a crucial regulator of the social. This realignment is immersed in a constant process of transformation where society and the state influence one another, not as separate and opposed entities but as constitutive elements of the same social reality (Gupta 1995; Migdal 2001). The evolution of the Chinese state can thus no longer be analysed in terms of its waning, or in terms of a 'strong state' *versus* a 'weak state' but rather, the state should be problematised within a wider process of 'societalization' of the state and 'stateification' of society that brings state and society closer (Rocca 2003, p. 4).



This reconfiguration of the state in its relationship to the social and the private spheres has come about as the result of increased marketisation, and organisational and institutional change fostered by the Chinese leadership since 1978. Guided by the process of administrative and fiscal decentralization, the state has been further rearticulated at the sub-national level along administrative hierarchies, where urban centres are the main point of public-private negotiation. Although influenced by similar processes, however, China's various urban scales have created distinct socio-economic spaces. This spatialization of the reform strategy creates new local conceptions of the state – as translocal phenomena – that are in turn mediated by multiple contexts (Gupta 1995, p. 377). Urban growth and planning in China, as a form of spatial development, have thus created what Ma and Wu (2005) have called the 'multiplex city' or 'a mosaic of diverse processes and heterogeneous reconstituted spaces' (p. 2).

China's scale has created a vast urban system formed by an ever growing number of towns. Not only are the social and economic realities of these towns different from those present in cities, the dialectic relationship of those sectors with the local state have also differed significantly. Referring to the Indian case, Gupta (1995) notes that it is in small towns where the majority of state officials – who constitute the broad base of the bureaucratic pyramid – live and work, and most crucially they are the site where the majority of the people come into contact with the state and where their notions of the state are formed (p. 376). In China, as in India, it is in small towns where the interaction of the state and society is most immediate (Pieke 2004, p. 518).

Small towns have also created a new urban space in the sense that they are being built on different foundations from those of larger cities. China's large metropolises have been advertised as being the most socially progressive and economically dynamic, yet, it is in those cities where entrenched interests inherited from the previous communist regime present the biggest barrier to the implementation of many social policies. Pre-reform conditions have had an effect on scalar and spatial administrative hierarchies since they provide a different starting point to urban transformation. Previous conditions engage with scalar factors, resulting not only in varying degrees of economic and institutional transformation, but also inducing social change in different directions. The single most important difference between small towns and large cities

has been their relationship with the rural in general, and with rural workers in particular. Although certainly not yet overcome, rural-urban asymmetries are being re-negotiated and re-defined in small towns, resulting in a more inclusive environment for rural workers, compared to increased social differentiation prevalent in large cities. Given that many small towns are actually newly established or designated urban centres, this synergy between the rural and the urban might come as no surprise. Nonetheless, that synergy is crucial if we consider the rapid pace of urbanization that towns are experiencing, and – most importantly – the fact that in the medium to long term they will constitute the cities housing the large majority of China's urban population.

This study has focused on the development of small towns and the complex set of interrelated processes that constitute this new urban space. It explores the issue of social inclusion as a central and far-reaching concept that enables a more holistic understanding of social development, in a specific context (Hongtong County) and in its relationship to a wider framework (its national and international contexts). Even though scholarship on China has produced lengthy analysis of socio-economic transformations in China's cities, as well as a plethora of research on the changing shape of village politics, few researchers have used the county and the town (*zhen* 镇) as their main focus or units of analysis. This study helps fill that gap by providing an examination of policy implementation at the county and towns levels, and a detailed analysis of how it translates into people's everyday lives.

A crucial part in the examination and evaluation of social inclusion – though not the only one – is the reform of social safety nets and the delivery of public services. This study found that although the reform of the social security system and of public service provision remains enmeshed in the structural problems brought about by increased marketisation, insufficient revenue and institutional adjustment, policy implementation in that area is not overburdened by the baggage and liabilities of the pre-reform centrally-planned system. Small towns would appear to have enjoyed some advantages that allow them to implement more thorough socio-economic changes. The different environments in which policies are implemented thus results in different outcomes.

One of the most important and salient findings of this study concerns the impact of the relaxation of the *hukou* or household registration system. It finds that these changes have not only led to the immediate facilitation of individual re-registration from rural to urban, thereby easing access to entitlements, but also most crucially to changed perceptions of rural-urban distinctions within the town. It entails greater openness and opportunities for all individuals, including rural workers, to similar chances of socio-economic advancement. The dichotomy of rural-outsider/urban-insider has become blurred, and at times loses its relevance to individual's socio-economic opportunities and overall wellbeing. This adds another dimension to considerations of policy formulation and implementation related to social exclusion and inclusion.

Another important finding of the study relates to the previous discussion about state-in-society, and the reshaping of public-private boundaries. It has been widely argued that local governments in China have neglected public services and welfare in favour of economic and commercial development, with local cadres and other members of the local elite often featuring as the greatest beneficiaries. Yet, this study has highlighted the extent to which county cadres have a detailed knowledge of the socio-economic issues in their locality, and showed a strong willingness to act upon those issues. Even though the leadership in Hongtong County was not foreign to the trend of 'strengthening the visual effects of the city' (Ma and Wu 2005, p. 13) through the development of 'flashy' infrastructural projects, the promotion and support of public services and social security seemed to be not only a moral preoccupation of county officials, but was also viewed as part of their responsibility and obligation as public officials and representatives of the Party-State.

The issue of social inclusion in China, and in its urban centres in particular, is closely related to the process of rural-urban migration and to the increased and constantly more visible presence of rural migrant workers in the larger cities. Even though they have become indispensable to the functioning of the urban economy, they continue to be viewed by urban residents as strangers in the city (Zhang 2001a). Socially isolated and looked down upon, rural migrants have formed their own separate urban communities, which are not only a response to that discrimination, but perhaps also unwillingness on their part to attempt a full inclusion into a society with which they

have very little in common. In this respect the closer physical and social proximity of small towns with the rural environment, the rural-urban synergy previously mentioned, creates a platform for a more positive and productive inclusion of rural workers.

The significance of towns as part of the economic and urban systems of China has always been defined and analysed in terms of their ability to absorb the surplus rural labour force, as measured by mostly economic indicators relating to employment creation and industry agglomeration capacities. Small towns have been criticized for not being sufficiently dynamic economically, thus serving only as springboards for rural workers to move to larger cities. Even though national statistical data has shown evidence of a growing number of rural workers travelling increasingly longer distances in search of non-farm jobs, findings from this study demonstrate that short-distance mainly intra-county labour movements continue to have an important impact on the pace and quality of urbanization at the county level. One aspect of this bottom-up urbanization process that has been largely unexplored is the social characteristics of small towns and their role in facilitating rural workers' incorporation. As has already been noted, many small towns in China are newly created urban centres that have only recently started to create an urban 'feel'. They therefore share a greater socio-cultural proximity with the countryside than most urban environments in the larger cities and metropolises.

Intra-county migration also highlights the relevance of locally constructed social capital in gaining access to more accurate information on labour markets, employment opportunities, as well as access to resources and services. Close personal and kinship ties – including connections with local cadres – are said to yield the greatest impact locally, and to diminish with distance (Lei and Lu 2005). Those findings were partly corroborated in the present study, yet, interviews with rural migrant workers from other counties and provinces showed that these 'outsiders' have also been able to build *guanxi* locally, and have been able to secure through them the advantages enjoyed by county native rural workers.

Disparities in the amount and quality of *guanxi* among rural workers have also been signalled as recreating inequalities in the labour market and in access to resources for entrepreneurial projects (Zhang and Li 2003; Lei and Lu 2005). That analysis

essentialises *guanxi*: it ignores or downplays the ability of rural migrant workers to build social capital at the place of destination, not only with fellow community members – as in the case of migrant enclaves – but also with members of the host society. For migrant workers living in the big cities extending social networks beyond their kinship and place community is an extremely constrained process. In contrast, non-natives living and working in Hongtong County repeatedly made reference to their connections with locals that enabled them to access services and resources. Those connections seemed to have been formed and strengthened over a relatively long period of time (four to seven years), and even though individual respondent's experiences varied, all were able to build local links with relative ease. More research needs to be done to look at the process of relationship and network building among non-local rural migrants, to determine how those contacts are enabled, and to establish whether inequalities in the construction of *guanxi* are still observable among native and non-native workers in small towns.

### **Changing welfare regimes**

Outside China a large part of the literature tackling the issue of public services provision and welfare reform in that country has attacked the state for retreating too rapidly from its welfare responsibilities, while stressing the need for the government to channel more resources to strengthen social safety nets. This critique has often been based on a comparison between China's social policy and welfare regime on the one hand, and the welfare state model of Western capitalist economies, on the other, where that second model is not only being widely contested but has also been largely dismantled. Particularly in the European context, the debate over welfare provision has instead swung towards the inadequacy of public provision and has brought into question the necessity of a universal social safety net. The evaluation of China's social security and welfare reform is thus not only being measured by models and standards that are contested, at the same time, the differences between the socio-political and economic systems of China and those of Western economies in which their welfare regimes are based have been largely ignored (Chen 2002).

The analysis of China's social security reform needs therefore to be put in perspective. As Rocca (2003) has suggested, the 'supposed' contradictions of China's

modernization process over the last twenty-eight years do not lie in reality itself, but in the way China has been likened and contrasted with modern societies (p. 3). According to Rocca, China has been compared with an ideology (or self-image) of the modern world, rather than with the actual reality lived by modern societies. The welfare state has been taken for granted as an intrinsic element of Western democracies, leading many to assume that welfare provision is something un-Asian (Chau and Yu 2005, p. 22). Instead, the current debate over the welfare state suggests that the previous universally accepted idea of a state-administered protection of the weak as an inalienable element of democratic systems is now being curtailed by a 'contented majority' (Bauman 1998, p. 55).

China's pre-Reform regime, with its universal life-long employment and enterprise-based welfare system left little space for exclusion, and seemed in fact – at least in the urban areas – to compel social inclusion. In contrast, China's gradual transition from a centrally-planned economy to one where market mechanisms play an increasingly important role has subsequently created large inequalities, making exclusion part of the national reality. Within China, exclusion and inequality are often defined through comparisons with the socio-economic conditions of the more developed coastal areas, which have become a model of economic success and social progress for the rest of the country. Other regions are increasingly urged to catch-up with the more developed coastal areas, while the government facilitates that process through the implementation of targeted development programs – though with mixed results (Goodman 2005). Similarly, those social groups regarded as being socially excluded – peasants, rural migrants, laid-off workers and the unemployed – have been persuaded to follow Deng Xiaoping's premise that 'to get rich is glorious', although some provisions have been set up to guarantee them with at least a minimum living standard. The goal has been to sustain a degree of inclusion (economic and social), that can help maintain economic, social and political stability.

During the Maoist period welfare provision was not viewed as a safety net for those 'left-out', but was rather an integral part of the support of the productive means (Chen 2002, pp. 233-4). In the West, however, the welfare state came about partly as a response to the realization of the inequalities created by the economic cycles of capitalism, which at the time urged the creation of a state-sponsored social safety net

(Bauman 1998, p. 46). This difference of purpose, as Chen (2002) contends, is crucial to understand China's social policy during the reform period. According to Chen, borrowing from Marxist theory the PRC was established and constructed as an 'economic state', in other words, a state that assumed primary responsibility for the development of the economy (p. 233). Where the welfare state acted to provide social safety nets, the Chinese state moved to promote economic and productive forces. This did not mean that the Chinese state had relinquished all responsibility over social welfare provision, but that it preferred to channel its resources towards productive forces (mainly industry), and let workplaces deal with welfare provision (Chen 2002, p. 238).

Economic reform and especially the reform of the state-owned sector presented the Party-State with a double paradox: on the one hand its work unit-based welfare system had been rendered inoperable; while, on the other hand, the state continued to view itself as being responsible for the overall well-being of Chinese society. The Centre's efforts to 'socialize' the social security system and the more recent emergence of social assistance programs hence signals an important change in the PRC's approach to welfare provision. The transition to the new system is far from complete and has many weaknesses, yet, it demonstrates the continued moral preoccupation of the state to supporting those left behind of the gains of economic reform. Because of its historical and structural background Chinese social policy and welfare provision will most certainly not follow the model of the European welfare state. It should therefore not be evaluated in terms of that theoretical framework, but should instead be examined as a system in its own right. Systemic differences not only make the evaluation of China's welfare regime on the basis of the welfare state model inappropriate, but could also be perceived as an application of double standards, given that in large parts of the developed world the welfare state is now being perceived as a bad investment rid of ethical and moral foundations (Bauman 2000, p. 9).

### **Hongtong County**

Given the preceding analysis of urbanization trends and welfare regime changes, what then are the developments, problems and challenges faced by Hongtong County and

its county capital Dahuishu Town? The following analysis presents a nuanced examination of rural-urban migration, non-farm employment, social security and public services provision, and more generally social inclusion/exclusion issues in Dahuashu Town, with the aim of presenting a holistic analysis of the various dynamics that shape the development of a town and a county. The findings presented here are not intended to be representative of the reality of towns around China, but instead put forward a snap-shot of a specific time and place that can hopefully lead to more empirical studies at the level of the town, to help develop the complex map of China's bottom-up urbanization. China will soon stop being a mainly rural society. The quality of its urban growth, particularly of its vast network of towns, is therefore an important determinant of China's economic and human development. But perhaps more crucially, towns play a decisive role in the promotion of social cohesion or what the Party-State has most recently labelled a 'harmonious society'.

### **Migration patterns, urban labour markets, and entrepreneurial activities**

Distance and destination are two important variables of the migrant experience, reflecting on the social capital of migrants, their education and skills, the type of employment they are more likely to take, and their likelihood of integration into the urban society. Rural-urban migration patterns in Hongtong County mirror those of Shanxi Province, where rural workers have preferred to take non-farm employment within the provincial borders and closer to their home village (Goodman 2006, pp. 58-60). County natives formed the overwhelming majority in the interviewee sample of rural workers living and working in Dahuishu Town, the county's administrative centre. Non-native rural workers comprised a comparatively small group, divided evenly between Shanxi natives and migrants from other provinces. Most county natives came from villages near the county town, and had settled in suburban villages commuting to work on a daily basis. The peri-urban environment of the town is one of increased activity, where the boundaries between the rural and the urban have been blurred, demarcating instead the new reach of the town. Not all peri-urban villages have paved streets or enjoy all the infrastructural facilities of the town, nevertheless, the transition from the town to those villages is not as marked as that observed in the big cities between the city centre and its suburbs.



As a regional commercial centre Dahuaishu Town attracts many rural workers to its commercial and trade sectors. Although in official statistics the service sector remains underdeveloped, the numerous street markets and small eateries set up in old *hutongs* and on side roads speak of thriving – though mostly informal – service and trade sectors. The informal economy is usually staffed with rural workers and migrants, although many have also set up formal businesses. In fact the majority of the rural respondents (22 out of 57 respondents) had a business of their own. These were often small businesses set up with a small initial investment, such as restaurants, vegetable shops, hairdressing salons, and so on. Yet, there were at least nine rural respondents whose businesses had been successful and provided them with considerable financial returns. Those working in the service sector (19 respondents) were employed in various trades, as teachers, nurses, doctors, in the transport sector and as *baomu* (maids). Peddlers and the self-employed (9 respondents) fell largely within the informal economy. Industry and manufacturing are not strongly represented in Dahuaishu's economy, so it was no surprise that only two respondents were factory workers. Three more worked in construction.

Similar employment patterns were found between county natives and Shanxi natives, while those from other provinces were either peddlers or construction workers. Here some labour market segmentation could be said to exist between local rural workers (Shanxi natives) and *waidiren* or outsiders (those from other provinces). There are two explanations for this phenomenon. Time of residence in the county was one of them; the other was the nature of recruitment in the construction industry. Overall, rural migrants, whether from within Shanxi or from outside the province, who had been residing in Hongtong County for a long period had access to more social networks, better jobs, services and resources. Two of the five workers from outside Shanxi who worked as peddlers (selling their wares on the street) had arrived in Hongtong less than a year before the time they were interviewed, and thus were relatively new to the town and its socio-economic environment.

Within the construction industry, much like the mining sector, workers from outside Shanxi are strongly represented. Both are industries that employ relatively large numbers of workers. Their strength in numbers often facilitates their organisation against employers when work conditions are poor or in case of salary arrears.

Construction bosses thus tend to hire a mix of locals and outsiders to weaken that organisational strength, on the premise of ‘dividing to conquer.’ Moreover, construction companies carry out work across county and provincial borders, often taking their workers with them. One respondent from Gansu Province, for example, had followed a construction boss to Hongtong who had previously been working in that province.

Some labour market differentiation was also observable as far as local residents were concerned. The most important difference was the over-representation of urban residents in government jobs, be it County Government departments or in public service units [PSU]. Both work places employ only urban *hukou* holders in their permanent positions. There were, however, some rural workers who had managed to change their *hukou* registration into an urban one and had secured jobs in the public sector through their personal connections. County natives were more likely to have a connection with a county cadre than non-county natives, even though there were a few cases of Shanxi natives (though not Hongtong natives) who had also built those kinds of contacts.

Interestingly enough, those rural workers placed in government departments made most of their income from other activities in the private economy. Finding a placing in a public office was a way for rural workers to raise their social status or of gaining welfare benefits, but was rarely sought after for its remuneration alone. In one case, a 23 year old woman working in a private hotel, was able to secure a minor office job in one of the government departments because she was considered to be ‘too old’ to entertain guests. She, nonetheless, stayed on as staff manager at the hotel, where she made most of her income. Employment in government offices, in PSU and in state owned enterprises [SOE] may provide a stable income, and a certain degree of status, but salary levels are far from competitive. It is in the private economy where better economic returns can be achieved. In terms of their income, local urban residents comprised a relatively homogeneous group. The financial situation among rural workers was more heterogeneous; nonetheless, those at the top end of the income ladder were significantly wealthier than their urban counterparts in the study sample. Wealthier rural respondents were those who ran their own private business. On the whole, rural workers proved to be more entrepreneurial than local urban residents. In

fact, those urban residents who had opened a private business had done so mainly as a result of finding themselves unemployed. These findings thus show rural workers' ability to mobilize resources and ease administrative procedures for the successful development of private businesses, even in comparison to local urban *hukou* holders.

### **Housing patterns and home ownership**

Housing was another indicator of the balanced development between the town and its peri-urban villages. The housing market in Dahuiashu Town as in most small cities and towns around China has long been dominated by self-built housing. Work unit housing has been limited, while commercial housing is a relatively recent phenomenon – though one developing fast. Housing and rental markets are very dynamic with prices largely determined by supply and demand. Private ownership among both urban and rural respondents was high; 29 out of 56 rural respondents owned their own home, while 8 out of 10 urban respondents had private housing. As previously noted, many rural respondents from within the county remained in the villages (where home ownership has been traditionally high) and commuted to work. Though some were natives of those villages, many were in fact from villages further away but who had decided to settle closer to the town. Most of those county natives moving to villages closer to the town were small business owners wanting to take advantage of a larger urban clientele.

Occupation and location of workplace were another two determinants of housing choices among rural respondents. Those living in suburban villages often worked or owned a business there. Those who lived within the town were either better-off migrants who could afford more expensive urban housing, or migrants living with employers and relatives. Only a small proportion of rural respondents rented housing. In Dahuaishu Town it appears that urban and rural housing is usually of comparable quality, even though it is often only newly developed housing (particularly apartment buildings) that have modern facilities such as flushing toilets and gas stoves. The new residential areas, including luxury housing gated communities, are being built on the fringes of the town. The housing boom seems to have been fuelled by rising coal prices since 2002, which have made many people rich. Stories about local rural entrepreneurs who had become rich from coal mining were often heard in the town.

Given the highly commercialized and open housing and rental markets, housing patterns did not seem to replicate the residential segregation often seen in the big cities. Furthermore, many rural *hukou* holders are increasingly in a position to afford private home ownership.

### **Social security**

An evaluation of the statistics of the social security system on all of its variables – enterprises and workers enrolled, recipients of insurance benefits, funds raised and available funds in risk pools – gives a particularly bleak picture of the social security situation in the county. With only a very small number of enterprises enrolled in the system, a large part of which are SOEs, insurance coverage is poorly developed. To run the system the local government, aided by Central and provincial contributions, has had to subsidise insurance funds and benefits, especially pension insurance payments for retired civil servants and PSU staff. With limited enterprise participation the social security system has been starved of much needed resources to keep insurances operational. Problems have also arisen with some of the state owned enterprises already participating in the system, who are experiencing financial difficulties and that are therefore unable to pay their contributions to workers' insurance accounts. There is, however, evidence of a financially strong private industrial sector within the county that could positively contribute to the reinforcement of social insurance and risk pools. At the same time, the large burden that contributions to the various insurance schemes impose on enterprises has made private firms unwilling to join the system. Recruitment of enterprises from the non-public sector has thus been a difficult task for the County Labour and Social Security Department to carry out.

Workers are no more inclined to join the system. Rural respondents had usually little knowledge about the new social security schemes, partly because most of them have never been employed in the formal economy. Yet, those who were already enrolled in the system (mainly public teachers) often saw insurance contributions as a drain on their income, rather than as a safety net. A few rural workers who could afford it had resorted instead to private insurance, which offered more flexible – though more expensive – insurance options.

The attitude towards social security and insurance coverage among urban respondents was no less pessimistic than that of rural workers. Even though insurance coverage was more widespread among urban residents, insurance premiums were often seen as only a partial safety net, especially in the case of health care insurance. Given the precarious financial situation of some SOEs, urban workers find themselves at times unable to make use of insurance benefits. Furthermore, all urban respondents who had lost their jobs had also lost their social security benefits, including pension entitlements. Yet, regardless of the financial situation of their work unit, urban respondents tried to maintain a work relationship with their *danwei* (work unit) in order to remain eligible for pension payments. Respondents often believed that the local government would guarantee their subsistence after their retirement, if their enterprises defaulted insurance payments.

In Hongtong County the transition from the old work unit-based system was only gradually replaced by the new social security system in the late 1990s. Being in an early stage of implementation partly explains its bad performance, yet there is no denying that there are still problems to solve that are related not only to implementation but also to the very structure of the system. Statistical figures show an important improvement in both enterprise and worker enrolment as well as in fund raising figures since 2002, nonetheless, coverage rates are still minuscule. In general, however, respondents did not show a great concern with the current situation of the social security system. More respondents insisted that as long as the economy maintained its dynamism the sustenance and well-being of the majority of the people would be guaranteed. This opinion is perhaps built on knowledge that in the past only a small percentage of the labour force had been covered by the social security network. Self reliance – particularly among rural workers – has been the norm. Many thus are more concerned with making money than with joining the social security system, a system that has yet to demonstrate to be a secure safety net.

### **Public services**

Local government's budget decisions on social security and public services provision resonate with Chen's (2002) description of the behaviour of the economic state.

Economic goals continue to dominate the County Government's agenda, and a large part of government investment is channelled towards those ends. The main concern of the local government is to create jobs for all, and that can only be guaranteed if there is a strong economy. This view is echoed in public opinion. Undeniably people are concerned about rising prices of public services, mainly such crucial services as health care and education. Nonetheless, there has also been an implicit acceptance of the commoditisation of those services, and their resulting re-categorisation as both public and private goods. In tandem, the emergence of a thriving private sector of both medical and educational services has helped reinforce fee-paying practices for accessing services.

When needing medical treatment for minor illnesses private clinics were the first choice of respondents, often also among respondents covered by health insurance. Lower cost was an important consideration when choosing a medical provider. However, convenience, better service attitude and more personalised treatment were often cited as reasons for choosing private practitioners over public ones. The private medical sector in the town is mainly staffed by doctors from the public sector, who are now allowed to engage in private practice. Retired doctors from public hospitals have also been recruited by private investors to manage private clinics and hospitals. In suburban villages barefoot doctors remain as the only health care providers, who now own previously collective owned rural clinics. Cooperation between public and private providers has been encouraged through an implicit consent by the local government, but has been carried out mostly through non-governmental networks. The private medical sector is growing rapidly thanks to a growing demand for cheap health care services, which public hospitals have not addressed. Underdeveloped and discretionary implementation of regulations, however, have been responsible for quality and pricing problems present in both private and public medical facilities.

Out-patient services remain cheap and accessible to most, including rural workers. It is with in-patient medical services that cost becomes an issue, pushing poor households to opt not to use those medical services even when needed. Access to in-patient services has also been curtailed by limited health care insurance coverage and by the still limited scope of insurance premiums. Affordability has become an important determinant of access to in-patient services, especially hospitalisation,

which in turn reduces the demand for these services. Underutilization of public hospitals at the county level has in turn been detrimental to the improvement of their medical facilities and of service provision. These hospitals are often by-passed by those seeking better quality more sophisticated medical services, since county hospitals can only deal with minor diseases and basic surgeries. None of the respondents in the study sample had made use of in-patient services, thus no further elaborations could be made about the burden of high medical costs, among both insured and uninsured. Within the sample of rural respondents a large majority of young interviewees partly explains the limited concern with potential major health expenditures. Urban respondents formed an 'older' sample, however, insurance coverage among these respondents was higher than among their rural counterparts. Health insurance provided some security to individuals, while those uninsured said they would rely on their savings and their children if faced by catastrophic health expenses.

In the case of educational attainment a generational divide was observed especially among rural respondents. Analysis of the education levels of the children of rural workers showed a significant improvement in the educational attainment of rural children, and higher completion rates in terms of the nine years of compulsory education compared to their parents' generation. Access to local schools – urban and rural – has been largely unrestricted to non-native children. Only one respondent mentioned paying extra fees because his child was not a local; all other rural migrants with school-age children living with them had them enrolled in local schools. A recent regulation passed by the Linfen City (prefecture) government, stipulated that all children from within the Linfen area, regardless of their *hukou* status, would be eligible to enter any of the urban and rural educational facilities in the area. Though in theory this restricted access to those from outside this jurisdiction, in practice it was observed that all school-age children were usually taken in by local public schools.

There are two main reasons behind this greater openness on the part of public schools. Firstly, public schools are increasingly competing among themselves and with private schools for students. Even among primary and junior secondary schools which are tuition free, schools can raise a series of extra fees from students, which become an indispensable source of revenue to complement low teacher salaries and to improve

school facilities. Secondly, with the new regulation allowing all Linfen children to enrol in local schools, there are only a small number of children from outside the area who need to be included in local schools.

After completing the nine years of compulsory education the chances of children with a rural *hukou* of continuing on to senior secondary school and on to tertiary education drop considerably. Several factors are responsible for that trend, the most important of which is cost. Given the big financial burden senior secondary education would imply on the household finances students and parents' decisions to pursue further schooling imply a very rational evaluation of cost and benefit. Students who show little interest in studying are usually persuaded to find a job (*da gong* 打工) in the town. Climbing the educational ladder to university level the places available to students are reduced almost exponentially. Therefore, more often than not, unless a student is highly promising his or her parents might not be willing to pay for their senior secondary education.

Education, nonetheless, continues to be almost universally regarded as the main means to economic and social advancement. Within the county, however, educational requirements specified by work places remain relatively low. Thus, the pressure to achieve a high level of education to secure entrance into the local labour market is not strong. Many young rural respondents had therefore started working immediately after finishing junior secondary schooling. Outside work is very attractive to these young students, who look up at their peers who are already making money in the town. Having said this, it was surprising to find a relatively large proportion of rural respondents who had completed senior secondary education and further tertiary education. Among those respondents the majority had completed technical degrees, a few had college degrees and one had a university degree. Furthermore, the educational attainment of rural workers' children was significantly higher than that of their parents and other rural respondents in the sample. Furthermore, the children of wealthier rural workers showed comparable levels of educational attainment to those of urban children.

When upgrading their skills rural workers tend to go for apprenticeships with friends and relatives, or else enrol in colleges in nearby Linfen City. Teachers and those



working in the health care sector were the most likely to hold a technical or college degree. Educational attainment among urban respondents and that of their children was overall higher than the average from the rural respondents' sample, yet as was explained before rural workers at the top of the income ladder match and even top the educational levels of urban children. The cost of senior secondary education represents a large burden for the average urban family as well; a considerable part of a household's savings is spent on the child's education. Every year, on average, one thousand high school graduates from the county make it into university. This figure is significant, but as the former Director of the County Education Department remarked, the problem is that most of those students will not return to the county after they have completed their studies. There are yet few jobs in the towns that would allow them to fully develop their skills and knowledge, and which could offer them an attractive remuneration.

### **Social exclusion, stigmatization and inclusion**

Outside China observers have begun to interpret social change by reference to the concept of social exclusion (Solinger 1999; Zhang 2002, 2001a; Li 2004, 2005). Within China the term has been less widely used, partly because of its negative connotations but also due to political sensitivities (Li 2004). Social exclusion (*paichi* 排斥) is not a new phenomenon in China, however, the nature of that exclusion has certainly changed during the Reform Era. Social exclusion has been equated with marginalisation and non-participation in the welfare system, and is often used to describe the experiences of rural migrant workers and those of the new urban poor. Migrant workers are excluded on the basis of their rural registration, which bars them from enjoying equal economic opportunities to those of the urban population; limits their entitlement to social security and welfare services; and strips them of their political rights. There is no denying that the experiences of rural migrants living and working in China's cities have been very harsh. Yet, despite some remarkable ethnographical studies of the migrant experience with exclusion (Pun 1999; Zhang 2001a; Gaetano and Jacka 2004), the literature has often failed to address or elaborate on the concept of inclusion.

If social inclusion is the main goal of social policy, what parameters should be used to determine the ‘mean’ the majority should attain? Li (2005) suggests rural-urban migrants should be integrated into the ‘mainstream’ of urban society (p. 54), but falls short of unpacking the term. Given the multiple economic and social realities prevalent in urban China, to try and define what that ‘mainstream’ entails would be a futile effort. Although some aspects of that integration can be easily categorized and quantified (i.e. access to services and insurances), there are other more subtle elements to that integration, those involving the social and cultural aspects of inclusion, which are not easily classified.

The conjunction of institutional change, increased marketisation and changing social values and attitudes has resulted in new forms of exclusion that are more visible but also more difficult to identify and describe. If the *hukou* system were to be dismantled, and all of those residing in the cities – including rural migrant workers – were to gain equal economic and political rights, social exclusion would nonetheless continue to be an issue. Even though this statement might appear as self-evident, it points to the importance of focusing not only on exclusion, but also to the equally significant task of developing working definitions for social inclusion and for the proposal of pathways and strategies through which social inclusion and social solidarity can be achieved. The first premise in developing the framework of inclusion should be perhaps to recognise that given China’s socio-economic diversity there cannot be one model of social inclusion, or only one path to achieve it. Social inclusion strategies need to build channels – through community and political openings – for rural migrant workers and other vulnerable social groups to express their ideas on community, integration, and social solidarity. For these social groups, to be socially included might not necessarily entail what the ‘mainstream’ has achieved.

In the big cities social stigmatization and practices of class differentiation have worsened the prospects of social inclusion for rural migrant workers. Even though some have achieved significant wealth, in the eyes of the urban citizen rural migrants are perceived as being uncultured and far removed from the modern city (Lei 2003, p. 624). Rural migrants have been discriminated on the basis of their supposed lower quality (*suzhi* 素质), an idea borrowed and re-worked by the new upwardly mobile urban middle classes from the state discourse of population quality (*renkou suzhi*

人口素质) (Anagnost 2004, p. 190), intended to turn the rural population into modern and educated individuals (Murphy 2004). As Anagnost explains, the term has been given a 'twist' by the urban middle-classes and turned into a tool of social differentiation. In their everyday dealings in the city rural migrants are constantly reminded that they do not belong there.

The effort towards achieving social inclusion hence goes beyond the guarantee of access to economic opportunities and welfare benefits, but also demands a change in the mind set of the urban citizenry, and a commitment on the part of the government to guarantee that rural migrants are treated equally and humanely (Li 2005, p. 62). Raising awareness about exclusion is a first step to revert the traditional urban contempt for those from the countryside. The language of exclusion, however, should be used with caution, as it might worsen rather than alleviate exactly what it is that it is trying to eradicate – that is, exclusion through stigmatisation (Levitas 1996, Cameron 2006). As Cameron (2006) reminds us, not all of those who are labelled as 'excluded' perceive themselves as not being fully part of or as being outside of society (p. 401).

### **Small towns: an alternative platform for social inclusion**

The description of the interaction between urban citizens and rural migrants suggests a significant degree of social tension in large cities in China. How then, do the social realities of smaller urban centres compare to those taking place in the big cities? Having examined various socio-economic and welfare dynamics of the development of Dahuaishu Town, this study found a dramatically different account of the experience of rural migrant workers. Institutional reform, particularly the relaxation of the *hukou* system, has allowed for greater openness and less administrative restrictions for rural workers to work and settle in small towns. Making the *hukou* system more flexible has also diminished its significance as a means of differentiation and exclusion. This has a strong psychological impact on rural workers and migrants entering the town, who can thus feel more confident and less threatened by police harassment. In Dahuaishu Town the relaxation of the *hukou* system has essentially removed its practical and economic value.

The general opinion among rural and urban respondents was that nowadays a local urban *hukou* conceded little or no extra benefits compared to a rural registration. Rural interviewees showed no great desire to change their registration, and preferred to keep their rural status so as not to lose their agricultural land. Those who had changed their registration into an urban one had often done so around the mid to late 1990s, when opportunities first arose to buy a local urban *hukou*. At the turn of the Century, however, rural workers and migrants were less keen to pay for a registration that seemed unnecessary. Urban *hukou* prices had gone down in tandem with a slow demand, and those with the right connections had made the transition without cost. Rural workers seldom registered with the Public Security or obtained temporary resident permits. Some rural respondents had been residing in Dahuaishu Town for up to four years without ever applying for a temporary residence permits. Their stay in the town was certainly anything but temporary.

An urban *hukou* is nonetheless not without value. It continues to be a requirement for government jobs and for becoming a member of the urban labour social security system. It was also considered, by some, to provide advantages when applying for jobs or when enrolling children in urban schools. One urban respondent stated that children who held an urban *hukou* were given priority to enter urban schools, yet most considered that it was *guanxi* and not registration that facilitated access to services, jobs and resources. With the gradual dismantling of the *hukou* as a formal institution, the informal links of *guanxi* have hence gained precedence. Reverting to traditional or customary practices in the absence of an institution or in the prevalence of partially functional institutions is not a unique phenomenon of Reform China, but one that was also observed in the early socialist period (Lieberthal 1980, p. 181).

Social considerations have been no less crucial in facilitating the integration and inclusion of rural workers in the town's community. As the *hukou* loses its role as a tool of differentiation, the town has become a new platform for the re-negotiation of the rural-urban. Socially and culturally the villages and the town share a lot of similarities, contrary to the highly differentiated cultures of the rural migrant and the urban citizen. Within the town, rural and urban 'taste' appears to be close to each other. In Dahuiashu Town the urban dwellers can hardly be distinguished from the

villagers and other ‘outsiders’ solely on the basis of physical appearance and dress codes.

When asked whether they had encountered any difficulties in their interaction with urban residents often the first reaction of respondents was one of puzzlement. Rural respondents related stories of a relatively easy transition from the village to the life in the town, often facilitated by the support of friends and relatives also living there. Some of the most positive accounts of that passage actually came from two migrants originally from other provinces. After having lived and peddled in various parts of Hebei and Shandong Provinces, a migrant from Hebei Province noted that it was in Hongtong where he had received the best treatment. There, he said, he had not been harassed by either the police or the locals, and had therefore decided to bring his daughter with him to help out. Another migrant from Anhui Province had followed his brother to Shanxi Province, and had later brought his wife and children to live in Dahuaihu Town, where they had been for seven years. For this migrant, Hongtong had become his *laojia* (老家) or native place, and thus he intended to stay there permanently. Most rural workers and migrants seemed to have come to Dahuaihu Town to stay. Though some returned home every year to visit their extended families, those living with their spouse and children would rarely return home. These accounts are not intended as a detailed ethnographical exposition, but as an example of a general feeling of belonging among rural workers living in the town.

As the town develops into a more sophisticated urban centre to eventually acquire city status social conditions will necessarily change as well. Even though rural-urban asymmetries have to a significant degree been smoothed out, there is evidence of them being replaced by inequalities on the basis of income. Dahuaihu Town is at a decisive stage of its development. While the *hukou* system loses its relevance and an increased number of rural workers enter and settle in the town and its peri-urban villages, there is an opportunity to build the basis of an urban system that recognizes the necessity of including rural workers as full members of the urban society. The conjunction of three interrelated process – that of the overhauling of the state owned sector, the growth of the private sector and the incipient expansion of the social security system to include enterprises of all ownership types – can foster that inclusion. De-linking *hukou* status from social security entitlements and access to jobs

in the public sector and in government departments should be the first step towards the attainment of social solidarity. Many economic opportunities and access to services have already been opened for rural workers from within the county and from afar. Socially their reception appears to have been a positive one. Many are no longer temporary residents but permanent members of the community who should share the right to social protection and well-being. This will be the basis for the social development of future generations.

## Appendix: List of interviewees

### List of rural respondents

#### Interviewee 1

Male (married)

Born in 1957 in Hongtong County

Junior secondary education (*Chuzhong* 初中)

Owner of a Chinese paintings and framing shop in Dahuaishu Town

#### Interviewee 2

Female (married)

Born in 1951 in Hongtong County

Technical degree (*zhongzhuan* 中专)

Retired public (*gongban*) teacher, currently working as the director of a private kindergarten in Jianqiao Village, Dahuaishu Town

#### Interviewee 3

Female (single)

Born in 1987 in Hongtong County

Junior secondary education

Working as *baomu* in Dahuaishu Town

#### Interviewee 4

Male (married)

Born in 1978 in Hongtong County

Junior secondary education

Driver of county cadre and local businessman

#### Interviewee 5

Male (married)

Born in 1981 in Fengyi Village, Changzhi City, Shanxi Province

Junior secondary education

Working as a hairdresser (own business)

#### Interviewee 6

Male (married)

Born in 1948 in Hongtong County

Junior secondary education

Working as gatekeeper at the County Department for Environmental Protection

#### Interviewee 7

Male (married)

Born in 1972 in Luojian Village, Huozhou City, Shanxi Province

Junior secondary education

Owner of printing business

**Interviewee 8**

Male (married)  
Born in 1960 in Yanhe Village, Chongqing Municipality  
Junior secondary education  
Peddler selling hardware tools

**Interviewee 9**

Female (single)  
Born in 1981 in Hongtong County  
Technical degree  
Teacher at a private kindergarten in Jianqiao Village, Dahuaishu Town

**Interviewee 10**

Female (single)  
Born in 1985 in Hongtong County  
Technical degree  
Teacher at a private kindergarten in Jianqiao Village, Dahuaishu Town

**Interviewee 11**

Female (married)  
Born in 1985 in Hongtong County  
One year of junior secondary education  
Working as a hairdresser (own business)

**Interviewee 12**

Female (married)  
Born in 1981 in Hongtong County  
Technical degree  
Working as a nurse at a local Chinese Medicine Hospital (public hospital)

**Interviewee 13**

Female (single)  
Born in 1982 in Hongtong County  
Junior secondary education  
Hotel staff manager and office worker in one County Government Department

**Interviewee 14**

Male (married)  
Born in 1971 in Hongtong County  
Junior secondary education  
Owner of a calligraphy and Chinese paintings shop

**Interviewee 15**

Male (married)  
Born in 1951 in Hongtong County  
Primary school education  
Owner of a wholesale business



**Interviewee 16**

Male (married)  
Born in 1954 in Hongtong County  
University education (*daxue* 大学)  
Doctor in a public hospital and owner of a private clinic

**Interviewee 17**

Female (single)  
Born in 1986 in Hongtong County  
Junior secondary education  
Working as a *baomu* in a teashop in Dahuaishu Town

**Interviewee 18**

Female (single)  
Born in 1983 in Hongtong County  
College degree (*dazhuan* 大专)  
Working as an assistant doctor and as a sales representative of a pharmaceutical company

**Interviewee 19**

Female (married)  
Born in 1951 in Taiyuan City, although her family moved to Hongtong County (their original hometown) in 1962  
Dropped out of junior secondary education before graduating  
Owner of a small family restaurant in Jianqiao Village, Dahuaishu Town

**Interviewee 20**

Male (married)  
Born in 1961 in Duanzhuang Village in Changzhi City, Shanxi Province  
Dropped out of junior secondary education before graduating  
Working as a hairdresser (own business)

**Interviewee 21**

Male (married)  
Born in 1963 in Beixiaoliu Village, Handan City, Hebei Province  
Dropped out of junior secondary education before graduating  
Peddler selling candied fruit

**Interviewee 22**

Female (married)  
Born in 1959 in Hongtong County  
Senior secondary education (*gaozhong* 高中)  
Owner of small tricycle shop

**Interviewee 23**

Female (married)  
Born in 1969 in Taiyang Village, Jishan County, Shanxi Province  
Provided no information on her educational background  
Owner of a small bakery

**Interviewee 24**

Male (married)

Born in 1970 in Hongtong County

Technical degree

Formerly a public (*gongban*) teacher, currently working as a journalist at one of the County Government Departments

**Interviewee 25**

Male (married)

Born in 1979 in Hongtong County

Completed only one and a half years of senior secondary education

Electrician

**Interviewee 26**

Female (single)

Born in 1983 in Hongtong County

Junior secondary education

Service staff at an internet bar

**Interviewee 27**

Female (married)

Born in 1967 in Hongtong County

Junior secondary education

Owner of a vegetable shop

**Interviewee 28**

Female (widowed)

Born in 1975 in Hongtong County

Junior secondary education

Owner of a small hardware shop

**Interviewee 29**

Male (married)

Born in 1972 in Hongtong County

Junior secondary education

Owner of a small teashop

**Interviewee 30**

Female (married)

Born in 1969 in Hongtong County

Junior secondary education

Owner of a small family restaurant

**Interviewee 31**

Male (married)

Born in 1962 in Hongtong County

Junior secondary education

Owner of a small family restaurant

**Interviewee 32**

Male (married)

Born in 1958 in Hongtong County

Junior secondary education and informal medical training at two public hospitals

Village doctor and owner of a private clinic

**Interviewee 33**

Female (married)

Born in 1972 in Yincheng County, Shanxi Province but moved with her family to Hongtong County (their original hometown) in 1990

Completed two years of senior secondary education

Owner of a tyre repair shop

**Interviewee 34**

Female (married)

Born in 1980 in Hongtong County

College degree

Public music teacher

**Interviewee 35**

Male (single)

Born in 1989 in Hongtong County

Junior secondary education

Working in a tyre repair shop

**Interviewee 36**

Female (married)

Born in 1964 in Hongtong County

Junior secondary education

Peddler selling baked sweet potatoes

**Interviewee 37**

Male (married)

Born in 1962 in Hongtong County

College degree

Village teacher

**Interviewee 38**

Male (married)

Born in 1952 in Hongtong County

Primary education

Tricycle driver

**Interviewee 39**

Female (married)

Born in Hongtong County

Completed one year of junior secondary education and received informal medical training at local PLA hospital

Village doctor and midwife, treats people at her home

**Interviewee 40**

Male (married)  
Born in 1945 in Hongtong County  
Junior secondary education  
Leader of a team of construction workers

**Interviewee 41**

Male (married)  
Born in 1975 in Hongtong County  
Junior secondary education  
Working as a cook for a county construction company

**Interviewee 42**

Female (married)  
Born in 1981 in Taoshi Village, Lixian County, Gansu Province  
Illiterate  
Construction worker

**Interviewee 43**

Male (married)  
Born in 1954 in Sanyuan Village, Linzhou City, Henan Province  
Primary education  
Leader of a team of construction workers

**Interviewee 44**

Female (married)  
Born in 1956 in Hongtong County  
Technical degree  
Office director at a recently privatized paper making factory

**Interviewee 45**

Female (single)  
Born in 1983 in Hongtong County  
Senior secondary education  
Factory worker

**Interviewee 46**

Female (single)  
Born in 1985 in Hongtong County  
Completed one year of junior secondary education  
Factory worker

**Interviewee 47**

Female (married)  
Born in 1959 in Hongtong County  
Completed 3 years of primary education  
Peddler fixing shoes

**Interviewee 48**

Male (married)  
Born in 1951 in Hongtong County  
Senior secondary education  
Rural school headmaster

**Interviewee 49**

Female (married)  
Born in 1951 in Hongtong County  
Senior secondary education  
Village teacher

**Interviewee 50**

Female (married)  
Born in 1960 in Hongtong County  
Provided no information about her educational background  
Peddler repairing shoes

**Interviewee 51**

Female (single)  
Born in 1988 in Hongtong County  
Junior secondary education  
Working as a *baomu* in a private home

**Interviewee 52**

Female (married)  
Born in 1964 in Hongtong County  
Junior secondary education  
Owner of flooring shop

**Interviewee 53**

Male (married)  
Born in 1951 in Hongtong County  
Junior secondary education  
Owner of a large team of construction workers

**Interviewee 54**

Female (married)  
Born in 1956 in Hongtong County  
Senior secondary education  
Owner of a massage house

**Interviewee 55**

Female (married)  
Born in 1964 in Nansung Village, Yuncheng City, Shanxi Province  
Technical degree  
Nurse at a public Chinese Medicine Hospital

**Interviewee 56**

Female (married)  
Born in 1976 in Hongtong County  
Junior secondary education  
Owner of two shoe shops

**Interviewee 57**

Male (married)  
Born in Anhui Province  
Provided no information about his educational background  
Peddler selling medicinal plants

**List of urban respondents****Interviewee A**

Male (married)  
Born in 1968 in Dahuishu Town, Hongtong County  
Junior secondary education  
Staff member at the County Environmental Protection Department

**Interviewee B**

Male (married)  
Born in 1950 in Dahuaihu Town, Hongtong County  
Junior secondary education  
Laid-off worker, working as a calligrapher

**Interviewee C**

Female (married)  
Born in 1966 in Dahuishu Town, Hongtong County  
Technical degree (*zhongzhuan* 中专)  
Laid-off worker, owner of a small photo-copy shop

**Interviewee D**

Female (married)  
Born in 1961 in Dahuaihu Town, Hongtong County  
College degree (*dazhuan* 大专)  
Teacher at a local primary school

**Interviewee E**

Male (married)  
Born in 1970 in Dahuaihu Town, Hongtong County  
Technical degree (*zhongzhuan* 中专)  
Local entrepreneur

**Interviewee F**

Male (married)  
Born in 1976 in Dahuaishu Town, Hongtong County  
College degree (*dazhuan* 大专)  
Vice-director of the County Construction Company  
(*Zhengshi Chenggonggong* 政市程工公)

**Interviewee G**

Male (married)  
Born in 1954 in Dahuaishu Town, Hongtong County  
Technical degree (*zhongzhuan* 中专)  
Manager of the County Construction Company

**Interviewee H**

Female (married)  
Born in 1964 in Dahuaishu Town, Hongtong County  
Senior secondary education  
Staff worker at the Urban Water Company

**Interviewee I**

Female (married)  
Born in 1980 in Dahuaishu Town, Hongtong County  
College degree (*dazhuan* 大专)  
Staff at the telecommunications company CNC (*Zhongguo Wangtong* 中国网通)

**List of staff of County Government Departments and Public Service Units**

Officer from the Public Security Department (*Gonganju* 公安局)  
Staff member at the Department of Natural Resources (*Guotu ziyuanchu* 国土资源处)  
Accountant at No. 1 People's Hospital (*Di yi Renmin yiyuan* 第一人民医院)  
Staff member at the County Labour and Social Security Department (*Laodong he shehui baozhangju* 劳动和社会保障局)  
Staff member at the Personnel Department (*Renshiju* 人事局)  
Ex-director of No. 1 People's Hospital (currently the manager of a private hospital)

**List of County Level Government Officials**

Former Director of the Education Department (*Jiaoyuju* 教育局)  
Director of the Finance Department (*Zhengcaiju* 政财局)  
Vice-Director of the Labour and Social Security Department (劳动和社会保障局)  
Vice-Director of the Construction Department (*Chengjianju* 城建局)  
Vice-Director of the Personnel Department ((*Renshiju* 人事局)  
Section leader at the National Taxation Office (*Guoshui* 国税)

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