

## **GLOBALIZATION AND SOCIAL WELFARE REFORMS IN CHINA**

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The political and economic reforms initiated in China in the late 1970s can be seen as the communist regime's response to the crises faced by the country after the Cultural Revolution. Disastrous socio-political legacies left by the Cultural Revolution prompted Deng<sup>1</sup> to initiate reforms particularly in the social sector.

Many countries had seen moves towards welfare reforms since the late 1970s, and China is not an exception to it. In spite of the many differences from country to country, not least in terms of the extent of the reforms undertaken, the basic direction of reform has been very similar in all countries concerned. From the post-war welfare state model, which was based on the ideology of social justice and equality, we are moving towards the neo-liberal welfare model, which is based mainly on economic efficiency. A number of social and economic factors have influenced this shift but two are fundamental: economic globalization and the introduction of market reforms.

### **TWO DECADES OF WELFARE REFORM**

People's Republic of China despite being at the low level of economic development enjoyed a high level of social welfare provision, especially when compared with its relatively low level of economic development. During this period, responsibility for social welfare in urban areas was assumed by both the government and the state enterprises, and by collective economic organizations in rural areas. As a result of the reform measures introduced as of the early 1980s, China's social policy has undergone significant change.

## PRE-REFORMS WELFARE SYSTEM

China's socialist welfare system dates back to the early 1950s. The first legislation in the field of welfare policy were the 'Labor Insurance Regulations of the PRC', promulgated in 1951. In the following three decades, the governmental welfare system in urban areas and the collective welfare system in rural areas were gradually extended to include almost all the welfare provisions that European welfare states provided to their citizens.<sup>2</sup> The Chinese welfare system in that period had the following characteristics:<sup>3</sup>

- (i) Full employment: almost all urban laborers were assigned a job by the government and they were not laid off after taking up employment. In the countryside, rural workers were granted full access to collectively-owned farmland in rural villages;
- (ii) A rationing system in the context of the distribution of subsistence foodstuffs and goods such as grain, cooking oil and clothes for the urban residents. These goods were subsidized;
- (iii) Public services in health care, education, public housing for urban residents and personal services for urban and rural residents;
- (iv) Social assistance in urban and rural areas; and
- (v) Various insurances for state workers and other staff, including pensions, medical insurance, occupational benefits, etc.

China's social welfare system prior to the introduction of social welfare reforms amounted to a multiple-tier system. At its most basic level it was a 'safety net' which, in the case of urban residents, was open for all those in full employment and provided access to a supply of basic foodstuffs. In rural areas, access was given to collective farm land. At the next higher level, China's social welfare system boasted a social assistance scheme for those urban and rural residents who were unable to seek employment or to obtain family support. At the highest level, an exclusive welfare system was reserved for urban state workers and government staff. This covered

welfare provisions such as pensions, free medical care and public housing.

Although the Chinese welfare system has been criticized for its shortcomings, not least its differentiation between those living in rural and urban areas, it functioned well in the centrally planned economy. All Chinese people enjoyed basic social security and China as a whole was able to make significant achievements in its overall social development measured in terms of a rising average life expectancy, lower illiteracy rates, and a relatively equitable living standard.

### PERIODIC REFORMS

*Early Reforms:* China's social welfare system has undergone reform since the early 1980s. In its early phase, this reform was a response to the then ongoing reforms of the country's economic system. The first step in the urban economic reform was aimed at the decoupling of state enterprises from the government's financial system. The introduction as of the mid-1980s of a contract employment system entailed the abolition of China's rigid employment system.

As a consequence of the economic reforms, urban enterprises were transformed from 'socio-economic organizations' into 'economic organizations'. Their role as a provider of social welfare services was gradually weakened. To make up for this functional loss in the provision of social welfare services, urban residents' communities began to be 'reinforced to undertake this task from the late 1980s onwards.

Briefly, then, social welfare reforms in China in the 1980s mainly affected urban areas, as it constituted an institutional adjustment in response to the institutional imbalances that had opened up between the existing welfare system and the economic reforms newly initiated. The basic aim of welfare reform in this period was to reinforce existing welfare functions by introducing new mechanisms that would compensate for the functional weakening of the levers of the traditional welfare system.

*Reforms in the 1990s:* The fundamental shift in China's welfare policy is in line with her embrace of the market, as well as, her increasing



interdependence on the global economy.<sup>4</sup> Summarily:

***Urban Welfare System Reforms:*** The government has tended to pursue a labor market policy under which urban laborers' employment is no longer arranged by the government. The individual laborers' experience of stable employment has been replaced with the labor contract practice. The replacement of the state-operated legal insurance by a social insurance model where contributory benefits are paid for by both employees and employers<sup>5</sup>. Also, the employees are now faced with a semi-commercial medical-aid system by virtue of the social insurance model. A subsistence level security system has come into vogue, and its coverage is much wider. Housing system has been commercialized. People have to pay for their housing at market rates for new construction schemes. NGOs and NPOs are encouraged to participate in providing services for the elderly and the handicapped. All state-owned and urban facilities have been converted to run on a commercial basis.<sup>6</sup>

***Rural Welfare System Reforms:*** A pension program modeled along the social insurance model has been initiated for rural residents where none existed before. Funds are pooled to provide security for food, clothes, fuel, medical care and funeral costs. The co-operative medical care system has been disbanded to allow for a private medical care practice.<sup>7</sup>

From the above, four general trends of social welfare reform — in both urban and rural areas — can be identified: first, the 'societalization of social welfare'; second, the rise of selectivity; third, a change in the basic philosophy of welfare provision; and fourth, changes in the basic objectives of welfare provision.

## GENERAL TRENDS IN SOCIAL WELFARE REFORM

The most significant characteristic of the welfare reform concerns the trend towards the 'societalization' of social welfare. This term summarizes two kinds of change in the provision of welfare. First, the government is no longer taking full responsibility for providing social welfare. Instead, other actors, including local community organizations and various non-governmental organizations, have been encouraged to participate in its

provision. Individual laborers are required to pay for their social security as well as more generally in many other areas traditionally labeled social welfare. Second, economic entities, including state enterprises, also no longer serve a strong function in the provision of welfare. Indeed, their traditional role and responsibility as a welfare provider have been passed on to other social organizations, e.g. the local community<sup>8</sup>.

The reform of China's welfare system has brought about a move from a universal model to a selective model of welfare provision. The new system targets the poor and those who are most in need. This trend is illustrated by the extension of *means-tested* urban social relief and the end of the government's universal provision of pensions, medical care, housing and other services.

In terms of its ideological underpinning, the traditional social welfare system in China was based on 'socialist ideology', which meant that social protection and social equality were the core objectives. After the introduction of welfare reform, however, there has been a shift in the basic ideology underlying the provision of welfare. Economic efficiency is now being given priority over social justice.

Turning towards the changes in the economic and social goals of the social welfare system after the reform, emphasis has focused on reducing labor costs in order to have a 'more efficient economy' by restricting the government's social welfare expenditure. This stands in contrast to the main economic goal before the initiation of welfare reform which was to increase the employees' work enthusiasm by providing them with good social services. Moreover, while in the past the social welfare system served to maintain social justice through what was called the 'socialist distribution system', and to increase the quality of life of Chinese citizens through higher public expenditure, the supreme social goal of the new social welfare system is now different. The main social objective now is to provide sufficient basic welfare benefits to maintain social stability in the People's Republic of China.

In summary, the main task of China's current social welfare policy is to provide a basic 'safety net' that will avoid social unrest, while limiting the

growth in social expenditure in order to allow China to become more competitive. In practical terms, the result of this policy shift has been a reduce benefit level in China's social welfare. While welfare principles of the past have become less important in the economic reform period, market principles and commercial services have been increasingly encouraged. Similarly, as the roles of the government and state enterprises in the provision of welfare have been reduced, those of the local communities and non-governmental organizations have become more important.

### RATIONAL FOR CHANGE IN CHINA'S WELFARE SYSTEM

Many researchers tend to explain the above changes as a consequence of the adoption of market reforms in the economic system. That is to say, they see a correlation between the shift from a centrally planned economy to a market economy and the shift from traditional principles and institutional arrangements in social welfare to those that have been institutionalized since welfare reforms began.

It is true that institutional co-ordination as described above has been an important consideration in China's social welfare reforms, especially in the early stage of reform. However, it is also possible to identify another factor that has played a *similarly*, if not more important role in accounting for the changes in China's welfare system: the impact of economic globalization.

China's pro-growth strategy will need to tackle the country's social agenda, which will be affected by both macroeconomic developments and the pace of enterprise reform. This agenda stresses the need to develop labor-intensive sectors in order to facilitate growth. Shifting consumption towards household consumption will also help transform the Chinese economy into a demand-driven economy that serves the needs of Chinese households.

To clarify might want to examine what happened to the welfare provision in other countries. In the first two decades following the end of the Second World War, the Western developed countries, as well as the Eastern socialist countries, including China, all enjoyed a measure of achievement in their respective social welfare development, notwithstanding differences



in their political and economic systems. As we know, many countries with higher than average welfare provisions found themselves in a so-called 'crisis of the welfare *state*' at the end of the 1970s.<sup>9</sup>

Turning to the reasons as to why such a crisis arose, *two* factors have by and large been identified. First, it has been argued that the post-war European welfare state, given its generous welfare provisions, has suffered from market distortions. The argument here is that the generous welfare provisions spoilt people's working motivation and led to higher unemployment as well as lower economic efficiency. As a result, governments had to raise their expenditure for social programs. This further harmed economic efficiency. Second, the demographic trends in these developed countries increasingly imposed a higher burden on the financial resources of the welfare state, a point not considered by the original designers of the welfare state.

From the early 1993s, however, more and more researchers have begun to focus on a third explanation: economic globalization. As many researchers<sup>10</sup> have indicated, economic globalization has been one of the main factors that have pushed the European welfare state into crisis. The golden age of the European welfare state existed under the mantle of a protected economy. However, since the 1970s, trade and capital flows have increasingly been liberalized. When capital can move freely to any place where labor is much cheaper, and cheaper goods can move freely from country to country, both governments and trade unions lose the key means to bargaining for better welfare provision. Faced with globalization, European welfare states have met more and more problems and the workers in the countries concerned have faced increasing cutbacks in their social welfare provision.<sup>11</sup>

Many researchers in developed countries have been focusing on the negative effects of economic globalization on their respective domestic social policy since the early 1990s. By contrast, governments and scholars of developing countries have, generally speaking, been more likely to focus *on* the unequal international economic order between developed and developing countries, which has been further aggravated by economic globalization.<sup>12</sup> In spite of the fact that some researchers have paid

attention to international factors when explaining, for instance, Latin-American social policy reform after the debt crisis in the 1980s, the effects of globalization on developing countries' domestic social welfare have, comparatively speaking, attracted less attention. Judging by China's case, however, it seems possible to suggest that globalization has had negative effects on the social welfare development in developing countries more generally<sup>14</sup>.

As a result of China's open-door policy, however, more foreign capital has entered into China, international trade has increased, and the Chinese economy has become, step by step, a part of the globalizing world economy. It is this change that has exercised a strong influence on China's social welfare development in at least two ways. First, as more foreign goods have been imported and as more foreign investment funds have been attracted —enhancing China's competitiveness — the state sector's lower efficiency has proved a major obstacle to the continued survival of the regime and China's further development<sup>13</sup>. This is the reason why the government has tried its best to boost economic efficiency of the state sector by, for instance, reducing its payroll expenses. Consequently, a lot of state workers have lost their job and poverty has become an increasingly serious problem. Second, under the pressure of international economic competition, the government has sought to control the growth of labor costs in an effort to create a more attractive environment for foreign investors. To attract additional investment, the government is keen to limit increases in social expenditure and to curb expenditure in areas of social security, housing, health services, education, etc.<sup>15</sup>

In short, in a more open economy, the government faces pressure from two sides. On the one hand, the government has extended the social welfare programs that are necessary to deal with the increasing problems of urban unemployment and poverty, in part a consequence of the pressures of international competition. On the other hand, the government seeks to reduce its social expenditure in order to strengthen the economic competitiveness of the People's Republic. China's social welfare reforms thus provide an example of how joining the globalizing economy creates social problems in a developing country which may then be forced to transform its social policy.



## CONCLUSIONS

The WTO entry of China will have far reaching consequences. International competitiveness will increase. Entering the WTO means that the Chinese economy will be more than ever a part of the global market, i.e. she has to open her market to international competitors, while Chinese enterprises will have more opportunities to access international markets. Without doubt, the Chinese economic actors will face stronger competition as a consequence of this development. As to whether China will experience a net gain or a net loss as a result of WTO accession will depend on the extent to which the economic sectors can enhance their respective competitiveness.

Employment in China is sensitive to a number of factors other than the overall rate of growth in the economy. Output growth in some sectors, primarily the tertiary and urban informal sectors, generates more employment than output growth in others. The structural shift of the economy towards these labor-intensive activities-and policies that support the shift also facilitate employment growth. The rate at which state and collectively owned enterprises decide to run down their inherited labor surpluses and the magnitude of frictional and structural unemployment also affect the employment rate.

Inequality and poverty will also increase. After joining the WTO, economic competition between China and other countries will have two dimensions. One involves competing against developed countries in hi-tech industries. This competition is for the most part also a competition for highly educated young talents who have to be offered high incomes. We may want to describe this as a competition in the 'race to the top'. The other dimension is about competition against countries in international markets for a larger share of international investment and trade in goods produced by labor-intensive industries. To win this competition, both the Chinese labor-intensive industries and its international competitors may have to keep labor costs low. We may want to describe this competition as a 'race to the bottom'. As a consequence, China is likely to experience more social inequality, especially if measures designed to maintain social protection are not implemented. Moreover, as a result of a higher

unemployment rate that results from enterprises cutting down on staff in their drive for greater economic efficiency, and the government's deregulation in this area, the poverty rate in China will possibly grow substantially. This will happen even if the average income may increase as a result of good performance achieved by enterprises operating in the free market.

Demands for social protection will also increase. In a situation in which unemployment and poverty are growing, demands for greater social protection are bound to increase. The demands of this nature will concern not only social security (social insurance and social assistance), but also other aspects of the social services such as education, medical care, housing, and personal services.

Economic reforms will continue to be implemented, leading to further social transition. China's economic reforms will probably accelerate after Beijing joins the WTO. Further reform *is* likely to occur along two trajectories. The first is the further marketisation of China's economic system in order to increase the country's economic competitiveness. The second focuses on the adjustment of its regulatory system so as to better co-ordinate between China on the one hand and the 'WTO's regulatory system. The regulatory adjustment is likely to happen not only in the economic sector, but also in the social sector.

If we move away from notions of 'competition between developed and developing countries' to 'competition among developing countries', discussion of a regional or even global standard of social protection becomes meaningful for developing states. Only if joint efforts are made toward its realization, can developing countries expect to have adequate social protection while maintaining or even enhancing their economic competitiveness vis-à-vis the developed world.

China needs to boost consumption through construction of rural infrastructure like rural water supply improvement and feeder roads. This would stimulate rural consumption and protect the poor during an economic slowdown. Reforms to increase consumption could include the following:

- Social protection programs to reduce uncertainty in future income and hence boost consumption.
- Housing reform to stimulate demand for housing by removal of restrictions from sale of property.
- Monetization of non-wage benefits through increasing money payments by converting benefits services to cash payments.
- Civil service salary structure by increasing salaries in line with broader market developments.
- Development of consumer credit by promotion of credit card schemes giving a legal and institutional framework for operation of financial institutions.
- Development of agricultural planning, pricing and marketing policies and institutions.
- Increase opportunities for labor mobility.
- Strengthen rural infrastructure.

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