

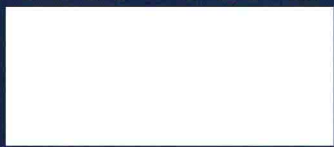


# COMMON COUNTRY ASSESSMENT 2004

Balancing Development to Achieve  
An All-Round Xiaokang  
and Harmonious Society in China



UN COUNTRY TEAM IN CHINA



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UN Country Team China



# Foreword

China is at an important point in its history: the spectacular progress over the past two decades has resulted in dramatic reductions of the number of poor in China and in improving the lives of the Chinese people. Signs of progress are visible almost everywhere in China. Yet this progress brings its own challenges- the primary one being of rising inequality and the pressing need to re-balance development. Responding to these challenges, China has articulated its vision of 'Xiaokang' (the all around moderately prosperous society) with emphasis on a 'Harmonious Socialist Society', a vision closely connected to the promise of the Millennium Development Goals (MDGs).

China is rapidly becoming a global player, whether measured in trade volumes or international politics or for that matter multilateralism broadly. How China responds to these challenges is likely to shape not only the country's own future but also significantly influence that of its neighbours and the rest of the world. As such it represents a historic challenge for China and its partners. For the UN system in particular, it represents an opportunity to help China deliver on Xiaokang and the MDGs, strengthen multilateralism and reinforce global and regional stability.

This Common Country Assessment (CCA), produced by the UN Country Team, provides the analytical basis for looking at these challenges. Produced in close consultation with the government and other partners in China, it analyzes the current situation of the country and its future challenges. It draws upon the findings of China's recent MDG progress report (2003), and outlines the key elements of the Xiaokang vision, to be reached by 2020, and charts how this vision is playing into national policies and programmes.

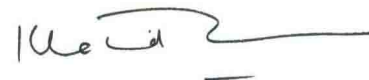
China has put renewed emphasis on achieving balanced and human centered sustainable development. In 2003, it introduced the concept of 'five balances' to achieve the Xiaokang society. This interest in sustainable development has prompted the UN system in China to

focus the CCA on the issues and challenges that are inherent in attaining such balanced development. Issues of pro-poor growth and of inequalities are highlighted in the analysis. Sex-disaggregated data to the extent possible have been integrated in each chapter. This CCA is a rights based perspective on these concerns and of protecting the vulnerable groups of society.

Based on this analysis, the CCA suggests priority areas for international cooperation, where the UN system and its partners can make a difference drawing upon their comparative strengths. The CCA serves as a key input to the preparation of the UN Development Assistance Framework (UNDAF) and the Country Programme Documents of the UN funding agencies.

The UN in China greatly appreciates the active participation and thoughtful comments from our partners, first and foremost the Chinese government and NGOs and also the many donor colleagues who took time to comment on drafts of the CCA. We would in particular like to acknowledge the work of the Ministry of Commerce for its able coordination of the CCA/UNDAF process.

This broad consultation and participatory process is strong testimony of the shared commitment of China and its partners to the achievement of common results in attaining the MDGs and establishing a Xiaokang society. We look forward to an active debate of the issues raised in this CCA.



Khalid Malik  
UN Resident Coordinator



# Executive Summary

**C**hina has achieved remarkable economic growth over the past 25 years, lifting more than 300 million people out of poverty. Although levels of development vary sharply, all 33 provinces and special regions have achieved Human Development Index (HDI) values in the medium or high range. Life expectancy now exceeds 70 years. But the same economic progress that has led to these impressive achievements has also brought new challenges and concerns.

Using an international poverty line of \$1 income per day, in 2002, an estimated 88 million people remain poor. Reducing poverty further will require measures beyond an exclusive reliance on economic growth alone. Growth and shifts in production have caused new forms of poverty to emerge. These are especially visible in urban areas, particularly among laid-off workers from restructured or closed State-Owned Enterprises, and among migrant workers who are not yet fully employed. In addition, most of the country's rural poor live in remote upland areas of western China, where achieving agricultural productivity gains has proven problematic.

Since there is no automatic link between growth and poverty reduction, deliberate policies are needed to deal with multi-dimensional inequalities. Major challenges facing China in balancing economic growth with social development as well as reducing the disparities include (i) creation of more and better jobs, (ii) promotion and protection of the rights of vulnerable groups, including migrants, women, children, elderly and disabled, (iii) promotion of the rights of ethnic minorities through

culture based development, (iv) strengthening pro-poor fiscal policy and public service delivery, and (v) promotion of rule of law and good governance.

Challenges are also equally large in the environment as a result of unprecedented economic growth and development. Traditional approaches are not enough to overcome the challenges: innovative ideas and holistic approaches are needed to ensure the sustainability of environment and energy. The areas which require special attention include: (i) systematic approach to land degradation, (ii) mainstreaming biodiversity conservation into overall development, (iii) increasing water-use efficiency and ensuring safe drinking water, (iv) increasing energy efficiency and the use of renewable sources, (v) enhancing environmental governance, (vi) upgrading waste disposal and sanitation, and (vii) strengthening of disaster prevention and preparedness.

China's population's growth rate is presently at around 8 million, and the growth is projected to continue growing until 2030. With market liberalization and looser controls on movement within China, urbanization is accelerating and the migrant population is likely to continue increasing in the coming years. As traditional work-unit mechanisms disappear or became less effective, many groups are increasingly likely to fall outside the existing social safety nets. This demographic trend is expected to have a significant impact on China's future development, especially in areas such as education, employment, social security system, and public health system. Key challenges in the social protection are (i)

expanding the social safety net to vulnerable groups, (ii) ensuring quality work conditions, and (iii) protection and empowerment of vulnerable populations.

China has made great achievements in the Action Plan for Education for All. But, major concerns remain: (i) improving quality of basic education, (ii) addressing growing disparities in education, (iii) promoting gender equality in education, (iv) ensuring education for children affected by migration and minority children, (v) matching education and skill needs, and (vi) strengthening higher education particularly for disadvantaged groups.

Thanks to the progress made over the past fifty years in controlling communicable diseases, China's overall disease profile now resembles that of a developed country. But, inequalities in access to quality health services and huge disparities in health outcomes remain. MDG targets for HIV/AIDS and TB control are lagging, and progress toward reduced childhood and maternal mortality targets is slowing. Emerging infectious diseases such as SARS and avian influenza as well as health-related trade issues such as food safety are increasingly important. Major challenges are (i) increasing public funding in health, (ii) making health care affordable for the poor, (iii) improving quality of health services, and (iv) strengthening inter-agency collaboration.

The Government has recently taken the challenge of HIV/AIDS aggressively. There are three aspects of the challenge. First, fear, stigma and discrimination are widely recognized as obstacles to mounting an effective response against HIV/AIDS. Second, a range of prevention programmes has been carried out in different parts of China, but coverage is limited. Finally, Anti-Retroviral treatment is being offered through clinics. But most people living with HIV/AIDS are unaware of their HIV-positive status, and access to confidential Voluntary Counseling and Testing is still limited.

The important question in managing China's relations with the rest of the world is whether its rise is a win-win proposition or a zero sum game. As China's "footprint" on the rest of the world grows, the role of China in the global partnerships with developing countries, particu-

larly in supporting the MDGs, becomes increasingly important. Areas which need special attention are: (i) strengthening multilateralism, particularly through the ratification and implementation of international conventions, (ii) strengthening cross-border links, and (iii) strengthening South-South Cooperation.

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## Abbreviations

ABC	Agricultural Bank of China
ADB	Asian Development Bank
AIDS	Acquired Immunodeficiency Syndrome
ARV	Antiretroviral
ASEAN	Association of Southeast Asian Nations
CAS	China Academy of Science
CCA	Common Country Assessment
CCICED	China Council for International Cooperation on Environment and Development
CEDAW	Covenant on the Elimination of Discrimination against Women
COD	Chemical Oxygen Demand
CPC	Communist Party of China
CRC	Convention on Rights of the Child
DALYs	Disability Adjusted Life Years
DOTS	Directly Observed Treatment Short-Course
ECCD	Early Childhood Care and Development
EFA	Education for All
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
EPI	Expanded Program on Immunisations
GDP	Gross Domestic Product
GIS	Government Insurance Scheme
GMP	Good Manufacturing Practice
GNP	Gross National Product
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
Hukou	Resident Permit
ICESCR	International Covenant on Economic, Social and Cultural Rights
ICCPR	International Covenant on Civil and Political Rights
ICT	Information and Communications Technology
IDU	Intravenous Drug Users
IMF	International Monetary Fund
ILO	International Labour Organisation
IT	Information Technology
IUD	Intrauterine Device
LDCs	Least Developed Countries
LGOPR	State Council Leading Group Office for Poverty Reduction



LIS	Labor Insurance Scheme
MDGs	Millennium Development Goals
MLSP	Minimum Living Standard Programme
MMR	Maternal Mortality Ratios
MOE	Ministry of Education
MOH	Ministry of Health
MOLSS	Ministry of Labour and Social Security
MSM	Men who have Sex with Men
MWC	International Convention on the Protection of the Rights of all Migrant Workers and Members of their Families
NDRC	National Development and Reform Commission
NER	Net Enrolment Rate
NGOs	Non-Governmental Organisations
NPA	National Programme of Action
NPC	National People's Congress
NPFPC	National Population and Family Planning Commission
NBS	National Bureau of Statistics
PLWHA	People Living With HIV/AIDS
PRC	People's Republic of China
RCC	Rural Credit Cooperatives
RCMS	Rural Cooperative Medical System
RMB	Renminbi
SARS	Severe Acute Respiratory Disease Syndrome
SEPA	State Environmental Protection Administration
SFDA	State Food & Drug Administration
SME	Small and Medium Enterprise
SO <sub>2</sub>	Sulphur Dioxide
SOEs	State-Owned Enterprises
SSC	South-South Cooperation
SWs	Sex Workers
TB	Tuberculosis
TCDC	Technical Cooperation among Developing Countries
TRIPS	Trade Related Aspects of Intellectual Property Rights
TVEs	Township and Village Enterprises
TVET	Technical and Vocational Education
UEBMIS	Urban Employee Basic Medical Insurance System
UN	United Nations
UNAIDS	United Nations Programme on HIV/AIDS
UNCT	United Nations Country Team
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme

UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFPA	United Nations Population Fund
UN Habitat	United Nations Human Settlement Programme
UNICEF	United Nations International Children's Fund
UNIDO	United Nations Industrial Development Organisation
UNIFEM	United Nations Development Fund for Women
UNODC	United Nations Office on Drugs and Crime
UNOHCHR	United Nations Office of High Commissioner for Human Rights
VCT	Voluntary Counseling and Testing
WASH	Water, Sanitation and Hygiene in Schools
WDI	Western Development Initiative
WHO	World Health Organization
WFP	World Food Programme
WTO	World Trade Organisation

# Introduction

Over the past 20 years, China has achieved remarkable economic growth averaging roughly 9.4% annually. Equally impressive is that this growth has lifted more than 300 million people from poverty dramatically improved their lives. By 2003, China had a per capita annual income of USD 1,100<sup>1</sup>. Although there are sharp variances in levels of development, all 33 provinces and special regions have Human Development Index (HDI) values in the medium development range. Life expectancy now exceeds 70 years.

However, major challenges remain. And, this very rapid progress had brought with it new challenges and concerns.

First, there are growing inequalities between urban and rural areas, between eastern and western region between rich and poor, and between men and women. While estimates vary, the Gini Coefficient now exceeds 0.4, the threshold considered by many to indicate potential social unrest.

Second, despite impressive progress in poverty alleviation, a large number of people remain poor, especially in rural areas (an estimated 30 million<sup>2</sup> as of this writing). Reducing poverty further will require measures beyond an exclusive reliance on economic growth alone.

Growth and shifts in the productive structure are causing new forms of poverty to emerge. These new forms of poverty are especially visible in urban areas, particularly among laid-off workers from restructured or closed State-Owned Enterprises (SOEs), and also among migrant workers who are not yet fully employed. In addition, most of the country's rural poor live in remote upland areas of western China, where achieving agricultural productivity gains has proven problematic.

Third, China's transition to a market economy system has also created new challenges. As the economy becomes more market driven, many people remain to be included in the social safety nets. This trend highlights the urgency of finding new forms of social protection such as social insurance, as traditional work-unit mechanisms disappear or become less effective. Similarly, the public health system has been placed under severe stress, with coverage in rural areas falling from 90 percent to 10 percent between 1979 and 2002.

Equally important, China has undergone rapid and sometimes dramatic demographic transitions over the last half century. Its population of 1.3 billion grows by 7 million each year. Given the large number of women of child-bearing age, growth is projected to continue until around 2035. With market liberalization and looser controls on movement, migration has sharply increased:

<sup>1</sup> GNI per capita 2003, Atlas method and PPP, World Development Indicators database, World Bank, September 2004. According to the China Statistical Yearbook 2004 (National Bureau of Statistics of China, September 2004), RMB 2,622 of per capita annual net income for the rural household, and RMB 8,472 of per capita annual disposable income of Urban Household in 2003.

<sup>2</sup> The people living in poverty in rural area fall from 250 million in 1978 to 30 million at the end of 2000. An Overview of The Development-oriented Poverty Reduction Program for Rural China, The State Council Leading Group Office of Poverty Alleviation and Development (LGOPR).



140 million Chinese are now migrants<sup>3</sup>. Urbanization stands at about 41.8%<sup>4</sup>. The proportion of rural population is higher than the average for countries with China's level of development, and arable land per capita is very low. These demographics are likely to have a significant impact on future development, especially in areas such as employment, pensions, education, and public health.

Other challenges include the 840,000 people infected with HIV/AIDS, a figure projected to grow to 10 million by 2010 if extraordinary measures are not taken. The government has attacked this problem aggressively and since late last year has begun mobilising its institutional strengths to contain and manage the spread of HIV/AIDS in China.

High population density and demand stemming from rapid economic growth over the last two decades have put considerable pressure on the environment. More than 90 percent of China's grasslands are degraded, an estimated 75 percent of urban river water is classified as unfit for human contact, and several of China's cities are cited as being among the most polluted in the world. Nevertheless, these challenges also point to opportunities as China attempts to balance economic growth with the imperatives of environmental protection. China's current water and nitrogen use per hectare, for example, is two to three times the world's average. A concerted shift towards more efficient strategies could raise productivity and make agriculture more sustainable.

China's rapid growth is also having a dramatic impact on global and regional economics and trade. While its strong trading links with the US and Europe have been widely noted, less well known are China's rapidly growing links with developing countries. For instance, trade volume with Africa, a modest \$2 billion in 1997, had jumped to more than \$20 billion by 2003.

The many challenges facing China have prompted the government to put renewed emphasis on its vision of achieving balanced development, referred to as Xiaokang-an "all-round, well-off society"-by 2020. This vision originally focused on quadrupling per capita income, supporting the private sector, and making a

commitment to improving governance and accountability. It has now been further clarified. At the 3rd Plenary Session of the 16th meeting of the Communist Party of China (CPC) in 2003, it was determined that Xiaokang would focus on achieving the following five balances: (i) between urban and rural areas; (ii) among different regions of the country; (iii) between economic and social development; (iv) between human development and the protection of natural resources; and (v) between domestic development and opening up.

This rare correspondence between Xiaokang and the Millennium Development Goals (MDGs) makes the UN's role of potentially vital interest. This CCA provides the analytical base for dialogue and discussion between the UN system in China and the Government, and serves as a key input to the preparation of the UN Development Assistance Framework (UNDAF) and the Country Programme Documents of the UN funding agencies.

<sup>3</sup> National Population and Family Planning Committee of China, 2004

<sup>4</sup> National Development and Reform Commission, 2004.

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## PART I

### GROWTH WITH EQUALITY TO BUILD AN ALL-ROUND XIANKANG SOCIETY





# Growth, Inequality, and Poverty Reduction

**T**he result of China's economic reforms has been to propel the country's average annual per-capita GDP growth to 9% (from 1979 to 2002) and its industrial growth rate to 11.5%. These numbers make China the world's top performer in terms of economic growth. This high, sustained growth accounts for much of the dramatic reduction in poverty achieved over the last two decades. Remarkably, China has already reached the Millennium Development Goal of halving income poverty. According to official statistics, the number of rural people living in extreme poverty dropped from 250 million people (30.7% of the population) in 1978 to 85 million (9.4% of the population) in 1990. It then fell further, to 28 million or about 3% of the population<sup>5</sup> by year-end 2002. Based on the international poverty line of US \$1 of income per day, the number of China's poor is estimated to have dropped from around 490 million (49%) in 1990 to 88 million (6.9%) in 2002 (Figure 1.1).

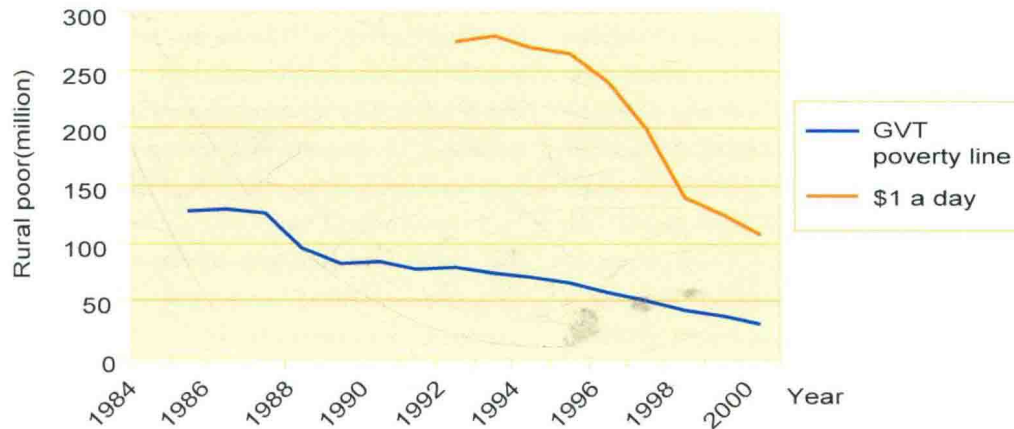
*Recently, however, economic growth has become less able to sustain poverty reduction.* By any measure, and despite significant improvements in infrastructure and production conditions in poor areas, the pace of poverty reduction has slowed significantly since the late 1990s. Furthermore, while millions of households have been lifted out of the most extreme form of poverty, most continue to face poor living conditions and remain highly vulnerable to natural calamities and sudden shocks.

In response, the central government has scaled up its investments in targeted anti-poverty programmes, which increased from nearly US \$1.2 billion in 1994 to US \$3.6 billion in 2003. But while the number of poor people in targeted poor counties reportedly fell by 38 million between 1994 and 2000 (NBS, 2001), the number of poor living outside designated poor counties increased from 25% in 1986 (LGOPR) to 46% in 2000 (NBS, 2001).

<sup>5</sup> China's poverty line represents the lowest level of income needed to maintain basic subsistence, i.e. to eat or cloth oneself. In 2000, the poverty line was adjusted upward from 300 yuan per capita to 635 yuan per capita. The National Bureau of Statistics (NBS) has recently added a new poverty line which raised the share of non-food expenditure. This new poverty line of 865 yuan per capita is close to the US\$1 (PPP 1985) per day but the previous one, demarcating extreme poverty, remains the one which is primarily used



Figure 1.1 Number of Rural Poor



Source: State Council, Leading Group Office of Poverty Reduction (LGOPR), Government of China, 2001

The Asian Development Outlook 2004 Update for China reports that the share of subsidized loans reaching the poor would have dropped from 70% in the mid 1980s to about 20% today. This suggests that the scaling-up of investments in poverty reduction programs needs to be matched by further efforts to improve coverage of targeted interventions and reduce leakage. The government's approach to the design and management of anti-poverty programmes has already started to move towards a broader involvement and mobilization of poor people at the local level. Notably, within the next 10 years, China plans to shift its targeting strategy completely from the county to the village level. Village development plans will be prepared with the active participation of households.

Multiple factors underpin the poverty reduction-adverse trend in China's economic growth process, but the following developments deserve particular emphasis:

*First, the ability of economic growth to generate jobs has been significantly reduced.* The decrease in the share of wages as a percentage in total GDP (from 17% in 1978 to 12% in 2002) is especially revealing. The average number of new jobs created each year fell from 13.6 million in the first half of the 1980s to 8.1 million in the second half. Since 1995, new job creation averages 6.5 million—markedly below the 10 million annual increases in the total labour force.<sup>6</sup>

Table 1.1 Labor Force and Employment

(In millions, at end of year)							
	1980	1990	1995	2000	2001	2002	2003
Labor force 1/	429.0	653.2	688.4	739.9	744.3	753.6	760.8
Employment	423.6	647.5	680.7	720.9	730.3	737.4	744.3
Employment growth			0.9	1.0	1.3	1.0	0.9
Unemployment 2/	5.4	5.7	7.9	19.1	14.1	16.2	16.4
Urban Employment	105.3	170.4	190.4	231.5	239.4	247.8	256.4
Registered Unemployment	5.4	3.8	5.2	6.0	6.8	7.7	8.0
Registered Unemployment rate (in percent)	4.9	2.5	2.9	3.1	3.6	4.0	4.3
Rural Employment	318.4	477.1	490.3	489.3	490.9	489.6	...

Sources: National Bureau of Statistics, 2004

1/ Economically active persons 16 years and older, either working one hour or more in the reference week or looking for work.

2/ Difference between labor force and employment

If China cannot generate employment for its growing population faster than the work force grows, an all-round Xiaokang society will not be realized. Between 1990 and 2002, China's working-age population above 16 rose

<sup>6</sup> UNDP, The Macroeconomics of Poverty Reduction: the case of China, May 2004

from 809 million to 985 million, while rural employment has remained stagnant. Over the same period, the private sector and enterprises with foreign or mixed ownership have become on a net basis the only source of good quality new jobs, but they lag behind the number of job seekers. Employment in the informal sector and self-employment has expanded more rapidly.

Those employment-adverse trends are likely to be exacerbated by World Trade Organization (WTO) membership. A large number of job losses are expected in the primary sector and in SOE-dominated capital-intensive industries such as automobiles, petrochemicals, machinery, and ICT. In agriculture, the implications of China's WTO membership are profound, comprising tariff and export subsidy reductions as well as limitations on domestic farm protection. An authoritative Chinese source has estimated that almost 14 million crop farmers will be displaced.<sup>7</sup>

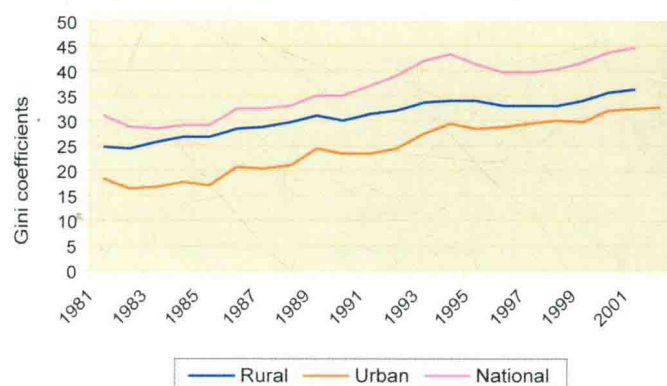
*Second, as a result of economic restructuring, new forms of poverty have emerged.* Urban and migrant poverty have become especially important concerns. The acceleration of reforms of State Owned Enterprises (SOEs) in the late 1990s alongside massive rural-to-urban migration has driven the rise in urban unemployment and urban poverty. Some 28 million workers lost their jobs between 1998 and 2003. By the end of 2003, there remained 2.6 million laid off workers, among which 1.75 million had not found new employment.<sup>8</sup>

A recent research report, based on the 2000 National Census, indicates that 88 million of rural people worked outside their township of origin; of these, 70% had moved to urban areas. In 2002, the number of rural migrant labourers was estimated at 94 million.<sup>9</sup> Since then, the figure has risen to 140 million (as of 2004).<sup>10</sup> Official statistics showed an unemployment rate of 4.3% for 2003, but alternative estimates more in line with international standards suggest a rate of around 10%. In 2003, about 22 million urban dwellers were reported

to have incomes below the basic standard of living;<sup>11</sup> however, this figure excludes the floating rural migrant population, which falls outside the current minimum living protection schemes. According to some recent estimates, the poverty rate among migrants was 50% higher than for urban residents in 1999.<sup>12</sup>

*Third, China's economic growth pattern has been marked by rising and multi-dimensional inequalities, not only between men and women, but also between rural and urban populations. These inequalities have had a major impact on regional disparities.* According to World Bank estimates, overall national income inequality as measured by the Gini coefficient rose from 0.35 in 1990 to 0.447 in 2001 (Figure 1.2). Other recent calculations based on household surveys post a Gini coefficient of 0.46 in 2002<sup>13</sup>, making China the most unequal society in Asia. At constant 1990 prices, the urban-to-rural income ratio widened from an already high level of 2.20 in 1990 to 3.1 in 2002.<sup>14</sup>

Figure 1.2 Gini Coefficients for Income Inequality in China



Source: World Bank, 2003

Inequality is higher in rural than in urban areas because of a higher incidence of extreme and chronic poverty. The gap between urban and rural incomes has become the most prominent source of overall inequality in the recent period, followed by the gap between the affluent and more urbanized coastal regions and the poorer, more rural Central and Western regions. Remarkably, and despite high growth rates, the rural poor in Central and

<sup>7</sup> Development Research Center as cited in Lardy 2000

<sup>8</sup> Ministry of Labour and Social Security, 2004

<sup>9</sup> Project team of Employment and Unemployment in Urban China (2003), "Studies on Urban employment and Unemployment in China (in Chinese), Research Report, Institute of population and Labour Economics, CASS.

<sup>10</sup> National Population and Family Planning Committee of China, 2004

<sup>11</sup> Using a RMB152 yuan per month income poverty threshold.

<sup>12</sup> Hussain, A. et al., 2002, Urban Poverty in PRC, Asian Development Bank, TAR.

<sup>13</sup> Li Shi, New Findings in Income Inequality in China at the Beginning of the New Millennium, January 2004

<sup>14</sup> World Bank 2003, China: Promoting Growth with Equity, Country Economic Memorandum, Oct, 2003