The Deteriorating Livelihoods of Chinese Urban Workers in China’s Transition to a Market Economy

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= Abstract =

This study focuses on the process of unemployment and its impact on the livelihoods of Chinese urban workers in China’s transition to a market economy. The study begins by looking at transition process that has brought deteriorating social and economic conditions in urban areas. It deals with major issues that arise out of economic reform in sequence: enterprise restructuring, massive unemployment and the loss of income and social security. There follows a review on the detrimental effect of massive unemployment in terms of a new form of urban poverty in China. Thus, the study explores the extent to which massive unemployment made a negative impact on livelihoods of the urban employees and also examines practical difficulties that the unemployed experienced.

Key words : unemployment, social policy, transition process, new urban poverty, social assistance programmes

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1. Introduction

There has been substantial socioeconomic change and development in China since the introduction of economic reform in 1979. The transition from a centrally planned economy to a market-oriented economy has made the Chinese economy grow rapidly. Since China’s economic reform launched in the late 1970s, there has been a remarkable growth in per capita real GDP. Household income also increased considerably but varied from period to period, place to place and class to class. Along with its national economic growth, China has dramatically generated private wealth for increasing numbers of people, as well as reducing the number of people below the poverty line.

Whereas economic reform has made such a great achievement in national incomes and absolute poverty reduction, a large scale of urban poverty has also emerged rapidly since the economic transition. There have been a number of explanations about the massive unemployment in China. The best explanation can be summarised as a direct consequence of enterprise restructuring. Enterprise restructuring, particularly the reform of the state owned enterprises (SOEs) and the collectively owned enterprises (COEs) in urban areas, was always on the priority list of economic reform. A series of measures aimed at improving the efficiency of the enterprises and a mixed-ownership structure was widely adopted. Since the mid-1990s, the reform of the SOEs and the COEs was accelerated through the process of reorganisation, acquisition, sell-off, closedown, and bankruptcy. Those tougher measures allowed the SOEs and the COEs to lay off or make workers unemployed in large numbers. The problem of massive unemployment was even more serious in the Chinese cities. In particular, the SOEs and the COEs in the heavy industrial sector experienced increasing profit losses as well as the loss of welfare benefits (including pensions, health and education, and subsidised housing) as a direct result of specific elements of the unemployment process.

As such, economic transition must have been of central importance to
understand economic and social changes in urban China. Economic and social changes were said to be by-products of the transition process. Indeed, they altered the whole picture of the livelihoods of the Chinese workers in the urban area. In particular, unemployment that was particularly caused by enterprise restructuring produced fundamental changes in economic security, social security and standard of living. For instance, a lot of the urban unemployed were driven to the labour-intensive casual sector due to enterprise restructuring. So, I propose to develop the idea of transitional economy around the transformed nature of enterprises and labour restructuring, social security and living standards in relation to livelihood change at great length.

II. A Primary Change in Economic Security

Over the last three decades, a number of socialist and former socialist countries have made great efforts to adopt a series of major economic policy reforms undertaking varying degrees of radical reform in their Soviet-style central-planning economic systems. Moving away from the extremely centralised and highly bureaucratised, the People's Republic of China (PRC), as both a socialist and developing country, was at the forefront of economic reform. Compared with transition economies in Eastern and Central Europe, China is said to have made a gradual transition from a centrally planned economy to a market oriented economy.

However, China began to take a radical approach to accelerate restructuring of the urban state and collective enterprises since the mid-1990s. In economic transition, the government promoted market principles to achieve economic efficiency, to upgrade the industrial structure and to transfer management mechanism of the urban state and collective enterprise. Economic reform in China took place step by step in the fields

1) Solomon, Yuan, Fei, and Maher(2004), pp. 11-12.
of wage determination, job security, and sectoral composition of employment until the late 1980s/early 1990s. But, the pace of economic reform was accelerated in the areas of enterprise restructuring, social security and labour market reform since the mid-1990s. Among them, the urban reform of enterprise restructuring was intended to resolve the problem of inefficiency in the SOEs and the COEs by laying off more than a quarter of its workers.

1. Enterprise and Labour Restructuring

Institutional structure was said to be problematic. China was deeply rooted in the 'lifetime full employment' policy in which employment was institutionally arranged by the government under the centrally planned economy. The problem of lifetime full employment was closely linked with the genuine ownership and management of urban state-owned enterprises. In the pre-reform period, the wage rate, employment and output in the SOEs were largely determined by the government rather than by the management. Chinese enterprise managers in its state sector would serve merely as the agents of the state. Additionally, the COEs in urban areas were technically owned by the workers, though the managers of these enterprises were often appointed by the local government. Thus, the behaviour of the enterprises was widely considered to be under the control of the state.

The seriousness of enterprise restructuring came to light with criticism that financial performance of the SOEs and the COEs was worse than that of other enterprises. Compared to the growth of the Chinese industry at a rapid rate, the performance of the Chinese state sector gradually declined. Although the SOEs and the COEs has also improved overall efficiency since economic reform, the enterprises had severe deficiencies due to lack of autonomy, incentives and competition. However, the problems that these enterprises faced were more complex than that. The 'full employment' policy produced a

heavy burden for the majority of the enterprises: surplus labour, huge debt and heavy welfare costs. The enterprises, once a large player dominating China’s industrial sectors in the pre-reform era from 1949 to 1978, put a serious burden on the state-controlled financial system with a continuing decrease in economic efficiency and over-staffing. This is because the SOEs and the COEs in the pre-reform period continued to receive fiscal aid for the state-run financial sector, distort capital distribution, and lower economic efficiency.

Related to this, a significant problem arose out of the fact that the state alleviated the effect of any unfavourable demand shock of enterprise restructuring through a temporary feature of a layoff policy representing neither total rejection nor complete reliance on market mechanisms.\(^6\) Although the policy ‘lifetime full employment’ was terminated, the enterprises still continued to function as an agency of the state to protect laid-off workers from the hazards of the labour market. Therefore, this gradually put a heavy burden on the vast majority of the SOEs and the COEs.

In addition, the enterprises had to deal with a severe problem of heavy welfare burdens such as housing, health care, and pensions to the majority of urban workers with the help of government departments. Indeed, the performance of the the SOEs and the COEs has been deteriorating rapidly from the 1978 reform period onwards with increasing losses and poor productivity. However, loss-making enterprises were no longer supported indefinitely by the state but were sold off or declared bankrupt with no guarantee of continued or alternative employment for their workers. As a result, the unprofitable SOEs and COEs was on the process of downsizing: stoppage and bankruptcy.\(^7\)

2. Massive Unemployment

The process of enterprise restructuring gave rise to a dramatic shift from
permanent employment to massive unemployment through the process of xiagang (lay-offs, literally ‘off-post’) in urban areas. Under this transitional economy period, millions of former lifetime employees from the SOEs and the COEs were laid-off. At the beginning of economic reform, the laid-off workers still had relations with their enterprises, but soon afterwards they were forced to be officially registered in the Re-employment Training Centres (RTCs). After the termination of contract with the RTCs, the category of laid-off workers was phased out and the laid-off workers got helplessly unemployed.

The old system of lifetime employment was replaced by the new system in the late 1990s. In the pre-reform period, the Chinese government adopted a state labour allocation system in urban areas under which Chinese workers enjoyed lifetime employment (known as the ‘iron rice bowl’), social security and a broad range of welfare benefits once they were recruited into work units (danwei). As enterprise restructuring proceeded, a massive number of Chinese workers were laid off. Furthermore, the Chinese government began to change the old state labour allocation system of lifetime employment into the new ‘Labour Contract System’ in the mid-1980s. The old system of lifetime employment was mostly replaced by the new system in the late 1990s. However, it had a detrimental effect on employment structure. Although it helps to provoke active labour flow in the labour market, it would imply potential unemployment if they failed to renew their labour contracts. Millions of former lifetime employees from the SOEs and the COEs were further laid-off under the new system of contractual employment.

The serious problem is the hidden unemployment in which China’s official unemployment rate in urban areas only counts those who are the formally registered unemployed. This figure was relatively low throughout the 1990s. The official unemployment rate was said to have excluded jobless workers who were laid-off from the SOEs and the COEs as well as peasant workers. According to various estimates, hidden unemployment, if it includes the laid-off workers, was thought to have reached more than 20 million, about 12% of all urban workers.
A radical policy whereby the Chinese government tried to merge massive numbers of laid-off workers into unemployment was a clear sign of its tendency. As noted above, the numbers of the laid workers from the SOEs and the COEs were not required to register as unemployed, but they still maintained ‘labour relations’ with their original work units. However, in launching the ‘Re-employment Project’ in 1995, the Chinese government carried out radical employment policies to cope with the problem of unemployment during the early stages of the reform period. The establishment of the Re-employment Service Centres (RSCs) was implemented to pay the basic living subsidy, pension, unemployment and health contributions, and employment-related services such as job referral, job counselling and training in the late 1990s.\(^8\) According to the employment polices, enterprises were required to set up the RSCs to serve their own laid-off workers in that all laid-off workers were enforced to join the RSCs under an institutional arrangement of trusteeship. The duration of trusteeship lasted for two or three years depending on a local decision. Being served in the RSCs for three years, the laid-off workers had to terminate employment relations with their original enterprises and became unemployed if they still were unable to find new jobs, or if they declined to accept job offers two times. In addition, all laid-off workers who declined to enrol on a course given by the RSCs without proper reasons were ineligible for the basic-living subsistence, other welfare benefits and services.

However, joining the RSCs became mandatory by regulations promulgated by the central government. The idea that the state enforced all laid-off workers to join the RSCs was clearly to merge lay-offs into formal unemployment. Whether or not they were laid-off from the SOEs and the COEs, they were formally categorised as the unemployed. Therefore, there was no laid-off category and all jobless workers desiring to work were considered as ‘unemployed’ from 2003 onwards.\(^9\)

III. A Fundamental Change in Social Security

Alongside economic growth as a whole, ongoing economic reforms initiated in urban areas followed by rural areas in December 1984, however, created a profound change in the level of social security more evident in urban China than in rural areas. Like other countries in transition, the shift away from the state-led development model towards a more market-oriented model produced severe problems such as income inequality, massive unemployment and a new form of urban poverty. This shift was especially dramatic in urban China, as was the magnitude of the economic reform that the country had dramatically preceded over the last two decades.

There has been an increasing concern over implementing social protection programmes for the urban unemployed, which used to be the total responsibility of the enterprise that he or she works for. It was especially true that urban households enjoyed social protection ‘from cradle to grave’ by the state via their employing units (or work-units). However, this old dependency system was no longer affordable because it was condemned as distorting the price structure and the efficiency of economy. Meanwhile, an efficient social welfare system was not established. The marginalised social group of the unemployed fell into the gap in which neither welfare provision through the work-units nor the new urban welfare system can fill. These two predominant factors had negative effects that the emergence of a large group of urban poor whose basic needs was under threat.10) In responding to the emerging urban unemployment problems, the Chinese government in recent years has introduced a series of social security reforms.

In particular, there has been an increasing concern with implementing income support programmes for the unemployed. The Chinese public income support system, by and large classified as part of the social security system, has experienced a fundamental change from the old enterprise-based system to the new state-operated system. To understand this transformation, it is necessary to illustrate the nature of the old system in identifying the

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difference from the new system. However, it is not easy to draw a clear conceptual line to see the difference between the two systems. What is clear, however, is that the new system was introduced to mitigate the problems of massive unemployment due to economic reform. Thus, it is sensible to take economic reform that has led to changes in general nature of the old system as a dividing line.

1. The Old Enterprise-based System in the Pre-reform Period

Despite the introduction of the Soviet-style state socialist welfare system into the Chinese welfare system, China developed its own distinctive socialist welfare system. Initially, the important element of the state socialist welfare model in China’s social welfare system was basically shaped on the USSR model in that the provision of social security programmes was oriented heavily towards the labour force.\(^{11}\) The basic idea embedded in the system was that social security must meet the need developing productive forces, stimulate the rise of labour productivity and promote the development of productive forces. In line with state ownership and centralized control and planning of the entire economy, the social security programme was mainly provided as a means to increase people’s incentive to contribute to economy rather than to social needs.\(^{12}\)

The pre-reform welfare system was integrated into the structure of economy through the collective organisation of production and an egalitarian system of income distribution. It was redistributive not only in an egalitarian nature of covering range, but also in a regressive direction in relation to the population as a whole because the generosity of Chinese welfare benefits was provided disproportionately to the employees in the urban industrial sector.\(^{13}\)

While the range of urban welfare provision was very limited to the urban state sector, an institutional system of relief was only designed to provide

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limited social assistance to a small number of target groups who could not be supported by work units.\textsuperscript{14} The provision of benefits was guaranteed by the party-state, the work unit provided the actual management and financing of provision. In this sense, the Chinese social security system without doubt reflected the structure of China’s formal economic, industrial and state sectors in the urban areas. Overall, the Chinese urban welfare system was clearly a member of the family of Soviet-style state socialist welfare systems, while was distinctive in its heavy reliance on the work unit as an agent of provision.\textsuperscript{15} As such, the general picture of the Chinese welfare system before economic reform was basically shaped on an urban/rural division and work unit/non-work unit division especially in urban areas.

Systematically, the income support system in urban China was a package of social welfare as the integral part of economic policy and planning. Almost all economic and social resources were provided by the enterprises under a unified plan of the Chinese government for resource allocation. Most of welfare provisions were thus not designed to cover vulnerable social groups but to compensate for low wage that urban workers receive in the state sector. As a result, urban workers in the state sector enjoyed a relatively high level of social security and low level of wage. Under this welfare system, the livelihoods of Chinese urban workers and their families heavily depended upon their enterprise.\textsuperscript{16} Along with permanent job security on a low-income system, the social security programme that the SOEs and the COEs provided was vital to secure a basic livelihood. The entire system of social security was bound to be underpinned by basic form of welfare programme and guarantee of lifelong employment in work units. Under the planned economy, the income support system was supposed to work in harmony with the economic system because the former was largely integrated into the latter.

There are mainly three ways of explaining the pre-reform welfare system:

\textsuperscript{14} Cook(2002), pp. 615-625.
\textsuperscript{15} White(1998), pp. 171-179.
\textsuperscript{16} Gu(2001), pp. 91-111.
life-long employment system, the enterprise-based welfare system and the
differentiated welfare benefit system. Firstly, there would be life-long
employment allocated by the state and therefore essentially no
unemployment. China’s universal employment policy was generated on the
basis of providing a right to work and lifelong security. Urban workers in the
state sector were assigned to a job, remained there for a lifetime and given
nearly equal pay regardless of performance. For most of the urban
households, employment was the principal source of income. In fact,
employment in the urban state sector was the key to lifetime security.

Secondly, almost all welfare provisions were given via the enterprises
rather than through other welfare agencies. Within the state sector, the
enterprise functioned as ‘welfare agencies’ providing individual employment,
income protection and a wide range of subsidised welfare benefits and
services.\(^{17}\) These benefits principally refer to those required by labour
insurance since the social security programmes in the urban area were
mainly governed by the Labour Insurance Regulations in 1951. Benefits were
provided by enterprises at a generous level based on the state regulations.
The benefits covered the areas of old age protection, health care, work injury,
material leave, sickness and so forth. Benefits in kind were also offered in
regard to housing affairs and childcare, etc.\(^{18}\) Those provisions were firstly
available for the SOE workers and further applied to those who worked in
the collective firms. In short, the employment-based social security system
successfully ensured the labourer’s living standard before the economic
reform.

Thirdly, the provision of the social security system was explicitly
differentiated according to the ownership status of the work unit. Even
within the urban areas, working in different ownership sectors would bring
different perspectives in terms of social security system in urban areas was
segmented according to the ownership status of the enterprise.\(^{19}\) This

\(^{17}\) Leung(2003), pp. 73-85.
\(^{19}\) Hussain(1994), pp. 276-280.
enterprise-based social security system in urban areas was fragmented into institutional divisions between those belonging to the state sector and those who fall outside the state sector.20) The dominant principles of social security for two groups of the population in urban areas were different. For instance, the workers in the COEs were given lower pay and less generous welfare benefits than those in the SOEs. In other words, employees of the government–related organizations and the SOEs were given higher pay and a wide range of benefits, ranging from disability and old–age pensions, maternity and sickness benefits, medical care to unemployment benefit.

Urban workers in the SOEs and COEs were protected by the enterprise–based social insurance system, while other workers in the non–state sector such as private enterprises and self–employed were excluded from the social insurance programmes. For instance, the urban private sectors had almost no connection with the state in terms of the formal social security system in the pre–reform periods. The private enterprises normally provided no social security programmes for their employees such as pension funds, medical insurance and unemployment benefits. Welfare payment was much more dependent on the profit made by their enterprises. Thus, the level of profit determines social security funding, because their net income could be used for welfare purposes. Therefore, wage payment was the only means of securing social risks for the workers in the private sector.

As such, the whole picture of the Chinese income support system before the economic reforms was basically shaped on the work unit in urban areas. In particular, the workers in the urban state and collective enterprises enjoyed much more generous welfare support than their counterparts in the private sector. Although they received income at a low level, the range of welfare benefits as a compensation for low income was properly provided. However, economic reform transformed the enterprise–based system into the state–operated system, which we will examine below.

2. The New State-operated System During Economic Reform

Along with economic reform in 1978, social security reform aimed to mitigate the problems generated by massive unemployment: it was essential to fundamental alteration in employment structure. A policy initiative to restructure the state industrial sector was highly prioritised. The function of social security was encouraged to be separated from the enterprises. Thus, surplus labour forces got laid-off or unemployed in order to enhance the quality of their management efficiency and achievements. In particular, restructuring the urban state and collective enterprises drove the country into greater change of employment structure in urban China. What is more, there was a rapid worsening in income distribution according to the types of enterprises. These trends in social security reform and increasing job insecurity created a growing concern about compromising income-generating capabilities and the gains made in overcoming income poverty.\(^{21}\) The reform caused urban workers’ poverty across the country, which has become a serious concern for the government. Table 1 shows us major changes in social policy goals before and after economic reform started in the late 1970s.

<Table 1> Major Changes in Social Policy Goals in China

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<tbody>
<tr>
<td><strong>Ideology</strong></td>
<td>• upholding “socialist ideals”, emphasizing social protection and social equality</td>
<td>• Emphasizing economic efficiency and importance of competitiveness</td>
</tr>
<tr>
<td><strong>Economic Goals</strong></td>
<td>• Low wages but generous welfare benefits</td>
<td>• Reduce labour costs by cutting down social welfare</td>
</tr>
<tr>
<td><strong>Social Goals</strong></td>
<td>• maintaining “social justice” by means of “redistribution mechanism”</td>
<td>• Keeping social stability by providing a minimal social relief to the poor and people in needs</td>
</tr>
<tr>
<td></td>
<td>• Improving people’s quality of life by higher public expenditure</td>
<td>• Involving various non-state actors in welfare provision</td>
</tr>
</tbody>
</table>

\(^{21}\) Cook(2002), pp. 615–635.
Given this background, increasing unemployment was one of the significant factors prompting the changes in the income support system, which was said to have initiated in the mid-1980s in conjunction with the enterprise reforms.\textsuperscript{22} Under the threat of this 'hard' budget constraint from the government, the SOEs soon took a very radical approach to reduce the quantity of urban workers. With the stoppage and bankruptcy of the SOEs, many workers faced unemployment, the decline in their standard of living, and some suffering from deprivation and poverty.\textsuperscript{23} In the days of dismissals, it was relatively hard for the unemployed to find new jobs. A new pressure from growing competition between the unemployed and the rural-to-urban migrant workers made the employment situation worse.

Other major force transforming the income support system was deeply interacted with the negative social consequence of economic transition. One was rapid changes in employment structure due to massive unemployment in urban areas. In particular, millions of surplus workers in the urban state and collective enterprises got laid-off or unemployed.\textsuperscript{24} It was difficult to obtain the actual number of laid-off workers due to the ambiguous definition of 'lay-off' and doubtful data in official figures. Through revision in unemployment rate, one possible crude calculation at least implied that the registered unemployment rate in urban areas increased from 1993 to 3.1\% in 1998 according to the China Statistical Yearbook of 1999. So, there was a growing concern over the sustainability of their average living standard, the rising costs of unemployment-related benefits for the increasing category of 'unemployed' and the growing demands placed on the informal sectors (and particularly family) in caring for the unemployed.

To ensure a basic living standard, the government focused on providing a welfare safety net by launching a series of apparently coordinated multiple measures. The following were major policies in relation to unemployment: Re-employment Service Centres (RSCs), unemployment benefit and the

\textsuperscript{22} Qian and Wong (2000), pp. 113-125.
\textsuperscript{23} Mok, Wong, and Lee (2002), pp. 399-415.
\textsuperscript{24} Chan and Qiu (1999), pp. 305-318.
Minimum Living Standard Guarantee (MLSG). The government took these initiatives to shift part of the responsibility for income support programmes with the help of various agencies on behalf of the government. Now we are going to look at each of them to see how the nature of the income support system has changed.

The most ambitious attempt that the Chinese government took was the establishment of the Re-employment Service Centres in 1994. The primary aim of the RSCs was to provide the laid-off workers with reemployment-related service as well as basic monthly living allowance.\(^{25}\) Additionally, the RSCs paid old-age, medical and unemployment insurance premiums for the laid-off workers. The laid-off workers were allowed to stay for up to three years in the RSCs and were eligible for unemployment benefits for up to two additional years.

Secondly, the laid-off workers were given unemployment benefit if they failed to find a new job for a three-year registration in the RSCs. Unemployment benefit had an objective of assisting in job search of the laid-off workers. However, the state-owned enterprises ceased to establish any new RSCs and the newly laid-off workers were no longer allowed to register at the RSCs. Instead, the enterprises terminated labour contracts with the former workers according to the new law. Thus, the laid-off workers were entitled to unemployment benefit according to relevant regulations.

Thirdly, there is the Minimum Living Standard Guarantee (MLSG or dibao) scheme that acts as a final safety net for the unemployed. It is the responsibility of the Ministry of Civil Affairs and is administrated by the Civil Affairs Department at the lowest levels of government, the districts and the committee. In this scheme, the local municipal government sets a Minimum Living Threshold according to the local average income and the general level of local consumption price.\(^{26}\)

The scheme is a programme of cash social assistance targeted initially at

\(^{26}\) Guan(2005), p. 244.
those who fall below the Minimum Living Standard Guarantee (MLSG) line. The scheme was first introduced in Shanghai in 1993 targeting urban residents and was gradually extended to rural residents in 2007. The scheme provides a basic living allowance to individuals whose per capita household income falls below a locally-determined level. This benefit, officially known as the ‘subsistence protection line’, was to supplement income up to an officially-defined subsistence standard. For instance, households with a total income below 290 Yuan per month per person at Beijing in 2005 were eligible to apply for aid from the civil affairs bureau. Adversely, applicants for the MLSG benefit cannot be entitled if total incomes from all household earning resources including casual employment, property, remittance etc. is more than the locally-determined MLSG line. The eligibility is calculated by adding all of the earning resources on a monthly basis. The recipients are supposed to report any changes made to household income to the benefit authorities each month. As household incomes of the unemployed are earned irregularly through casual employment, the community workers check the eligibility criteria whenever necessary. In particular, the community workers give special scrutiny to the households whose income fluctuates by rising above or falling below the eligibility criteria. It is because those households being just above the eligibility criteria face the temptation not to declare all of their income in order to keep their eligibility.
<Table 2> The Minimum Living Standard Guarantee (MLSG) Lines by Province

Unit: Yuan (per month)

<table>
<thead>
<tr>
<th>Year/City</th>
<th>The MLSG Line</th>
<th>Year/City</th>
<th>The MLSG Line</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2005</td>
<td></td>
</tr>
<tr>
<td>Beijing</td>
<td>290</td>
<td>290</td>
<td>Guangzhou</td>
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<tr>
<td>Tianjin</td>
<td>241</td>
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<td>Nanning</td>
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<td>Shijiazhuang</td>
<td>182</td>
<td>220</td>
<td>Haikou</td>
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<td>156</td>
<td>183</td>
<td>Chengdu</td>
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<tr>
<td>Huhejiate</td>
<td>153</td>
<td>190</td>
<td>Chongqing</td>
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<tr>
<td>Shenyang</td>
<td>205</td>
<td>220</td>
<td>Kunming</td>
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<td>169</td>
<td>Guiyang</td>
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<td>200</td>
<td>Lasha</td>
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<tr>
<td>Shanghai</td>
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<td>280 - 320</td>
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<td>210</td>
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<td>Jinan</td>
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<td>Suzhou</td>
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<td>200</td>
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<td>Wuhan</td>
<td>210</td>
<td>220</td>
<td>Shenzhen</td>
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<tr>
<td>Changsha</td>
<td>180 - 200</td>
<td>200</td>
<td>Xiamen</td>
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</tbody>
</table>

Note: 1 Chinese Yuan = 0.066 British Pound
Source: Ministry of Civil Affairs of the People’s Republic of China(2005)

The actual allocation of financial responsibility among governmental units varies from one province to another. Local governments are usually responsible for finance and so schemes vary according to the financial capital of each local government. Although about 40% of the total cost of the minimum living guarantee is financed by the central government in Beijing, the rest is divided among the provincial and lower levels of government. Each locality operating the programme establishes the benefit level that it guarantees, balancing household needs and available resources. The households with income below the guaranteed minimum receive supplements to bring them up to the minimum. The guarantee must be below the
minimum wage.

However, the scheme has various kinds of implementation problems. The main problems identified in the design and operations of the scheme are: inadequate identification and coverage of the urban poor, low level of benefit, excluding residents without urban household registration and low state expenditure on funding the scheme. In particular, the attention is driven to the eligibility criteria, because the eligibility criteria is differently adopted between cities. Local governments, especially those with weak economies, lack the capacity to allocate adequate funding. The common response of local governments to fund shortage was to tighten the eligibility criteria for the scheme.\(^{27}\) Various methods of restricting its eligibility criteria are applied: illegal drug users are not eligible while using drugs in Lanzhou, owners of dogs are not eligible for the scheme in Beijing and families with electronic appliances such as television sets and refrigerators.

The trends that highlighted the problems of massive unemployment pointed to the emergence of new categories of urban poor. It in turn prompts the rethinking of appropriate mechanisms for social security and assistance for the unemployed. New forms of poverty among different groups present challenges to the direction of government in management. In the past, vulnerable groups were basically designated as those few with no work units, working ability or family support. Now, however, most of the urban poor are low-income families, the unemployed and the partially unemployed. It implies that there should be the new social assistance programme for the newly emerging targets: families with financial difficulties due to unemployment, ineligible unemployed people for unemployment benefit or with unemployment benefits terminated and pensioners with inadequate income.\(^{28}\) While a new means-tested programme known as the ‘Minimum Living Standard Guarantee System’ provides assistance to about one-third of the poverty-stricken urban registered, the roles of government, the family and the market are supposed to be changed in assuring income maintenance

\(^{28}\) Leung(2003), pp. 73-85.
for basic living standards.

Secondly, the social assistance system is based principally on those who lack labour capacity such as children, the elderly and the disabled. These individuals had no family support and other income sources. They are also recognised as legitimate recipients of state support and receive social relief from the local authorities. However, people with the ability to work but unable to find jobs fall outside the formal social security system, necessitating a reconsideration of the narrow scope of eligibility for assistance, as well as new mechanisms of social protection in line with the needs of such groups.\(^{29}\)

As such, the transformational nature of China’s income support system was characterised by the rising urban poor resulting from widespread urban unemployment. In particular, the radical reforms of the urban state and collective enterprises and the following far-reaching challenges during China’s economic transformation have demanded the reshaping of the traditional formal social security system providing only for urban workers in state owned enterprises. It also has immense implications for the state in viewing its responsibility for laid-off workers, and the extent to which the state incorporates with other sectors for income support programmes. The balance of the state and enterprises division for income support responsibilities has considerably changed over the last two decades. In other words, the mixed role of state and non-state sector has radically expanded since the state withdrew its dominance over providing the range of income support programmes. In reforming the income support system, the mode of provision, funding and regulation would change from state monopoly to joint involvement by the state, community, market and individuals.\(^{30}\) Likewise, the lack of government commitment to the income support system makes the other social organisations involved much more in providing income support programmes.

\(^{29}\) Cook(2002), pp. 615-635.
IV. A Dramatic Change in Living Standard

The rapid rise in urban unemployment in China through the policy process of lay-offs (xiagang) has caused wide concerns over the emerging demand for meeting their basic needs by newly laid-off workers. The true unemployment situation since then has been deteriorating. The problem of unemployment has led to a remarkable reduction in income and benefits for those who have lost their jobs. Furthermore, lack of public welfare protection and the capability of getting immediate re-employment may have trapped them in poverty between jobs. The unemployed are exposed to a greater level of hardship, and are more likely to experience deprivation in the long term. Although it is clear that the strong performance of the Chinese economy through the transformation of economic and social structure has raised living standards and removed many millions from poverty, nobody would dispute the poverty and hardship among the newly unemployed group.

The presence of the poverty and hardship of the unemployed can be explained as a new form of urban poverty. In contrast to the traditional form of poverty, poverty become gradually urbanised in a large scale during the economic reform.31) Given a series of urban-centred economic and social policies implemented since the establishment of the People’s Republic in 1949, the number of people living under absolute poverty in urban areas is recorded as relatively small compared with rural areas. Traditionally, poverty relief in urban areas was confined to the ‘Three-Nos’ category: 1) those who have no ability to work, 2) those who have no stable income and 3) those who have no dependable providers. In addition, urban residents have also experienced marked improvement in their living standard since the reform and opening-up in the late 1970s. However, in recent years, urban poverty has started to attract renewed interest from policy-makers and academics in China for various reasons. Primary attention has mainly been drawn to the rapidly rising number of urban poor as a result of economic reform in China. It is estimated that around half of the total urban poverty-stricken population

are laid-off or unemployed workers from the urban state and collective enterprises during economic restructuring.\textsuperscript{32)} It is also believed that the urban poor, characterised by high dependency ratio, low-skills or low wages are struggling to find alternative employment in the non-state sector.\textsuperscript{33)} Although rural poverty levels are still higher than those of urban China, there have been suggestions for monitoring and policy responses from the government for growing urban poverty.

1. A New Form of Urban Poverty

Urban poverty has not been at the heart of the issues in China. The Chinese government has not taken it seriously and treated poverty exclusively as a rural problem. Poverty differentiation between rural and urban is mainly ascribed to the early government policy through which the government initiated a large-scale, urban targeted economic development on the basis of a socialist command economy. In other words, the division of the Chinese population was largely founded on the government control of population movement through the household registration system. According to the central system promoting the state ownership of all means of production, a work-unit-based employment system was established to guarantee almost every city resident of working age a life-long employment in the early 1950s. In spite of a low wage policy, urban living standards were maintained through the ‘iron rice bowl’ system by which urban residents were guaranteed employment in state and collective work-units with wide range of social benefits such as housing, pensions, health, education, and rations for food and clothes. As for the urban poor, the Ministry of Civil Affairs was responsible for providing regular social welfare benefits to the Three-Nos category. Under such a generous provision, there was only a small subset of people who lived in absolute poverty in urban areas.

In addition, urban residents have experienced marked improvement in their

\textsuperscript{32)} Ping(1996), pp. 64–74.
\textsuperscript{33)} Qian and Wong(2000), pp. 113–125.
living standard thanks to the reform and opening-up since the late 1970s. For instance, the per capita annual net income of urban residents rose from 343 Yuan in 1978 to 5,425 Yuan in 1998.\(^{34}\) However, the issue of regional poverty in terms of income equality was raised when the coastal economy grew more quickly than rural, western and interior provinces since economic reform. The data presented by Yao et al. (2003) relating to poverty levels and trends among China’s three regions ascertain enormous differences in poverty levels in that the poverty headcount was reduced in the eastern region, but it was increased in the central and western regions between 1995 and 1998.

More recently, a new focus on urban poverty has turned to the urban poor as a whole rather than the old approach of the locality. This new approach about the urban poor mostly stems from the insecurities and vulnerabilities arising in part from market-oriented development. It is suggested that urban poverty in China is largely an unwanted by-product of economic restructuring. It has helped to explore more dynamic and elusive forms of poverty associated with a fundamental change in the urban economic environment since 1994. Some recent studies on urban poverty are also related to the urban floating population, or rural migrants in the cities.

It is noted that the structure of urban poverty in China is different from that of developing countries and transitional economy countries. Urban poverty in China is believed to be directly linked to employment structure. More straightforwardly speaking, urban poverty in China has greatly emerged since a large number of workers were laid off or unemployed from the urban state and collective enterprises. As noted, enterprise restructuring has created significant dislocation of workers. By the end of year 2000, more than 20 million workers were laid off, making the most profound negative impact on the livelihood of the laid-off workers throughout the country.\(^{35}\) Further, the situation became worse when they could not find a new job. With inevitable mass unemployment, less productive workers were possibly the most vulnerable. For instance, older workers were exposed to recent

\(^{34}\) Yao, Bhalla, and Zhang (2003), pp. 1-17.
\(^{35}\) Yao (2004), pp. 171-188.
changes, given that they had had lower education and outdated job skills in terms of human capital.

Urban poverty in China is said to be a kind of structural poverty. This structural point of view suggests that there is extreme poverty emerging among groups of the unemployed. It implies general poverty among urban registered households and extreme poverty of those urban households with laid-off or unemployed members. In addition, the survey data from Yao (2004) suggests that the households with at least a laid-off or unemployed are much more vulnerable to poverty than the average households in the local cities. He further argues that households with both male and female heads who are laid-off or unemployed suffer and over half to two-thirds of these households are trapped in poverty after being laid-off. Obviously, urban poverty is openly related to unemployment and the effect of unemployment on poverty is devastating among the unemployed.

The other aspect to which we should turn is changes in relationship between state, enterprise and society.\textsuperscript{36)} The sense of urban community becomes weakened with the rapid spread of urban modernisation and spatial re-organisation.\textsuperscript{37)} As one of the consequences, the vulnerable and unemployed who do not receive benefits can only survive by relying on their families or on their extended families. In this circumstance, although family assistance for those in need is still regarded as the most available resource at the normative level, any type of government assistance in a direct or indirect manner is further required for practical instances of need. Furthermore, a new stratum of urban poor emerging from massive unemployment would require new forms of social assistance. Therefore, there is little doubt that the government is well aware of the important role of various kinds of sectors in securing vulnerable members.

However, the existence of many and various organisations does not necessarily indicate that the social assistance needs of the urban poor are fully covered. Over the last two decades, the balance of the state–society

\textsuperscript{36)} Smyth, Zhai, and Jing(2001), pp. 42-72.
\textsuperscript{37)} Chen, Gu, and Wu(2006), pp. 1-36.
division in terms of welfare responsibilities has considerably lost. In other words, the mix of state and non-state has been radically expanded since the state withdrew its dominance over providing the range of social welfare services. In reforming the social welfare services, the mode of provision, funding and regulation would change from state-led approach to joint involvement by the government and local community.\(^{38}\) Likewise, the lack of government commitment to social assistance services may make other social organisations including families, extended social networks and communities become more involved in providing social assistance.

V. Conclusion

The Chinese economic reform from the 1980s onwards has affected the living standards of unemployed households in a variety of ways. What has been shown suggests that changes in social policy were created under the transition to a market economy since 1979 and has led to poverty and hardship among the urban unemployed. As highlighted, the downsizing of state-owned enterprises under the flow of urban economic reform and the opening up of economy led to growing unemployment, a sharp decline in household incomes, and increasing poverty. When the reform peaked during the 1990s, the high level of economic security was replaced by economic uncertainty of wage income and the deficiency of social security.

Prior to economic reform in China, socialism represented the all-encompassing system that penetrated every facet of political, social and economic life. In particular, the urban state and collective enterprises provided their workers with the source of economic security and social security. These enterprises were said to have acted as the major source of economic security for the Chinese workers. However, massive unemployment during the radical reform of economic restructuring demanded the reshape of the whole picture of the livelihoods of the Chinese workers. It demonstrates that a large proportion of

the urban unemployed experienced considerable or total loss of economic security, social security and basic living standards. It is also suggested that the unemployed went through the threat of economic hardship and of finding a new job. These two pressing problems along with a weakening sense of community have profoundly increased the issue of urban poverty. While the dismantling of the pre-reform social security system has been replaced by an increasingly privatised mechanism, informal assistance is expected to fill the gap that the government cannot cover.
경제체제 변형시기 중국 도시노동자의 생계 악화

김병철

= 국문초록 =

본고는 시장경제 체제로 전환시기에 발생한 대량 실업이 중국 도시노동자의 생계에 미친 전반적인 영향을 조사보고자 한다. 본고는 먼저 중국 도시지역 사회·경제변혁에 부정적인 영향을 미친 경제체제 변형에 주목한다. 그리고 경제 체제 변형시기에 핵심으로 부각된 중국 경제개혁의 과정과 그 과정 중 벌어진 주요 이슈 - 기업조정, 대량 실업, 소득 및 사회복지 혜택의 상실 -을 순차대로 다루고자 한다. 더욱이 기업조정으로 인해 대량 실업의 여파에 따른 도시근로자의 신별곤 현상을 파악하고자 한다. 따라서, 본고는 대량 실업이 도시 근로자의 생계에 어떠한 부정적인 영향을 미쳤고, 그 영향은 그들의 생계에 어떠한 변화를 주었으며, 그 결과 그들이 어떠한 생계난을 겪고 있는지 살펴보고자 한다.

주제어: 실업, 사회복지정책, 사회·경제체제변형, 신별곤, 공공부조
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