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## Sustainability Chinese Style

The Concept of the “Harmonious Society”

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**Sustainability Chinese Style.  
The Concept of the “Harmonious Society”**

On the basis of its global economic—and increasingly also political—importance China has come to be perceived as a major power, if not indeed the upcoming superpower. And Beijing plans to quadruple national economic output again between 2000 and 2020. Yet discussions of the Chinese “reform miracle” often forget that the country’s per-capita income is below the global average and it faces massive domestic challenges. The price of three decades of rapid economic growth is high: wasteful use of energy, massive pollution, a threefold income disparity (between rich and poor, city and countryside, and coastal and inland regions), and a social security system that is at best rudimentary. On top of these come corruption at all levels and poor governance. These enormous domestic problems represent a danger to stability in China, and have international repercussions too, for example in the form of transnational pollution and climate change.

In order to counteract these negative trends the Communist Party leadership introduced in 2003/04 the principles of “scientific development” and the “harmonious society” to bolster its legitimacy and enhance its standing in society. Specifically, the new concepts are designed to counteract identified problems and at the same time offer a substitute for an ideological superstructure that has lost its relevance over time. This study concentrates on the problems of environment/energy and social inequality/welfare and investigates the question of what measures the “harmonious society” concept proposes for these fields and to what extent they are or could be effective.

The study comes to the following conclusions:

- ▶ Drawing on both the Marxist/Maoist tradition (addressing “contradictions among the people”) and elements of classical (Confucian) philosophy, the “harmonious society” concept has an ideological dimension and function. The rehabilitation of tradition takes up popular currents in society and “co-opts” them for the harmonious society project. This serves the supreme goal of the Communist Party, which is to maintain stability (in the sense of the stability of the regime).

- ▶ The most urgent need to act is in the field of environment and energy (air and water pollution, deforestation), where the harm caused by reforms and unhindered growth has begun to impact negatively on the population's life expectancy and increasingly triggers protests. Although the government has responded by issuing appropriate regulations and laws, there is a lack of incentives and institutions to actually implement them and guarantee that they are observed.
- ▶ A threefold social divide (rich/poor, urban/rural, coastal/inland) leads to social tensions. The urban/rural gap is the most serious, in particular because of the systematic discrimination of millions of migrant workers. Here too, significant improvements are unlikely in the coming years. The only achievement so far has been to make the income gap grow somewhat more slowly, rather than reversing the trend.
- ▶ In the course of the reform process many benefits and services formerly provided by the state have been privatized (health care, social insurance, education). The measures planned by the Chinese leadership in this field involve reinstituting at least basic provision across the board. The first successes can be seen where the state provides sufficient funds, for example for expanding health insurance in the countryside. Provision for migrant workers in these programs remains inadequate.

These new development concepts notwithstanding, the Chinese leadership continues to face an unresolved fundamental conflict between growth and sustainability. The first results of the "harmonious society" project, and its prognosis, are correspondingly mixed. Progress is made where solutions are implemented with state funding, while areas that require independent control and mediating agencies (such as an independent judiciary) remain problematic.

Based on these findings, the following recommendations, in particular for development cooperation, can be made for Germany and Europe:

- ▶ Germany and the EU should concentrate cooperation above all on those problems that have a direct regional or global impact, which means primarily questions of environmental protection, energy efficiency, and climate change. In these fields Germany and Europe should continue to offer China support in the form of joint projects, technology transfer, and capacity-building. Corporate social responsibility should also be prioritized.

- ▶ The Chinese state is increasingly in a position to fund its own programs for fighting poverty and setting up social security systems. But the EU and Germany can contribute specific experience in the field of financial equalization between regions.
- ▶ Practical exchanges, training projects, and dialogues promoting good governance should be maintained. Cooperation in formulating laws and regulations should increasingly be complemented by advice on implementation and application of new legislation.
- ▶ At the EU level a discussion should also be initiated about the timeframe for phasing out those aspects of development cooperation that do not fit with the listed priorities (in particular financial transfers).

## The Concept of the “Harmonious Society”

For nearly thirty years—ever since the reforms began—the People’s Republic of China has prioritized rapid economic growth. As time has gone on, the negative repercussions of that course have become ever clearer: the costs in terms of the environment and social justice have become enormous. Whereas Jiang Zemin’s generation of leaders concentrated on binding the new business elite to the party (knowingly accepting the resulting income disparities), the new leadership under Hu Jintao and Wen Jiabao, who took over the reins of political power at the Sixteenth Party Congress in November 2002, initiated a turn to social partnership and a fairer distribution of resources. This policy shift was accompanied by the preparation of two new concepts that together basically outline the Chinese version of sustainability. In October 2004, at the Fourth Plenum of the Central Committee elected by the Sixteenth Party Congress the “scientific development concept” (*kexue fazhan guan*) and “harmonious (socialist) society” (*[shehuizhuyi] hexie shehui*) were adopted as the official slogans of China’s modified course.<sup>1</sup>

These concepts represent the ideological superstructure for a policy turn by which the Party is attempting to move from a modernization strategy based entirely on rapid quantitative growth to a more sustainable one. Behind the move lies a recognition that the negative side-effects and repercussions of the recent decades of development could lead to social destabilization: social unrest in the form of smaller and larger demonstrations has increased rapidly in recent years (2003: 54,000; 2005: 87,000). Whereas in the past unrest was largely sparked by non-payment of wages and pensions, these days it is increasingly directed against expropriations and evictions (to make way for development and building work), but also local environmental problems and corruption.<sup>2</sup>

The “harmonious society” stands in the first place for improved provision of public goods (education,

health care, etc.) and greater social justice in general, and for sustainable economic growth taking environmental costs into account.<sup>3</sup> In other words, it is a sustainability strategy concentrating on reducing social inequality and environmental harm.

President and party leader Hu Jintao outlined the aims of the concept in February 2005: “democracy and rule of law, fairness and justice, trust and comradeship, vitality, stability and order, and harmonious coexistence of man and nature.”<sup>4</sup> In all these respects people should come first (*yi ren wei ben*).<sup>5</sup> At the Seventeenth Congress of the Chinese Communist Party in October 2007, Hu Jintao’s “scientific development concept” (which includes the “harmonious society”) was adopted as part of the Constitution of the Communist Party of China and as such entered its official ideological canon.<sup>6</sup>

However, the same Party Congress raised China’s development target for 2020, replacing the target of quadrupling *total* GDP between 2000 and 2020 (as announced at the Sixteenth Party Congress in November 2002) with one of quadrupling *per capita* GDP over the selfsame period. The party leadership is doubtless aware that the current development course cannot be maintained in the long term and that the ensuing economic and social costs are enormous. Nonetheless

3 For an overview of the points involved, see Alice Miller, “Hu Jintao and the Sixth Plenum,” *China Leadership Monitor* 20 (winter 2007): 4, <http://media.hoover.org/documents/clm20am.pdf>.

4 Speech given at the party school to leadership cadres from the provinces and ministries, see “Hu Jintao qiangdiao zhashi zuohao gongzuo dali cujin shehui hexie tuanjie” [Hu Jintao calls for the task of bringing society together harmoniously to be accomplished thoroughly and energetically], *Xinhuanet* (online), February 19, 2005, [www.xinhuanet.com/newscenter/2005-02/19/content\\_2595497.htm](http://www.xinhuanet.com/newscenter/2005-02/19/content_2595497.htm) (accessed November 22, 2005).

5 Xu Xuejiang, “Goujian hexie shehui, renren you ze” [Everyone shares responsibility for building the harmonious society], *Xinhuanet* (online), December 11, 2004, [http://news.xinhuanet.com/comments/2004-12/11/content\\_2318224.htm](http://news.xinhuanet.com/comments/2004-12/11/content_2318224.htm) (accessed November 22, 2005).

6 Heike Holbig, “Sinisierung der Demokratie: Chinas Parteiführung setzt auf eigene Werte,” *GIGA Focus* 12 (2007): 1–7.

1 Heike Holbig, “‘Wissenschaftliches Entwicklungskonzept’, ‘Harmonische Gesellschaft’ und ‘Eigenständige Innovation’: Neue parteipolitische Prioritäten unter Hu Jintao,” *China aktuell* 34, no. 6 (2005): 13–19.

2 Günter Schucher, “Harmonie ist Pflicht: China vor dem 17. Parteitag,” *GIGA Focus Asien* 10 (2007): 1–7.

it continues to abide by quantitative growth targets that tend to contradict its sustainability policies.<sup>7</sup>

The concept of the “harmonious society” also contributes to efforts to counteract the loss of ideological orientation and legitimacy that has affected society since the introduction of the policies of “reform and opening-up” (which de facto meant the introduction of capitalism and the market economy). China’s rapid transformation has demanded enormous flexibility of the population. If the past socialist values of equality and distributive justice are to be found anywhere nowadays, then only in politicians’ speeches; for the Chinese people socialist ideology has lost any practical meaning. For years now, people have been complaining that many of their compatriots are interested only in material wealth and “looking for money” (*xiang qian kan*). By propagating the new concepts, the leadership in Beijing is showing that it has acknowledged the existence of tensions in society and is looking for a way to deal with the contradictions.

The “contradictions in society” that are often mentioned in connection with the new concepts allude to the “contradictions among the people” addressed in a speech by Mao Zedong in 1957. This is a deliberate reference, intended to suggest an ideological continuity with socialist China.<sup>8</sup> At the same time, the new principles also integrate elements of Confucian tradition. Official documents and commentators in China generally explicitly distinguish the concept of the “harmonious socialist society” from both the utopias of Western philosophers and the ideas of classical Chinese thinkers, grounding it instead in Marxist ideology (only a harmonious society is true socialism and only socialism can achieve true social harmony).<sup>9</sup> The “eight honors and eight disgraces”

<sup>7</sup> Holbig rightly points out the inherent conflict associated with this correction, which reinforced the call for quantitative growth, see *ibid.*, 3.

<sup>8</sup> Wang Weiguang, “Goujian shehuizhuyi hexieshehui de lilun zhinan: Chongdu ‘Guanyu zhengque chuli renmin neibu maodun de wenti’” [Theoretical guidelines for building a harmonious socialist society: Rereading “On the Correct Handling of Contradictions among the People”], *Zhonggong Zhongyang Dangxiao Xuebao [Journal of the Party School of the Central Committee of the C.P.C.]* 11, no. 1 (February 2007): 5–12. Here the author draws on a speech by Mao Zedong, where Mao distinguished between “contradictions among the people” and “antagonistic contradictions.” According to Wang, in China’s current phase the contradictions are largely “among the people” and in essence conflicts of interest. Alice Miller also addresses the question of ideological continuity in “Hu Jintao and the Sixth Plenum” (see note 3), 6–7.

<sup>9</sup> Miller, “Hu Jintao and the Sixth Plenum” (see note 3), 7f.

(*ba rong ba chi*), which Hu Jintao advocated in spring 2006 to back his new code of behavior—especially for members of the Communist Party—also stand in the tradition of socialist moral values.<sup>10</sup> So the Chinese leadership derives its construct of the “harmonious society” from the Marxist way of thinking. But other intellectual and cultural elements also contribute in a kind of eclectic revival of classical philosophy and religious ideas. Academic and quasi-official entities supply such references to national cultural tradition and espouse corresponding positions and principles—as long as these coincide with the interests of the political leadership.<sup>11</sup>

This return to ideas of the past is in a way surprising, because the antitraditional reform movement of the early twentieth century regarded Confucius and his teachings as an ideology of social stagnation that had to be done away with. “Down with the Confucian shop!” was the slogan coined by Hu Shi, with which Chinese intellectuals back then attacked the established ideological edifice. Basically Confucius and his philosophy were criticized as the ideological superstructure that was responsible for the national humiliation of the “century of shame” during which China degenerated from one of the most powerful empires in history to a backward “semi-colonial and semi-feudal” country. During the Cultural Revolution of the mid-1960s to mid-1970s Confucianism again came under sharp attack, this time by the Communist Party, as the ideological superstructure of feudalism in China.<sup>12</sup>

Not until the 1980s did Confucianism experience something of a renaissance. The background to this was initially the discussion about “Asian values” with which the government and leaders of the rising Asian states, driven by the new confidence produced by their economic success, defended their (historic, cultural, and political) difference (the “Asian way”) to the world and in particular to the West. In China this debate led academics to rediscover their own country’s philoso-

<sup>10</sup> See, e.g. “New Moral Yardstick: ‘8 Honors, 8 Disgraces’” on the Chinese government website, *Gov.cn* April 5, 2006, [www.gov.cn/english/2006-04/05/content\\_245361.htm](http://www.gov.cn/english/2006-04/05/content_245361.htm) (accessed January 31, 2008).

<sup>11</sup> Sébastien Billioud, “Confucianism, ‘Cultural Tradition’, and Official Discourses in China at the Start of the New Century,” *China Perspectives* 71 (2007): 50–65 (51). Also Mark Siemons, “Die unheimliche Harmonie,” *Frankfurter Allgemeine Zeitung*, May 7, 2007, 33.

<sup>12</sup> “Criticize Lin [Biao], criticize Confucius” (*pi Lin pi Kong*) was the slogan used in 1974 to attack the “revisionist” line within the party.



phical tradition and cultural heritage in the 1990s. Although there was never an official “rehabilitation” of Confucius and his teachings, since the turn of the century it has once again become possible to quote Confucius in Chinese academic journals, and his teachings have become the very paradigm of the “harmonious society.” Indeed, the term itself is often explained and justified by one of the philosopher’s sayings, namely “the gentleman values harmony with difference” (*junzi he er butong*) from *The Analects of Confucius (Lunyu)*.<sup>13</sup> This statement expresses the idea that there can be plurality and diversity (of opinions) without social conflict (not to mention class struggle) necessarily having to break out. The idea of the “well-off society” (*xiaokang*), used by the party leadership to popularize its declared goal of quadrupling GDP by 2020, also originates from Confucius (*Liji/The Book of Rites*) and later played a central role in the work of Kang Youwei, one of the Chinese utopian thinkers of the late nineteenth century.

The Communist Party attempts to shore up its legitimacy by adopting elements of the national philosophical heritage it had previously rejected and giving them a positive slant, but without throwing overboard the Marxist and Maoist tradition.<sup>14</sup> In view of the declining importance of communism as the ideological “glue” holding society together, the Chinese leadership draws ever more openly on Confucian values—such as the “filial piety” (*xiao*) that demands respect for one’s parents—to build up a socially entrenched intellectual and cultural counterweight to superficiality and consumerism. The leadership has recognized that elements of Confucianism, especially emphasis on ethical values, avoidance of conflict, and acceptance of hierarchies, can help to maintain social stability and uphold order. The shared attractiveness of these teachings for both the broader public and the academic elite and the political leadership explains why parts of the Confucian ideology have been re-introduced. At the same time there is a strand of pride in the modernization successes achieved so far, and a desire to link these successes with China’s history as a great civilization. The fact that the Chinese cultural institutes, of which almost one hundred and fifty have been set up across the world since 2004 to spread the Chinese language and bolster China’s soft power, are called “Confucius Institutes” shows that the ideas of

Confucius have actually undergone a de facto “rehabilitation” and Confucius has come to be seen as a figure who enjoys the eminence and recognition abroad required to represent China in the same way as Goethe represents Germany.

In the meantime the Chinese leadership is propagating the concept of harmony, in the sense of living together peacefully (or put in a more orthodox way “peaceful coexistence”), on the stage of international politics too. In a speech to the United Nations General Assembly in September 2005, President Hu Jintao spoke for the first time of the “harmonious world” (*hexie shijie*) that had to be brought about, but without explaining the concept in any greater detail or describing how it would be achieved.<sup>15</sup>

Quasi-official political approval for the rediscovery of intellectual and cultural traditions and reference to these also applies to a certain extent to religion. A corresponding passage calling it a positive force even found its way into the Constitution of the Communist Party at the Seventeenth Party Congress in fall 2007. Now religion is no longer criticized as the “opium of the people,” helping them to forget their social reality, but accepted as a factor capable of making a positive contribution to the “harmonious society.”<sup>16</sup> This also illustrates the greater individual freedoms that the party leadership is willing to grant these days—provided they are not directed against the system itself.

15 “Build Towards a Harmonious World of Lasting Peace and Common Prosperity,” written speech by H. E. Hu Jintao, President of the People’s Republic of China, at the high-level plenary meeting of the United Nations’ 60th session, New York, September 15, 2005, [www.mfa.gov.cn/eng/wjdt/zyjh/t213091.htm](http://www.mfa.gov.cn/eng/wjdt/zyjh/t213091.htm) (accessed July 20, 2007).

16 The corresponding amendment reads: “The Party strives to fully implement its basic principle for its work related to religious affairs, and rallies religious believers in making contributions to economic and social development,” *Constitution of the Communist Party of China* (amended and adopted at the Seventeenth CPC National Congress), October 21, 2007, full text at [http://news.xinhuanet.com/english/2007-10/25/content\\_6944738.htm](http://news.xinhuanet.com/english/2007-10/25/content_6944738.htm) (accessed January 28, 2008). According to a Chinese study in 2007 there are about three hundred million religious believers in China (the figure usually quoted officially is one hundred million). These are largely Buddhists, Taoists, and Muslims, but Christianity is spreading too. There are now an estimated forty million Christians, of whom about twelve million are Roman Catholics (counting the “official” Patriotic Catholic Association and the unofficial underground church together). See Edward Cody, “China’s Leader Puts Faith in Religious: Hu Sees Growing Spiritual Ranks as Helpful in Achieving Social Goals,” *Washington Post*, January 20, 2008, A21.

13 Wen Jiabao used this quote in a speech at the beginning of 2007, see Billioud, “Confucianism” (see note 11), 54.

14 *Ibid.*, 60.

The following analysis will focus on the two foremost domestic problems of Chinese development, environment/energy and social inequality. These are the issues the concept of the “harmonious society” was primarily drawn up to deal with. In each case three questions are raised: What is the problem and what is the current state of affairs (diagnosis)? What solutions does the new approach propose (remedy)? And how have things turned out so far and what obstacles and hurdles can already be recognized (prospects of success)? Building on such investigations, we will be able to derive perspectives for China’s development and formulate recommendations about the areas in which Germany and Europe should continue to support China through cooperation or make new offers of collaboration.

## Environment and Energy

### The Situation

Three decades after the reforms were launched, China's one-sided focus on rapid economic growth has led to palpable structural environmental deterioration and to an increasing frequency of natural disasters—a state of affairs that is increasingly attracting national and international attention. But experts disagree about the actual environmental impact of China's integration in the global economy. According to the pessimists, low wages and low environmental standards encourage multinational corporation to shift their energy-intensive and polluting operations to countries like China. The costs of pollution, they say, are not taken account of by trade. The optimists, on the other hand, stress the positive consequences of globalization for the environment. Free trade, they argue, helps to generate prosperity, which in turn both fosters the emergence of environmental consciousness and provides the government with funds it can spend on environmental protection and improving its ability to enforce environmental standards. Furthermore international corporations bring environmentally friendly technologies into the country and thus foster competition to make production more energy-efficient.<sup>17</sup>

Developments in China to date tend to vindicate the skeptics. One direct result of the dynamic economic growth that began in China in 1978 with the initiation of economic reforms is air pollution and emissions of greenhouse gases.<sup>18</sup> Of the world's twenty cities with the worst air pollution sixteen are in China.<sup>19</sup> Almost 70 percent of China's energy needs are met by coal, the most polluting source of energy (of which China possesses large reserves). Coal-burning is responsible for 70 percent of the country's air pol-

lution and 90 percent of its emissions of sulfur dioxide (SO<sub>2</sub>), which is the main cause of acid rain.<sup>20</sup> China's emissions are not just a national problem. Regionally Japan and the Korean peninsula are particularly affected by Chinese SO<sub>2</sub> emissions, while globally CO<sub>2</sub> and climate change is the issue. In 2006 China consumed 2.4 billion tonnes of coal, more than the United States, Japan, and Britain together. One reason for this high consumption is inefficient use of energy. China uses six times more energy per unit of economic output than the United States, and three times more than its growth competitor India.<sup>21</sup> In 2006 alone, the People's Republic of China built 90 gigawatts of new coal-fired power plant capacity. Although energy consumption per unit of output fell 60 percent between 1980 and 2000, disproportionately high growth rates in heavy industry since 2000 have caused that positive trend to slow. And in the medium term too, there is currently no sign of growth rates in the energy-intensive industrial sector slowing relative to the service sector.<sup>22</sup>

The greatest threat to China's air quality stems from increasing urbanization driven by massive migration and the growing affluence associated with the expansion of the middle classes. Nowhere are the effects of these two developments clearer than in the transport sector. Every day about fourteen thousand new cars are registered in China, and by 2020 there will probably be 130 million vehicles on the roads.<sup>23</sup> Currently only thirteen of every thousand Chinese citizens own a car, while the world average is 114. And emissions from older domestically manufactured vehicles are ten to twenty times higher than from modern American models.<sup>24</sup> The International Energy Agency (IEA) calculates that China will pass the United States as the world's largest emitter of greenhouse

<sup>17</sup> Elizabeth C. Economy, *The River Runs Black: The Environmental Challenge to China's Future* (Ithaca, 2005), 12–13.

<sup>18</sup> Jean-Francois Huchet and Jean-Paul Maréchal, "Ethics and Development Models: China's Economic Growth Challenges the Future of World Climate," *China Perspectives* 69 (2007): 6–16 (7).

<sup>19</sup> Elizabeth C. Economy, "The Great Leap Backward? The Costs of China's Environmental Crisis," *Foreign Affairs* 86, no. 5 (September/October 2007): 38–59 (40).

<sup>20</sup> Economy, *The River Runs Black* (see note 17), 72; Jennifer L. Turner and Julie S. Kim, "China's Filthiest Export," *Foreign Policy in Focus*, February 7, 2007, [www.fpiif.org/fpiftxt/3978](http://www.fpiif.org/fpiftxt/3978) (accessed October 10, 2007).

<sup>21</sup> Economy, "The Great Leap Backward" (see note 19), 40.

<sup>22</sup> Huchet and Maréchal, "Ethics and Development Models" (see note 18), 8.

<sup>23</sup> Economy, "The Great Leap Backward" (see note 19), 40.

<sup>24</sup> Economy, *The River Runs Black* (see note 17), 74.

gases in 2009, while others believe this already occurred in 2007.<sup>25</sup>

That said, if we consider per capita (rather than absolute) figures, China's emissions are still relatively low. International Atomic Energy Agency (IAEA) statistics for 2003 show that China's average emissions were about 2.72 tonnes of CO<sub>2</sub> per head, while the equivalent figure for the UK was 9.53 and for the United States 19.95 tonnes.<sup>26</sup> In fact, China was below the world average.

The second great problem for China's environment is the enormous waste and increasing contamination of water supplies. Water resources are extremely unevenly distributed throughout the country, and northern regions in particular are already suffering from chronic water shortages. A shortage of water caused by increasing industrial consumption and growing private demand is exacerbated by the long-standing practice of uncontrolled and untreated discharge. Seventy percent of China's rivers are polluted, and for urban water bodies the figure rises to more than 90 percent.<sup>27</sup> Although legal provisions do exist, factory owners and local officials generally fail to implement them. According to a survey from 2005, only 23 percent of Chinese workplaces reliably treat waste water before discharging it. The outcome is that seven hundred million Chinese have access only to water whose quality is below the standard set by the World Health Organization (WHO) and about a quarter of the population drinks contaminated water.<sup>28</sup>

A third complex of problems is desertification, soil erosion, and large-scale deforestation. More than one quarter of China's land mass is desert, and the area is growing at a rate of about 2,100 square kilometers annually. Following decades of practically untrammelled forest clearances, woodland now covers only about 18

percent of the country.<sup>29</sup> A vigorous reforestation campaign launched a few years ago promises only small improvements because of its failure to observe sustainability criteria. Finally, continuing urbanization and the growing trend for factories to relocate from the coastal regions to places inland also exacerbate the attrition of forests and agricultural land.

The Chinese State Environmental Protection Administration (SEPA), which was raised to the status of "super-ministry" in spring 2008, calculates that pollution causes about 400,000 premature deaths annually, while a study produced jointly by the World Bank and the Chinese government puts the figure even higher, at 750,000 deaths annually.<sup>30</sup> Environmental damage forces up to 175,000 people to migrate every year, and the economic costs are enormous too. According to Chinese sources, by 2006 the costs of environmental destruction and pollution already amounted to 10 percent of the country's GDP.<sup>31</sup> The vice minister of SEPA warned in 2005 that "the [economic] miracle will end soon because the environment can no longer keep pace."<sup>32</sup>

These ecological trends have led to a clear increase in mass protests and as such possess the potential to destabilize society. According to SEPA statistics, fifty-one thousand protests in 2005 had an environmental background, and the number of official complaints and petitions is increasing at an annual rate of 30 percent, recently reaching four hundred thousand.<sup>33</sup>

## Approaches and Goals

The central government in Beijing can no longer ignore the health-related, economic, social, and political consequences of these developments. It has integrated a response to the harmful environmental and energy trends in the harmonious society concept, as can be seen in the following statement from the SEPA website: "bluer skies, greener earth, purer water,

<sup>25</sup> Wenran Jiang, "China Debates Green GDP and its Future Development Model," *China Brief* 7, no. 16 (August 8, 2007), <http://jamestown.org/terrorism/news/article.php?articleid=2373605> (accessed October 10, 2007); Huchet and Maréchal, "Ethics and Development Models" (see note 18), 6.

<sup>26</sup> "Key Facts about China and Climate Change," Reuters, February 5, 2007, <http://uk.reuters.com/article/topNews/idUKSP11491220070205> (accessed January 21, 2008).

<sup>27</sup> Jiang, "China Debates Green GDP" (see note 25).

<sup>28</sup> Richard McGregor and Jo Johnson, "Dry Reality—China and India Face up to Curbs on Carbon," *FT.com*, February 26, 2007; Tina Butler, "China Faces Water Crisis—300 Million Drink Unsafe Water," December 30, 2005, [http://news.mongabay.com/2005/1230-tina\\_butler.html](http://news.mongabay.com/2005/1230-tina_butler.html) (accessed January 22, 2008).

<sup>29</sup> The global average is 27%.

<sup>30</sup> Economy, "The Great Leap Backward?" (see note 19), 47.

<sup>31</sup> "Pollution Costs Equal 10% of China's GDP," *China Daily* (online), June 6, 2006, [www.chinadaily.com.cn/china/2006-06/06/content\\_609350.htm](http://www.chinadaily.com.cn/china/2006-06/06/content_609350.htm) (accessed January 21, 2008).

<sup>32</sup> Quoted in Economy, "The Great Leap Backward?" (see note 19), 38.

<sup>33</sup> Quoted from Jiang, "China Debates Green GDP" (see note 25), 4.

cleaner air—a more harmonious relationship between people and the environment.”<sup>34</sup>

The most important lesson the party leadership draws from the energy and environmental crisis is the necessity to link economic growth with sustainability factors and thus to move away from the purely expansive growth strategy. The Central Committee communiqué of October 2006 accordingly stated that the primary goal of building a harmonious socialist society by 2020 required “efficiency of utilization of resources [to be] enhanced markedly” and “visible improvement in ecological environment.”<sup>35</sup> Quantitative energy saving and environmental targets were included for the first time in the 2006–2010 national five-year plan, which provides for reliance on coal to be cut from 74 to less than 60 percent, air pollution to be reduced by 10 percent by 2010, and energy efficiency to be increased by 20 percent. Additionally, the law on promoting renewable energy that came into force on January 1, 2006, provides for the proportion of energy generated by nuclear power and hydro-power to be increased to 30 percent by 2030.<sup>36</sup> Although China plans to quadruple its GDP between 2000 and 2020 it only intends to double energy consumption. That represents an energy saving target of 50 percent in terms of energy per unit of GDP.<sup>37</sup>

On climate change too, a Chinese commission of experts has presented a study outlining the probable impact on the country and setting out national targets.<sup>38</sup> In November 2007, following serious delays, the State Council published the National Environmental Protection Plan for 2006 to 2010, which provides for 1.35 percent of GDP to be spent on the en-

vironment in each of the next three years.<sup>39</sup> Approximately €64 billion (\$85.3 billion) will be spent on water purification, €60 billion on improving air quality, and €21 billion on waste disposal. Additionally, an evaluation mechanism is to be established to serve as the basis for half-yearly reports on pollution emissions of all provinces and regions.

Since 2007 questions of environmental protection and energy have been dealt with at the highest political level in a “leadership group” of representatives of the relevant ministries and agencies chaired by Premier Wen Jiabao. A wide range of government and research bodies share responsibility for this field, but control and coordination are the remit of the National Development and Reform Commission (NDRC).<sup>40</sup> At the international level the foreign ministry and the NDRC are the negotiating partners on questions of climate change. Although China sets itself relatively ambitious goals for energy saving and environmental improvements, in international negotiations it puts its own national interests and sovereignty first and defends them, especially with respect to the industrialized nations.<sup>41</sup>

Addressing the National People’s Congress in March 2007, Ma Kai, former chairman of the NDRC, said that in view of the scarcity of energy and resources, China would have no alternative but to make the transition to an energy-saving, environmentally friendly society.<sup>42</sup> Thereby, he focused on economic rather than social or ecological arguments.

## Action and Progress

The outcome so far of operative measures is mixed at best. According to the World Bank’s quarterly report of May 2007, energy intensity fell by just 1.2 percent in 2006, rather than the annual rate of 4 percent called

<sup>34</sup> [www.sepa.gov.cn](http://www.sepa.gov.cn). The English version of the site, <http://english.sepa.gov.cn>, is less comprehensive.

<sup>35</sup> “Communiqué of the Sixth Plenum of the 16th CPC Central Committee,” November 9, 2006, [www.chinese-embassy.org.uk/eng/zyxw/t279526.htm](http://www.chinese-embassy.org.uk/eng/zyxw/t279526.htm) (accessed October 10, 2007).

<sup>36</sup> Huchet and Maréchal, “Ethics and Development Models” (see note 18), 12.

<sup>37</sup> Gørild Heggelund, “China’s Climate Change Policy: Domestic and International Developments,” *Asian Perspective* 31, no. 2 (2007): 155–91 (161). In relation to the new goal of quadrupling per capita GDP the saving would be even greater.

<sup>38</sup> “China’s National Climate Change Programme,” prepared under the auspices of the National Development and Reform Commission, People’s Republic of China, June 2007, <http://en.ndrc.gov.cn/newsrelease/P020070604561191006823.pdf> (accessed November 23, 2007).

<sup>39</sup> Xinhua news agency, November 26, 2007. Documents and an overview of activities can be found on the China Climate Change Info-Net website, [www.ccchina.gov.cn/en/](http://www.ccchina.gov.cn/en/).

<sup>40</sup> This is the successor to the State Planning Commission.

<sup>41</sup> On the institutional setting see Heggelund, “China’s Climate Change Policy” (see note 37), 155–91; Hyung-Kwon Jeon and Seong-Suk Yoon, “From International Linkages to Internal Divisions in China: The Political Response to Climate Change Negotiations,” *Asian Survey* 46, no. 6 (November/December 2006): 846–66.

<sup>42</sup> Quoted from Günter Schucher et al., “Die chinesische Führung bekräftigt ihren Kurs,” *GIGA Focus*, 2007, no. 4:1–7 (3).

for in the five-year plan.<sup>43</sup> The result was clearly better in the first half of 2007, when energy consumption per unit of GDP fell by 2.78 percent.<sup>44</sup> The targets of two percent reductions in sulfur dioxide emissions and water pollution were also clearly missed in 2006 (although the growth rates fell somewhat, to 11.3 and 4.4 percent).<sup>45</sup> Pan Yue, vice minister of SEPA, called 2006 the “the grimmest year yet for China’s environmental situation.”<sup>46</sup>

Although the central government has begun to focus on the environmental challenges, it is also plainly running into stubborn obstacles when attempting to implement its plans. Slow progress in restructuring industry and especially high growth rates in energy-intensive export-oriented branches of the economy can be cited as reasons for the lack of success of government policy. But there are at least three other factors behind the mediocre results.

*Firstly*, Beijing’s environmental decisions are always driven by worries about economic growth flattening off.<sup>47</sup> This is seen on the one hand in the perpetuation of state subsidization of energy prices—which are not market prices—and in the low taxation of energy and water. This framework offers no incentive to save energy. Quite the opposite, it makes it attractive for foreign companies to have energy-intensive products manufactured in China.

*Secondly*, environmental regulations are inadequately enforced in the provinces, where environmental agencies are attached to local rather than central government.<sup>48</sup> Furthermore, the State Environmental Protection Administration (SEPA) is understaffed, with

just three hundred employees, and very few judges or lawyers are specialized in environmental law. Fines for violations are so low that companies are happy to pay them, treating this as a “right to pollute.” This kind of deficit in implementing central decisions at the local level can also be observed in other fields. Often very good laws and regulations are made, but they turn out only to exist on paper. Local authorities and companies on the ground have developed methods for getting round the regulations. But the statistics reported to the center are generally close to the centrally issued targets.

*Thirdly*, local party cadres continue to place greatest weight on economic growth figures, because that is what they believe promises the best career opportunities. Efforts by central government to include sustainability criteria in economic performance measures meet with massive resistance in many provinces. This is seen for example in the way the peripheral authorities practically refuse to supply SEPA with data to prepare a “green GDP.” Beijing’s plans to include the costs of pollution in the economic growth figures have been postponed indefinitely due to that kind of resistance.<sup>49</sup> A report of this kind for 2004 was published in 2006, but it was the last to date.<sup>50</sup> The decisive reasons for this are probably 1. the debate about the scientific basis of the data for the “green GDP,” 2. local resistance against the report, and 3. the party leadership’s political wish to avoid a flood of negative statistics in advance of big political events like the Seventeenth Party Congress in fall 2007.<sup>51</sup>

But there is a little light at the end of the tunnel. By 2015 the government is planning to build a series of new power stations that will bring about a clear improvement in energy efficiency thanks to their modern technology. However, given the tightness of the world commodity markets and rising demand for electricity for the foreseeable future, China could

43 World Bank, *China Quarterly Update*, May 2007, 13. [http://siteresources.worldbank.org/CHINAEXTN/Resources/318949-1121421890573/china\\_05\\_07.pdf](http://siteresources.worldbank.org/CHINAEXTN/Resources/318949-1121421890573/china_05_07.pdf).

44 National Bureau of Statistics of China, “Communiqué on National Energy Consumption for Unit GDP in the First Half of 2007,” July 31, 2007, [www.stats.gov.cn/english/newsandcomingevents/t20070731\\_402422194.htm](http://www.stats.gov.cn/english/newsandcomingevents/t20070731_402422194.htm) (accessed January 21, 2008).

45 Zhang Zhongxiang, “China’s Reds Embrace Green,” *Far Eastern Economic Review* 170, no. 5 (June 2007): 33–37, [www.feer.com/articles1/2007/0706/p033.html](http://www.feer.com/articles1/2007/0706/p033.html) (accessed October 10, 2007).

46 Quoted in Pallavi Aiyar, “Beijing Dips its Toes in Troubled Waters,” *Asia Times Online*, August 8, 2007.

47 Elizabeth C. Economy, “China vs. Earth,” *The Nation*, May 7, 2007, [www.thenation.com/doc/20070507/economy](http://www.thenation.com/doc/20070507/economy) (accessed October 10, 2007).

48 For a detailed local case study see Bryan Tilt, “The Political Ecology of Pollution Enforcement in China: A Case from Sichuan’s Rural Industrial Sector,” *China Quarterly* 192 (December 2007): 915–32.

49 Shi Jangtao, “Green GDP Figures on Hold Indefinitely,” *South China Morning Post* (online), July 23, 2007.

50 Zhongguo Huanjing Baohu Zongju and Guojia Tongji Ju (SEPA and State Statistical Bureau), *Zhongguo lüshe guomin jingji hesuan yanjiu baogao 2004 (gongzhongban); China Green National Accounting: Study Report 2004 (Public Version)*, [www.sepa.gov.cn/info/hbdxj/200612/W020061206587957039175.pdf](http://www.sepa.gov.cn/info/hbdxj/200612/W020061206587957039175.pdf) (accessed August 21, 2007).

51 Jiang, “China Debates Green GDP,” 5 (see note 25); for more detail on this point see H. Christoph Steinhardt and Yihong Jiang, “The Politics of China’s ‘Green GDP’: Die politischen Determinanten des chinesischen ‘Green GDP’-Projekts,” *China aktuell* 36, no. 5 (2007): 25–39.

well continue to build more coal-fired power plants, which would impact negatively on its CO<sub>2</sub> emissions.

In 2005 SEPA was able to stop thirty construction projects (largely dams for hydro power) and insist on an environmental impact assessment being carried out first. SEPA has also been given a say in the granting of bank credits and permission for IPOs, and in July 2007 handed the tax authorities its first blacklist of thirty polluters.<sup>52</sup> It is, however, unclear what weight a poor environmental record will actually have for the decision whether to give the go-ahead to a construction project or IPO. Overall SEPA seems to have gained more clout since the political leadership increased the political priority given to the issue of ecology.<sup>53</sup> Moreover, there were persistent advance reports in the Chinese media that the central government planned to raise SEPA to the rank of a ministry and set up a separate energy ministry. This upgrade and restructuring within the government finally took place in spring 2008.<sup>54</sup> The new Environment Ministry is even one of five “super-ministries” established by the Eleventh National People’s Congress. Whether this step will actually bring about any improvement will depend on what powers the new ministry is given. For example, although the new Energy Commission enjoys the rank of a ministry, it appears to have no say in setting fuel prices, which massively restricts its influence from the outset.<sup>55</sup> And the new Environment Ministry has been given no authority over the local environment agencies.<sup>56</sup>

State bodies and the party leadership have apparently realized that environmental protection is a field where civil society and NGOs can play an active role. By 2005 there were 2,768 registered environmental NGOs in China with 224,000 members.<sup>57</sup> In June 2007

citizens in Xiamen (Fujian province) initiated a campaign via e-mails, blogs, and text messages protesting the construction of a huge new petrochemical plant—and their actions achieved their goal.<sup>58</sup> But citizens who get involved in environmental campaigning always run the risk of being harassed and persecuted by the authorities. For example an activist who had collected water samples from the heavily polluted Lake Tai (Jiangsu province) was arrested in April 2007 and later convicted for supposedly extorting money from companies.<sup>59</sup>

Still, in January 2008 the State Council published a plan for cleaning up China’s lakes, with the goal of completely eliminating pollution by 2030. The measures involved include regulations for effluent discharge and for the use of pesticides.<sup>60</sup>

Vice-Premier Zeng Peiyan called in March 2007 for more reforms in the field of pricing and for market-based regulatory mechanisms to promote energy efficiency and environmental awareness. The rate of sales tax on energy-intensive goods was increased in February 2006 and in June 2007 export surcharges (of 5–15 percent) were placed on energy-intensive products such as steel, copper, nickel, aluminum, and other metals. That kind of taxation of export goods appears to be a very promising measure given that continuing very high export growth rates and China’s cost advantages should balance out the expected negative impact on overall economic growth. The trouble with this measure, however, is that it is based on energy output and thus fails to tackle the problem of energy intensity. At the same time import tariffs on various fuels and raw materials were cut.<sup>61</sup> State-set petrol prices had already been raised in early summer 2006. However, the upturn in inflation since 2007

52 “Heavy Polluters Face IPO Hurdle,” *China Daily* (online), August 21, 2007.

53 Andrew Batson, “China Eco-Watchdog Gets Teeth,” *Wall Street Journal*, December 18, 2007, A4.

54 Emma Graham-Harrison, “China Eyes Energy, Environment Ministries in March,” Reuters, January 14, 2008.

55 Chen Aizhu, “Analysis—New China Energy Ministry Denied Price Policy Tool,” Reuters, February 5, 2008.

56 “China’s Environment Ministry ‘Lacks Local Powers,’” Reuters, March 13, 2008.

57 “Chinese Environmental NGOs Called on to Play a Bigger Role,” Xinhua News Agency, October 30, 2006. Altogether there was reported to be a total of 315,000 NGOs in 2006 with about three million members. In response to the “color revolutions” in certain states of the former Soviet Union (Georgia, Ukraine, Kyrgyzstan), which were claimed in some quarters to have been caused by externally controlled activities of civil society (i.e. by the United States), the rules for registering

NGOs in China were tightened up. It should also be noted that many of these organizations are in some sense state-initiated.

58 See “Mobilised by Mobile,” *The Economist* (online), June 21, 2007; Li Datong, “Xiamen: The Triumph of Public Will,” January 16, 2008, [www.opendemocracy.net/article/china\\_inside/china\\_protests\\_or\\_politics](http://www.opendemocracy.net/article/china_inside/china_protests_or_politics) (accessed January 21, 2008).

59 “Chinese Environmental Activist Sentenced to 3 Years in Prison for Extortion,” *International Herald Tribune*, August 10, 2007.

60 Keith Bradsher, “China Offers Plan to Clean Up Its Polluted Lakes,” *New York Times* (online), January 23, 2008.

61 For a concise overview of targets and concrete measures, see Pew Center on Global Climate Change, *Climate Change Mitigation Measures in the People’s Republic of China*, International Brief 1 (Arlington, VA: April 2007), [www.pewclimate.org/docUploads/International%20Brief%20-%20China.pdf](http://www.pewclimate.org/docUploads/International%20Brief%20-%20China.pdf) (accessed June 10, 2008).

(starting with higher food prices) is likely to ensure that Beijing thinks very carefully before introducing any more measures of this kind.<sup>62</sup> In light of this, the steep price rises for petrol, diesel, and kerosene in June 2008 were surprising, and probably prompted more by domestic supply problems and international pressures than efficiency considerations.<sup>63</sup>

The (Western) media's portrayal of China as a global environmental threat ignores two rather relevant points. For one thing, through their direct investments Western corporations have "relocated" not only their production and jobs to China, but also their pollution and emissions, although no exact figures are available for the scale of environmental problems imported in this way.<sup>64</sup> And secondly, the small privately or collectively owned businesses that are praised by supporters of economic liberalization are also often the best at evading controls and ignoring environmental standards in order to maintain competitiveness in the face of rising costs for labor, raw materials, and energy.<sup>65</sup>

So overall there is little ground for optimism as far as China's environmental situation is concerned—at least as long as the fundamental conflict remains between high economic growth and protecting the environment and the incentives offered to local officials and businesses (for example to save energy or phase out coal) are not increased considerably. China continues to need high growth rates in order to create

jobs for the millions of new workers entering the labor market every year, and also to tackle the social problems that have arisen as a result of the reforms. These will be addressed in the next chapter.

<sup>62</sup> See for example Jim Yardley, "China, Fighting Inflation, Freezes Energy Prices," *New York Times* (online), January 9, 2008. The rate of inflation in November 2007, 6.9 percent year-on-year, was the highest in China since 1996, while inflation for 2007 as a whole was 4.8 percent (2006: 1.6 percent); Richard McGregor, "China Continues Run of Double-digit Growth," *FT.com*, January 24, 2008. Chinese leaders are naturally aware that a high rate of inflation played an important part in triggering the demonstrations in spring 1989, and are concerned to keep price rises under control, especially in the year of the Olympic Games.

<sup>63</sup> Geoff Dyer and Javier Blas, "China Increases Energy Prices," *Financial Times*, June 19, 2008.

<sup>64</sup> One Chinese environmental NGO, the Institute of Public and Environmental Affairs, has been keeping a list of water-polluting companies in China since 2004, which includes multinationals and their subsidiaries and joint ventures; see [www.ipe.org.cn](http://www.ipe.org.cn). On the relocation of polluting industries and outdated plant to China see Joseph Kahn and Mark Landler, "China Grabs West's Smoke-Spewing Factories," *New York Times* (online), December 21, 2007.

<sup>65</sup> This is also where the state has least possibility of control, see Willy Lam, "Hu's Economic Policies: Liberalizing the Economy or Promoting Special Interests?" *China Brief* 7, no. 16 (August 8, 2007): 2–3 (3).



## Threefold Income Disparities

### The Situation

The growing social inequalities within Chinese society represent a development whose explosive potential has increased considerably in recent years. In absolute terms the whole population has profited from the economic reforms and the rapid economic growth they triggered—averaging 9.4 percent from 1978 to 2005. This growth brought the poverty rate—given by the World Bank as 64 percent of the population in 1981—down to under 10 percent in 2004, in the process, according to World Bank criteria, liberating five hundred million people from the condition of absolute poverty.<sup>66</sup> However, relative poverty, the inequality of wealth distribution within society, has risen strongly since the mid-1980s.<sup>67</sup> Economists regard this as fundamentally normal, because economic development is always patchy, and never evenly distributed. Indeed, at the beginning of the reform process Deng Xiaoping explicitly admitted that some Chinese might become rich sooner than others. Economic theory states that even if inequality increases at the beginning of the modernization process this will even out again over time as the whole population shares in the benefits, but this has yet to occur in China.<sup>68</sup>

The growing social divide has three different yet interlocking dimensions: differences in level of development due to geographical location (between coastal and inland provinces due to their differing economic structure and investment conditions); unequal distribution of economic growth between city and countryside; and the general increase in social inequality between poor and rich sections of the population.<sup>69</sup>

<sup>66</sup> However, half of this was accomplished in 1981–87, when agricultural productivity improved strongly as a result of decentralization policies; see David Dollar, *Poverty, Inequality, and Social Disparities During China's Economic Reform*, World Bank Policy Research Working Paper 4253 (Washington, D.C.: World Bank, June 2007), 6.

<sup>67</sup> Assar Lindbeck, *An Essay on Economic Reforms and Social Change in China*, World Bank Policy Research Working Paper 4057 (Washington, D.C.: World Bank, November 2006), 39.

<sup>68</sup> Dollar, *Poverty, Inequality, and Social Disparities* (see note 66), 7.

<sup>69</sup> According to a study by the Asian Development Bank published in January 2008, which examined the years 1978 to

Because material disadvantage impacts directly on the population's standard of living, the party leadership counts it as one of the “most unharmonious factors” in Chinese society and gives correspondingly high priority to fighting the wealth gap.<sup>70</sup> Here we begin by taking a closer look at the three dimensions.

### Coastal and Inland Provinces

Geographical location has always given China's coastal regions a comparative competitive advantage over the inland provinces. Access to the Yellow Sea, East China Sea, and South China Sea provides ideal conditions for brisk regional and global trade. One of the main reasons for China's exceptionally high growth rates in comparison to its Asian neighbors lies in the reforms initiated during the early 1980s to open up the country to foreign direct investment (FDI) and liberalize foreign trade. The central government began by initiating four special economic zones in the two coastal provinces of Guangdong and Fujian. One of the special privileges granted to the zones was that companies producing for export were exempt from tariffs on imports from abroad. In the subsequent period fourteen more coastal cities in eight provinces received the same rights. These regions were able to set local taxes largely autonomously and also received privileged access to raw materials. This policy enabled the coastal provinces to attract foreign investment, expand the volume of trade, and thus kick-start dynamic economic growth. Direct investment in China grew from less than \$2 billion in 1985 to \$61 billion in 2004, making China the world's biggest

2005, the urban/rural disparity was also largely responsible for the regional differences, see Shantong Li and Zhaoyuan Xu, *The Trend of Regional Income Disparity in the People's Republic of China*, ADB Institute Discussion Paper 85 (Tokyo: Asian Development Bank Institute, January 2008), [www.adbi.org/files/dp85.regional.income.disparity.prc.pdf](http://www.adbi.org/files/dp85.regional.income.disparity.prc.pdf) (accessed January 28, 2008).

<sup>70</sup> Wu Zhong, “China Yearns for Hu's ‘Harmonious Society,’” *Asia Times Online*, October 11, 2006.

recipient of foreign direct investment.<sup>71</sup> Nine coastal provinces took about 84 percent, with 40 percent flowing to just two, Guangdong and Jiangsu.<sup>72</sup> Experts see regional inequality in the distribution of foreign direct investment as the main reason for the coast/inland disparity. In the meantime, growing wage pressure may have led some production operations to shift inland, but not (yet?) on the scale that would be needed to reduce the regional development gap.

One consequence of this disparate development was that by 2006 the per capita GDP of the richest coastal region was ten times that of the poorest region in western China.<sup>73</sup> As far as public spending is concerned, the wealthiest province commands eight times the resources of the poorest. The Chinese fiscal system is decentralized and local governments rely on tax revenues to fund their education and health services, so regional disparities are likely to widen still further in future, and to be reproduced through inequalities in access to schooling and health care.<sup>74</sup>

### Urban/Rural Income Gap

In addition to the wealth gap between the coastal and inland regions, there is also one between urban and rural areas. In 2005 the cities nationwide were on average 3.22 times wealthier than the countryside.<sup>75</sup> Not only are average incomes in the cities higher than in the countryside, but city-dwellers also enjoy a range of other rights and privileges (unemployment benefits, better access to health care and schooling) that are denied to the rural population and to the unregistered migrants who move to the cities in search of work. China's urban/rural gap has become one of the world's crassest. In neighboring countries,

for example, urban incomes are only between 1.3 and 1.8 times average rural income. Rural incomes in China have risen steadily in recent years, but considerably more slowly than in the cities.<sup>76</sup> Another indicator of inequality of distribution is the Engel coefficient, which shows the proportion of overall income that has to be spent on food. When the economic reforms began in 1978 it was 57.7 percent in urban areas, falling to 35.8 percent by 2006. The corresponding figures for rural areas were 67.7 percent in 1978 and 43 percent in 2006.<sup>77</sup>

One reason for this situation is the uneven geographical distribution of the three economic sectors. Services and manufacturing dominate in the urban areas, while the rural areas have predominantly agriculture and small industries. In 2006, according to the statistics, 42.6 percent of the workforce was employed in the agricultural sector (down from 50 percent in 2002), 25.2 percent in manufacturing (2002: 21.4 percent), and 32.2 percent in the service sector (2002: 28.6 percent).<sup>78</sup> But the agricultural sector contributed only about 12 percent to GDP and its share of overall growth in 2006 was just 5.6 percent. By contrast manufacturing contributed 55.6 percent of growth and the tertiary sector 38.8 percent.<sup>79</sup> The farmers, who were among the biggest beneficiaries of the effects of economic reforms in the early years (especially through decollectivization and greater freedom to decide what crops to grow) have fallen behind in terms of income. They increasingly had to pay market prices for agricultural machinery, fertilizer, and seed, while the price of grain initially remained regulated. An even more important factor, however, was the agricultural tax and a myriad of additional local taxes and fees demanded by local authorities.<sup>80</sup> Farmers often lose their ability to earn

<sup>71</sup> John Whalley and Xian Xin, *China's FDI and Non-FDI Economies and the Sustainability of Future High Chinese Growth*, NBER Working Paper 12249 (Cambridge, MA.: National Bureau of Economic Research, May 2006) [www.nber.org/papers/w12249](http://www.nber.org/papers/w12249) (accessed October 10, 2007, 3. In 2007 foreign direct investment amounted to \$82.7 billion.

<sup>72</sup> *Ibid.*, 19.

<sup>73</sup> Wu Zhong, "China Yearns for Hu's 'Harmonious Society,'" (see note 70).

<sup>74</sup> See Christine Wong, *Can China Change Development Paradigm for the 21st Century?*, Working Paper 3/2005 (Berlin: Stiftung Wissenschaft und Politik, April 2005), [www.swp-berlin.org/common/get\\_document.php?asset\\_id=2115](http://www.swp-berlin.org/common/get_document.php?asset_id=2115); Dollar, *Poverty, Inequality, and Social Disparities*, 10–11 (see note 66).

<sup>75</sup> Wu Zhong, "China Yearns for Hu's 'Harmonious Society,'" (see note 70).

<sup>76</sup> According to the Chinese Academy of Social Sciences rural incomes rose by 7.4 percent in 2006, but urban incomes rose by 3 percent more, namely by 10.4 percent, see "Urban-Rural Income Gap to Widen," in: *People's Daily Online*, April 25, 2007.

<sup>77</sup> Zhonghua Renmin Gongheguo Guojia Tongjiju (National Bureau of Statistics of China), *Zhongguo Tongji Nianjian 2007; China Statistical Yearbook 2007* (Beijing, 2007), 345.

<sup>78</sup> *Ibid.*, 127. However, the percentage for agriculture might be overstated, because there are no figures for rural unemployment. Country-dwellers have no unemployment insurance so they are not registered when they are out of work.

<sup>79</sup> *Ibid.*, 65–66.

<sup>80</sup> Fred Gale, Bryan Lohmar, and Francis Tuan, *China's New Farm Subsidies*, Outlook Report, WRS-0501 (Washington, D.C.: United States Department of Agriculture, Economic Research

a living when they are dispossessed and driven from their land to make way for development projects, roads, business parks, hotels, and suchlike, without receiving sufficient compensation.

A second problem stems from the regulations governing migration from the countryside to the cities. The *hukou* system of household registration introduced in 1953 is still in force today with only minor reforms, strongly restricting the mobility of rural migrant workers (*mingong*). Every citizen is registered as either urban or rural and may change this designation only with the permission of the authorities in the district to which they wish to move. The affluent and well-educated are generally given preference, while the mass of rural migrants who do the low-paid jobs in factories and building sites or work as domestic servants have little prospect of getting a permanent residence permit. This leaves them excluded from the social security systems offered by the cities. Despite these restrictions, there are reported to be about two hundred million migrant workers who have left their homes, generally in the countryside, to seek employment in the factories of the cities,<sup>81</sup> and another one hundred million are set to join them in the coming years.<sup>82</sup> However, holding on to the *hukou* system has kept down the numbers migrating, thus limiting the process of redistribution of the rising prosperity of the cities. So the disparity between city and countryside continues to widen and the wealth gap within the cities grows apace too. Nonetheless, the financial transfers by which migrant workers support their families at home represent an important economic factor for the poorer regions. And when migrants return home they bring with them knowledge and skills that also contribute to development.

The urban/rural divide is made even worse by cuts in and outright abolition of services in the course of the economic reforms. In the countryside the comprehensive (albeit very low-level) health care provided

by the “barefoot doctors” until the reforms began is now but a memory. In 2002 only 10 percent of the rural population had health insurance; the sick have to pay most of the cost of treatment themselves and often face the choice of being driven into poverty and debt or doing without treatment altogether.<sup>83</sup> Funding for schools and colleges has also been reduced and school fees introduced.

### Rich-Poor Gap

In contrast to the Mao era, when collectivization and nationalization campaigns made society evenly impoverished, the economic reforms since the end of the 1970s have massively widened the divide between rich and poor. Within a couple of decades China has gone from being one of the world’s most egalitarian societies to a country marked by great inequality. Today the top 10 percent of the urban population commands 45 percent of total urban wealth, while the bottom 10 percent owns just 2 percent. The Gini coefficient, used to measure social inequality, has risen from 0.31 at the beginning of the reforms (1979) to 0.496 in 2006.<sup>84</sup> The share of GDP going to wages and salaries has fallen from 15 percent in the mid-1990s to 11 percent in 2006. Although wages have risen at an annual rate of about 15 percent since 1993, state revenues and the profits of state-owned and private businesses have risen even faster.<sup>85</sup>

Social services (health care, pensions, etc.) have been cut or abolished outright in the cities too. In earlier times it was the state-run enterprises that provided the bulk of these services. Guarantees such as a job for life and social security (the “iron rice bowl”) were abolished when the state-run enterprises were

Service, February 2005), 5–6, [www.ers.usda.gov/publications/WRS0501/WRS0501.pdf](http://www.ers.usda.gov/publications/WRS0501/WRS0501.pdf) (accessed January 27, 2008).

<sup>81</sup> Dollar, *Poverty, Inequality, and Social Disparities* (see note 66), 9.

<sup>82</sup> “China ‘Facing Migrant Underclass,’” *BBC News Online*, March 1, 2007; Wu Zhong, “How the *Hukou* System Distorts Reality,” *Asia Times Online*, April 11, 2007. However, other estimates put the figure for “surplus” labor as low as forty million, see World Bank, *China Quarterly Update*, September 2007, 19, [http://siteresources.worldbank.org/CHINAEXTN/Resources/318949-1121421890573/cqu\\_09\\_07.pdf](http://siteresources.worldbank.org/CHINAEXTN/Resources/318949-1121421890573/cqu_09_07.pdf) (accessed October 10, 2007).

<sup>83</sup> By 2002 the share of the cost of medical treatment covered by the state or health insurance had fallen to 33 percent (from 80 percent in 1978); 67 percent of the cost was paid by patients themselves, and in the countryside the ratio was even worse, see Sarah Cook, “Putting Health Back in China’s Development,” *China Perspectives* 71 (2007): 100–108 (103ff).

<sup>84</sup> The Gini coefficient measures the inequality of distribution of wealth in a society on a scale from 0 (maximum equality) to 1 (maximum inequality). A Gini coefficient of 0.4 is regarded as alarming, with massive social unrest expected upwards of 0.5, see Wu Zhong, “China Years for Hu’s ‘Harmonious Society,’” (see note 70).

<sup>85</sup> Zhou Jiangong, “China’s Unbalanced Economic Engine,” *Asia Times Online*, July 21, 2007, [www.atimes.com/atimes/China\\_Business/IG21Cb02.html](http://www.atimes.com/atimes/China_Business/IG21Cb02.html) (accessed January 27, 2008).

restructured at the end of the 1990s. Hospitals were privatized or made to operate for profit.

City-dwellers can also find themselves thrown out of their homes by the authorities, when blocks are torn down to make way for new streets or buildings. Many migrant workers live in illegal settlements, leaving them powerless and without rights in such a situation. But even registered city-dwellers often have only the possibility of public protest or petitioning.

The loss of social security also explains why the savings ratio remains so high in China. People save for the eventuality of losing their job or falling sick, for their own old age, and for their children's schooling and further education. This compulsion to provide for oneself is one of the reasons why domestic consumption has not yet become a driving force of China's economic growth.

### Approaches and Counter-measures

The Chinese leadership is aware that a policy that is focussed one-sidedly on macro-economic growth rates cannot guarantee social peace in the long term. On the one hand, it must ensure that the inland regions also participate in the economic boom, on the other, it must balance out social inequalities through transfer payments and by setting up a viable social security and health system. The inequalities in development were knowingly accepted for decades, but they have increasingly led to social tensions. For all the emphasis on the necessity to create sustainable growth, the leadership's top priority will remain to maintain the momentum of current economic growth in order to create the many new jobs every year that are needed to provide employment for new workers entering the labor market.

Since the mid-1990s the leadership has been placing increasing emphasis on developing neglected regions and rural areas. Special programs have been set up, such as "The Great Opening of the West" (*Xibu da kaifa*, since 1999) and later "The Revival of North-east China" (*zhenxing Dongbei*) initiated under Hu Jintao's leadership. Huge infrastructure measures such as the railroad from central China to Tibet have been implemented under this agenda. Of course they also serve the ends of national integration.<sup>86</sup>

<sup>86</sup> For more on this subject see "China's Campaign to 'Open up the West,'" ed. David S. G. Goodman, special issue, *China Quarterly* 178 (November 2004).

But under Jiang Zemin's leadership (i.e. until the Sixteenth Party Congress in 2002), the main thrust was to co-opt the new business elite into the party, and that could only work if the social standing of private entrepreneurs and the self-employed was enhanced and they were given certain guarantees for legally acquired private property and wealth.<sup>87</sup> The issue of unequal distribution of wealth caused by the reform policies was taken up largely by the old and new left in the party, whose voice still carried weight although they did not represent the mainstream.

The new leadership under Hu Jintao and Wen Jiabao, which took over the reins of party and government in 2002 and 2003, was concerned from the outset to show a "common touch," and at least rhetorically made a turn to greater emphasis on social equality. The concept of the "harmonious society" is itself an expression of this altered accentuation. The change of course is also apparent in the eleventh five-year plan for 2006 to 2010, which prominently calls for the "construction of the new socialist countryside." Specifically this was tied to the intention to invest in rural infrastructure and modern agricultural technology. In this connection the government launched sixty major construction and infrastructure projects in the western regions with an investment volume of \$105.7 billion.<sup>88</sup>

The government has also adopted other measures designed to reduce the social divide between city and countryside. In 2004 it resumed subsidies to agricultural production, for example for seed and agricultural machinery, and above all for grain production.<sup>89</sup> The most important step to date was the abolition on January 1, 2006, of the agricultural tax, whose history in China goes back 2,600 years. In recent years taxation of farmers had fallen to less than 5 percent of the state's tax revenues, but was nonetheless important at

<sup>87</sup> The constitution was consequently also amended to that effect in 2004, see for example "Detailed Amendments to the Constitution," March 15, 2004, [www.chinaembassy.se/eng/xwdt/t101768.htm](http://www.chinaembassy.se/eng/xwdt/t101768.htm) (accessed May 12, 2008). A property law was finally passed in spring 2007 after years of debate, see "Landmark Property Law Adopted," *China Daily* (online), March 16, 2007.

<sup>88</sup> Cheng Li, "Think National, Blame Local: Central-Provincial Dynamics in the Hu Era," *China Leadership Monitor* 17 (winter 2006): 2, [http://media.hoover.org/documents/clm17\\_lc.pdf](http://media.hoover.org/documents/clm17_lc.pdf) (accessed October 10, 2007).

<sup>89</sup> Gale, Lohmar, and Tuan, "China's New Farm Subsidies" (see note 80), 6ff. However, the authors conclude that tax breaks and subsidies had no decisive impact on rural incomes (9–11).

the local level where part of the revenues remained. Abolishing the taxes and other charges was intended to reduce the financial burden on China's "peasants," who officially still number more than eight hundred million.<sup>90</sup> In 2006 a start was also made with abolishing school fees in all rural areas and making teaching materials free of charge. In order to reduce the income differences between city and countryside, the Plenum of the Central Committee elected by the Sixteenth Party Congress in fall 2006 proposed setting up a comprehensive social security system by 2020 that would cover the rural *and* urban populations and significantly improve the general provision of public goods and social services.<sup>91</sup> Finally, in May 2007, the central government decided to expand a new welfare system for the poorest sections of the population to all regions of China after testing in twenty-three provinces.<sup>92</sup>

## Progress to Date

What has been the impact of the measures taken so far? The trend toward increasing social inequality has not yet slowed in any meaningful way.<sup>93</sup> Percentage income increases in the cities remain higher than in the countryside, foreign direct investment remains largely concentrated in the coastal regions, and the Gini coefficient increases year by year.<sup>94</sup> But at least the abolition of the agricultural tax and greater subsidization of agricultural products, especially grain,

have ensured that rural incomes have grown a little more strongly.

## Social Security Systems

China's cities and countryside must still be regarded separately as far as social security is concerned, not least because the household registration system is still in force. A distinction must also be made between benefits to which the working population contributes, such as unemployment insurance and pension schemes, and assistance fully granted by the state.<sup>95</sup> It is above all the latter field where certain progress has been seen in recent years. This applies in particular where central government has taken on the funding of these measures itself rather than delegating fiscal responsibility to the local level. With state revenues considerably stronger than in the first two reform decades, China has come to be able to afford such social programs.

For example, according to media reports, by 2007 the government had already met the goal set in 2003 of offering 80 percent of the rural population some kind of health insurance.<sup>96</sup> The same applies to a program introduced in the cities in 1998 to guarantee citizens a minimum standard of living ("Minimum Living Standard Assistance" or MLSA, Chinese: *di bao*). The program was not extended to the rural areas until 2007.<sup>97</sup>

On the other hand, social insurance schemes (pension, accident, health, unemployment, and maternity) that require an individual personal contribution are less successful even where they are actually mandatory (at least for the urban population). For example, in 2005 only 48 percent of urban workers (131 million) were covered by pension insurance, with the proportion in state-run enterprises—whose workers also have contracts—considerably higher than in small and medium-sized privately owned companies and of course than in the informal employment sector. The overall shift in employment from state-run enterprises to the private sector thus turns out to be a negative factor, at least for the social security question.

<sup>90</sup> Elaine Wu, "Central Government Scraps Tax on Farmers," *South China Morning Post* (online), December 20, 2005. The abolition of the agricultural tax within five years had already been announced in 2004 in "Document No. 1" outlining the Chinese government's plans for agriculture.

<sup>91</sup> Shujie Yao and Minjia Chen, *China's Economy in 2006: A High Growth Path Towards a "Harmonious Society,"* Briefing Series 18 (Nottingham: The University of Nottingham, China Policy Institute, Januar 2007), 18.

<sup>92</sup> "Government Decides to Subsidize All Rural Poor," *China.org.cn* (online), May 24, 2007, [www.china.org.cn/english/government/211750.htm](http://www.china.org.cn/english/government/211750.htm) (accessed October 10, 2007).

<sup>93</sup> According to the 2008 edition of the Chinese Academy of Social Sciences' annual "Blue Book" on the social situation, the gap between city and countryside will continue to grow, although a little more slowly, see Raymond Li, "Income Gap to Widen, Think-Tank Predicts," *South China Morning Post* (online), January 4, 2008.

<sup>94</sup> See the list in in Yongnian Zheng and Yang Zhang, "Globalization and Social Conflict in China," *Issues & Studies* 42, no. 2 (June 2006): 85-129 (103).

<sup>95</sup> Athar Hussain, "Setting up an Integrated Social Security System," *China Perspectives* 71 (2007): 92-98 (93).

<sup>96</sup> World Bank, *China Quarterly Update*, May 2007 (see note 43), 14-15; Hussain, "Setting Up" (see note 95), 93. The program runs under the name "New Cooperative Medical Service" (NCMS).

<sup>97</sup> Hussain, "Setting up" (see note 95), 92.

Participation in social security schemes also varies strongly between regions and is higher in the major coastal cities than in cities inland.<sup>98</sup>

Contrary to certain reports which state otherwise, China is not in the process of abolishing the *hukou* system. Reforms instituted since the end of the 1990s have merely involved allowing local authorities rather than central government to set the intake quotas for individual cities and also to give them the right to decide what conditions have to be met. This does not mean that the fundamental “apartheid” resulting from the registration of households as urban or rural has been lifted. In fact the opposite is often the case. There have been experiments with liberalization in certain cities, but the resulting costs for the local authority turned out to be prohibitively high (due to the urban privileges granted to the migrant workers).<sup>99</sup> Efforts to include migrant workers in social security schemes such as pension insurance or industrial injury insurance, which have been undertaken in numerous major cities since the turn of the century, have so far shown only moderate success.<sup>100</sup> The impact of a State Council directive of 2001 obliging local governments to ensure that children of migrants are able to get the usual nine years of schooling was similarly limited. Often these children have to pay many times the “normal” level of school fees, but if a community of migrant workers takes the initiative itself and sets up private schools for its children these unofficial places of education are threatened with closure.<sup>101</sup> There is also a question

about wider recognition of qualifications gained in such schools.

There might be a silver lining on the horizon for migrant workers (and other workers too), in the form of the new labor contract law. Passed in mid-2007 and in force since January 1, 2008, it obliges companies to provide every worker with a contract.<sup>102</sup> Here, as in other cases, the absolutely decisive factor will be how implementation and enforcement turn out in practice.

Although the government has undertaken reforms and adjustments, there has not yet been any great structural shift in the economic course. Until 2007 China’s economic growth was based on high export growth rates and state capital investment, while domestic consumption remained weak because of the high private savings ratio.<sup>103</sup> If the Chinese leadership were to markedly improve social security (especially for the elderly) it would be able to create incentives for greater consumption. But also through the distribution of social, health, and education services (which are currently subject to enormous regional variations and discrepancies between city and countryside) central government must play a greater role in counteracting inequalities in the financial resources of the different provinces that result from differences in tax revenues.<sup>104</sup> Either this will occur through a centralization of the provision of public goods (which has to date been organized locally) or through a regional transfer system similar to the German financial equalization system. Finally, a proper reform of the *hukou* is still needed. For the social stability of the country it is imperative that migrant workers in the cities are guaranteed adequate basic services and that their children are allowed to go to school. The mobility restrictions associated with the *hukou* and the effect this has of slowing urbanization is counterproductive for the redistribution of wealth and has already led to labor shortages in certain coastal cities.<sup>105</sup>

**98** Hussain, “Setting up” (see note 95), 94f.

**99** On the reforms of the *hukou* system already carried out, the way it works, and the implications of the reforms, see Kam Wing Chan and Will Buckingham, *Is China Abolishing the Hukou System?* September 2007, <http://faculty.washington.edu/kwchan/AbolishHukou-final.pdf> (accessed May 12, 2008).

**100** Hussain, “Setting up” (see note 95), 98. This is largely because these systems are locally organized so the question arises of the geographical “transferability” of benefits (especially pension contributions). This problem also applies to the rural health insurance introduced in 2003, see Cook, “Putting Health Back” (see note 83), 106f.

**101** *Ibid.*, 25ff. There were cases of closures of illegal schools for children of migrant workers in 2007 in Shanghai and Beijing, see e.g. Howard W. French, “Shanghai Moves to Close Private Schools for Migrants,” *International Herald Tribune* (online), January 24, 2007. On the problem of schooling for the children of migrants see also Wang Chunhuang, “Education and Social Inequality in China: Elite Groups Perpetuating Their Privileged Status,” *China Perspectives* 71 (2007): 110–16 (113f.).

**102** “New Labor Contract Law Changes Employment Landscape,” Xinhua News Agency, January 1, 2008. Draft regulations for this law were issued in May 2008, “Draft Regulations for Labor Contract Law Issued,” *China.org.cn*, May 9, 2008, [www.china.org.cn/government/central\\_government/2008-05/09/content\\_15136737.htm](http://www.china.org.cn/government/central_government/2008-05/09/content_15136737.htm).

**103** World Bank, *China Quarterly Update*, September 2007 (see note 82).

**104** See also Hussain, “Setting up” (see note 95), 97.

**105** Keith Bradsher, “Wages Rise in China as Businesses Court the Young,” *New York Times* (online), August 29, 2007.

China's demographic trajectory (rising life expectancy, success of the one-child policy) means that the country does not have for ever to establish social security systems. It must be seen as positive that the leadership under Hu Jintao seems to be determined to tackle the country's social problems and that rising state revenues increasingly make it possible to fund such programs. The latter presupposes that these state revenues will also continue rising—for which continuing high growth rates will be required.

## Conclusions

The outcome of the measures adopted so far under the “harmonious society” concept remains mixed. No lasting progress has been achieved in the field of energy and the environment (where set targets have been missed) nor was it possible to prevent the wealth gap from widening. The only positive note is that the gap is growing somewhat more slowly.

The fundamental underlying conflict between growth and sustainability remains unresolved. In order to achieve the high rates of growth required to absorb a growing workforce and fund social security programs, environmental standards and the use of pricing to encourage more careful use of dwindling resources are regularly sacrificed. Actors at the local level evade regulations for environmental protection, but the fundamental conflict is in a sense predefined by central government.

The two groups of problems—environment/energy and social inequality/welfare—are intertwined. If China is to retain its social stability it will have continue to aim for growing affluence, or at least uphold the prospect. But growing affluence and domestic consumption mean greater energy consumption and more emissions, for example through the rapid expansion of car ownership.

In order to ensure stability China’s political leadership relies not only on economic growth but also strives to co-opt all sections of the population—the losers of reform as well as the winners—through expanding participation and consulting particular social groups and organizations. There is a lack of independent mediating instances (e.g. labor unions) for negotiating conflict in society. Corruption is widespread, and rule of law (as opposed to rule *by* law) is impossible as long as the party’s monopoly of power precludes the establishment of an independent judiciary. Through the concept of the “harmonious society” the Chinese leadership is attempting to find solutions *within* this framework.

## Policy Recommendations for Germany and Europe

In matters of developmental assistance and cooperation, Germany and Europe can and should continue to engage with China in those areas where the Chinese leadership has identified deficits and itself recognizes a need to act. The focus should be on those problems whose repercussions are felt beyond China’s borders. This applies in the first place to pollution and environmental destruction and to issues of energy efficiency and security. A constructive Chinese attitude to the global challenge of climate change is imperative if a viable solution is to be found. On the way there, Beijing should be supported through offers of practical cooperation. Germany has already created a solid institutional framework for such cooperation, for example in the form of the Federal Environment Ministry’s “strategic environmental dialogue.” In future greater attention should be given to the way resources are channeled, because small, local, and very short-term projects often fail to gain the hoped-for model character that would lead to follow-up programs or a national roll-out.<sup>106</sup>

In all cases where the Chinese leadership’s willingness to act is subject to structural restrictions because the party’s monopoly of power is not up for discussion, external actors must from the outset realize the limits of their own influence. That does not by any means imply that further offers of cooperation in the fields of law (training, personnel exchanges) or governance would be superfluous. But because China already has relatively good laws and regulations in many areas, the weight here should be shifted more strongly to the question of implementation, which represents the real problem in the environment and energy sectors. German and European solutions could also serve as reference models for the process of

**106** For details see a study by the EU Commission evaluating the whole spectrum of EU development cooperation with China: European Commission, *Evaluation of the European Commission’s Co-operation and Partnership with the People’s Republic of China. Country Level Evaluation: Final Synthesis Report*, Brussels, April 2007, [www.oecd.org/dataoecd/34/51/37274405.pdf](http://www.oecd.org/dataoecd/34/51/37274405.pdf) (accessed May 12, 2008).



reducing income disparities and establishing a viable social security system. The German financial equalization system and the European Union's system ensuring that benefits earned in one state are valid in the others are especially relevant here.

Altogether China can and should increasingly share the financial burden of development cooperation, and there would be a lot to be said for a gradual reduction in direct financial aid to China. But the timeframe for this should be discussed within the EU in order to ensure that the phasing out of financial support is coordinated and occurs in a way that is predictable for the Chinese.

## Abbreviations

ADB	Asian Development Bank
FDI	Foreign direct investment
FT	Financial Times
GDP	Gross Domestic Product
IAEA	International Atomic Energy Agency
IEA	International Energy Agency
IPO	Initial public offering
MLSA	Minimum Living Standard Assistance
NDRC	National Development and Reform Commission
NGO	Non-governmental organization
SEPA	State Environmental Protection Administration