Urban Poverty in China:
An Emerging Challenge to an Economy in Transition

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Abstract

In the transition from central planning to market economy, China is now fighting the poverty problem on two fronts: in rural areas, it has to deal continuously with the traditional Third World style poverty, while in urban areas it has to tackle the East European style poverty. Urban poverty in China is largely an unwanted by-product of the economic restructuring, and over two third of urban poor are unemployed and laid-off workers and those who suffer from wage cut or arrears. A survey in six Chinese cities reveals that women, people with less schooling, unemployed and laid-off workers, unskilled workers and pensioners are more likely to fall into the lowest income category. In responding to the emerging urban poverty problem, the Chinese government has introduced in recent years a series of anti-poverty programs, like the three-tier social security system. Some programs have already started to show effect, while others are still in the process of development. Further improvement is much desired to provide the vulnerable and the disadvantaged in the society better protection in future.

1. Economies in transition: China and the East-European countries

Transition is perhaps one of the most frequently mentioned words in public media and academic literature nowadays, since most countries in the world are undergoing transition of certain kind or to certain extent. In most cases, however, economies in transition, or transition economies, refer especially to the former Communist countries in Eastern Europe and Central Asia that are experiencing a economic transition from a command economy to a market economy since the early 1990s. Along with the economic transition, these countries are also experiencing a political transition from a single-party dictatorship to a multi-party democracy. In comparison, China is not

usually grouped into the same category of transition economies in most studies, although economic transition in China, called the reform and open-up (to the outside world) since the late 1970s, started much earlier than what we observed in Eastern Europe. The reason might lie in three factors. First, China falls traditionally into the category of the developing countries, because its level of development and industrialization is lower than that of the East European countries. Second, the transition to a market economy in China is still far from complete. Finally, the economic transition in China has so far brought about little progress in the political transition toward a multi-party system.

It is undeniable that China has made great efforts over the last two decades to restructure its economy according to a market model. More importantly, China's economic transition so far has been proven to be successful by all major macro-economic indicators. For example, China's GNP increased by 22 times from 362.4 billion Yuan in 1978 to 8,042.2 billion Yuan in 1999, at a fast rate rarely observed in the world. During the same period, its per capita GDP increased by 17 times from 379 Yuan to 6,534 Yuan, foreign exchange reserve by 184 times from US$ 840 million to US$ 15.5 billion, and private bank savings by 283 times from 21 billion Yuan to 5,962 billion Yuan (SSB, 2000). At present, nearly one third of China's GDP is generated by non-state sectors, and nearly one third of the country's GNP is contributed by foreign trade. Needless to say, the market-oriented reform also created a series of new problems, or unwanted by-products, that must be tackled seriously and swiftly, such the newly emerged urban poverty and inequality to be discussed briefly in this paper.

2. Transition and poverty: Lessons learnt from the East-European countries

The transition from central planning to market economy is a challenge both China and the East-European countries have to face. Understandably, the lessons learnt from Eastern Europe is of great value to China in its efforts to reach a smoother transition with relatively lower cost.

At the initial stage of the transition, there was considerable optimism in Eastern Europe that the economic reforms will lead to marked rises in the national incomes and standard of living. As observed by Atkinson and Micklewright (1992), few people were concerned about the possible changes in distribution of incomes, thinking that the duration of transition would be short and its benefits would be enjoyed by the majority relatively quickly. However, events since then have suggested otherwise, and the transition has proved more difficult and costly than anyone imagined. Actually, transition economies have endured ten years of economic contraction or stagnation and real income has declined. While some countries have so far survived in reasonably good shape, for others the consequences have been disastrous. For example, in Russia and Ukraine, the two largest transition economies, there has been a constant and steep decline in real GDP: in 1997 it was estimated to be 46% of its 1989 value in Russia, and

34% in Ukraine (Redmond and Hutton, 2000). On the other hand, transition economies have witnessed large-scale unemployment and an upsurge in poverty, which is generalized by Atal (1999) as “a transition from no poverty to poverty”. Countries that denied the existence of poverty and unemployment in the past are now acknowledging not only the prevalence of poverty but its sudden and rapid increase. As reported by UNDP (1997), income poverty has spread from a small part of the population to about a third – 120 million people below a poverty line of $4 a day. The costs have been not only economic, but also human, such as falling wages, growing crime, and loss of social protection. In some countries, life expectancy has fallen by five years or more.

It is worth noticing that the structure of poverty of Eastern Europe is different from that of developing countries. In the latter case, while the actual number of poor is still quite large, their share in the total population is shrinking. In the former case, on the contrary, all three indicators of poverty, i.e. the number of poor, the head count index and poverty gap, are on the rise (Atal, 1999). Traditionally, poor people in developing countries are illiterate, unskilled, unemployed, or from rural areas or socially disadvantageous groups. In Eastern Europe, however, the new poor consist largely of urban dwellers, mostly educated, skilled and still employed, who fall into victims of the economic restructuring and crisis, such as the job-dislocated people, those who are paid low wages, those whose wages have been deferred, and pensioners with pensions not properly indexed to inflation. In the case of Russia, as observed by Atal (1999), it is the intellectual class that have suffered the most. An interesting comparison can also be made with industrialized countries in the West. In the West, poor people are primarily social misfits, alcoholics or work-shy, despite of the existence of a well-established social security system. In transition economies, unfortunately, it is the collapse of the once complete social protection system that fails the people in need.

What the market-oriented transition will lead to in future: no-poverty once again, or a continuance of poverty. The question remains unanswered, given the fact that even the current market economies are not spared the scourge of poverty. One thing is clear that solutions designed for transition economies need not to be the same as that for developing countries or industrialized countries.

3. Rural poverty vs. urban poverty in China

Poverty has long been a global concern, and poverty can be found in both urban and rural areas. Therefore, the United Nations designated in 1996 the decade 1997-2006 as the International Decade for the Eradication of Poverty. In developing countries, however, urban poverty has been given a low priority on development and research agendas. Over the last few decades, these have been dominated by rural development and rural poverty, since rural poverty remains more widespread than urban poverty in absolute terms. The rural-biased policies may also be justified by the fact that there are major gains to be made in reducing poverty by focusing on rural

development. In recent years, urban poverty starts to attract renewed interests from policy-makers and academics in developing countries for a number of reasons. For example, it is estimated that, as a result of urbanization, over half of the world's absolute poor will be concentrated in the cities and towns of developing countries by the turn of the century (UNCHS, 1996). It is also believed that urban poor have been affected adversely by globalization and some other structural adjustment programs in these countries, such as food price increase, contraction of industrial and public sector employment, and reductions in public expenditure (Moser et al., 1993). Although rural poverty incidents are still higher than urban ones in developing countries at this moment, there has been suggestions of intensive studies on urban poverty issues, in order to balance the "rural bias" in development strategies and poverty alleviation programs (De Haan, 1997).

Unlike the industrialized and urbanized transition economies in Eastern Europe, China is still a developing country. Its total population stood at 1.29 billion at the end of 2000, with 64% living in rural areas. China has been haunted by poverty for centuries, particularly the less developed rural areas. After the Communists came to power in 1949, one of the major social experiments the government introduced in rural areas is the Land Reform, which lifted the majority of rural people from absolute poverty by distributing farmland to the poor and the landless. In the mid-1950s, another social experiment campaign was launched nation-wide to collectivize the land into communes. Unfortunately, the commune system was proven in the following years not to be an efficient way for promoting agricultural production and raising rural people's living standard. According to the State Statistics Bureau (SSB) statistics, 250 million people, or 30.7% of the rural population, were living in poverty as late as in 1978. In the early 1980s, the commune system was dismantled and replaced with the household responsibility system, one of the most important reform measures in rural China. Under the new system, the collectively-owned farmland was allocated to rural households on lease (usually for 30-50 years), and farmers are free to use the land so long as tax is properly paid. With the booming agricultural production and rural industry, people's income has increased remarkably over the last two decades. For example, the per capita annual net income of rural residents increased from 134 *Yuan* in 1978 to 2,162 *Yuan* in 1998. Since the late 1970s, the government has launched three major poverty alleviation campaigns in the traditionally poverty-stricken regions in Central and West China. At the end of the 1980s, the number of rural people with income below the official poverty line of 200 *Yuan* per year came down to 125 million, or 14.8% of the rural population. In 1994, the government kick-started the National 8-7 Poverty Reduction Program, in an attempt to lift the remaining 80 million rural poor from poverty over an eight-year period ending in 2000. On a May 2001 conference it was announced that the program has made considerable progress by reducing the number of rural people living below the poverty line to 30 million, or 4% of the rural population (Jiang, 2001). The last batch of the rural poor concentrate largely in mountainous regions, frontier regions and ethnic minority regions, where natural conditions are harsh and infrastructure is inadequate. On the conference, the Rural Poverty Alleviation

and Development Plan (2001-2010) was adopted as a guideline to eliminate poverty in rural China in near future.

Compared with rural areas, the number of people living under the poverty line in urban areas remained relatively small, given a series of urban-biased economic and social policies implemented since the founding of the People's Republic in 1949. According to the central planning theory that promotes the state ownership of all means of production, a work-unit based employment system was established as early as in 1950s to guarantee almost every city dweller in working ages a job for life. Along with life employment, urban residents also enjoyed in their work units a wide range of welfare benefits in education, health care, housing and pension, a practice transplanted from the Soviet Union. Under such an arrangement, called as the "iron rice bowl" in Chinese to characterize its egalitarian nature, few lived in luxury and few in absolute poverty. According to Zhao and Li (1999), the Gini coefficient of urban China remained under 0.2 for over three decades before 1988. Government statistics also show that only 3 million people, or 1% of urban population lived under the official poverty line in mid-1980s (Guo, 1996). The urban poor fell usually into the Three-No category: people who have no working ability, or no stable income, or no dependable providers. That means, they consisted largely of the childless elderly, the disabled and orphans. The Ministry of Civil Affairs is the government organ responsible for looking after the poor in urban areas, which provides regular social welfare benefits to particular categories of people, and *ad hoc* or temporary relief for households in difficulty.

Thanks to the reform and open-up since the late 1970s, urban dwellers have also experienced marked improvement in their living standard. For example, the per capita annual net income of urban residents rose from 343 *Yuan* in 1978 to 5,425 *Yuan* in 1998. In recent years, however, new problems like poverty and inequality are emerging as the market-oriented reform and economic restructuring become increasingly intensified in urban areas. The number of people classified as living under the poverty line increased from 3 million in mid-1980s to 12 million in the mid-1990s (Zhang, 1997). Other sources provided even higher estimates of as high as 20 million (Hong, 1997). During the same period, the Gini coefficient of urban China went up from 0.19 in 1985 to 0.28 in 1995 (Zhao and Li, 1999), implying a widening gap of income among city dwellers. Concerned about its possible economic and social consequences to the transition, decision-makers and academics start to pay greater attention to the problem of urban poverty.

4. Urban poverty in China (I): Definition and measurement

In spite of the global concern about poverty and inequality, the definition and measurement of poverty vary from one country to another. For the treatment of poverty, UNDP (1997) has suggested three approaches: the income perspective, the basic need

(also called as the food basket or the subsistence minimum) perspective and the capability perspective. Drawing on each of the three approaches, UNDP developed in 1997 the Human Poverty Index (HPI) to describe the most basic dimensions of deprivation at macro level. The poverty line is another frequently used concept, such as the World Bank's cut-off line at US$ 1 (PPP) a day: families spending one dollar as day or less are thought as living in poverty. In the Russian case, people who receive less than the average income are regarded as living below the poverty line. Other indicators of poverty include Gini coefficient, Engel coefficient, decile coefficient, poverty gap and so on.

In China, four approaches are frequently used to measure urban poverty: the adjusted Engel coefficient, the decile coefficient, the average income and the living minimum. The first two measures are mainly used by the State Statistics Bureau (SSB), based on their regular surveys on urban residents' income and livelihood, while the last two measures are often used by local officials for assessing people's qualification for social welfare benefits or temporary relief. People who living under the poverty line or qualify for government assistance are referred to as urban poor. Table 1 gives the SSB estimates of the poverty line and the number of people in poverty in China's urban areas for the period of 1997-1999. The poverty line is based on a person's annual disposable income. One can get a monthly rate by dividing it by 12. For example, the monthly rate of 1999 is 155 *Yuan*. By using the decile approach, SSB published in 1999 another estimate of the poverty line in urban areas: 2646.7 *Yuan*, i.e. the per capita annual disposable income of the first decile (the lowest income households) of all households surveyed.

Table 1: Selected indicators of urban poverty, China, 1997-1999

Year	The poverty line (annual disposable income in *Yuan*)	No. of people living under the poverty line (million)	Percentage in the total urban population (%)
1995	1,547	12.4	4.4
1996	1,671	11.8	4.2
1997	1,890	11.7	4.1
1998	1,880	11.9	4.1
1999	1,860	9.6	3.1

Source: Li, 2000.

To tackle the emerging problem of urban poverty, the State Council issued in August 1997 a circulation that requires the establishment of the Minimum Living Standard Guarantee System in all cities above the county level by the end of 1999. Local governments are responsible to provide financial assistance to people living under the minimum living standard. The standard is calculated as half or one third of the local average income, adjusted by a number of other factors, such as price level, the level of other social security transfers, and the financial situation of local governments. Table 2 shows the monthly living minimum standard in 31 provincial capitals, ranging from the lowest of 143 *Yuan* to the highest of 281 *Yuan*, and with an average of 186.8

Yuan. By the end of 1999, according the Ministry of Civil Affairs, the system had been established in 668 cities and 1,638 counties, and 2.6 million people were identified by local governments (mainly the civil affairs departments) as eligible for assistance (Yang, 2000).

Table 2: The monthly minimum living standard in selected cities, China, 1999

City	The living minimum (Yuan)		The living minimum (Yuan)		The living minimum (Yuan)
Beijing	273	Hefei	195	Chongqing	169
Tianjin	241	Fuzhou	200	Guiyang	156
Shijiazhuang	182	Nanchang	143	Kunming	182
Taiyuan	155	Jinan	208	Lhasa	169
Huhhot	143	Zhengzhou	169	Xi'an	156
Shenyang	195	Wuhan	195	Lanzhou	156
Changchun	169	Changsha	169	Xining	156
Harbin	182	Guangzhou	281	Yinchuan	143
Shanghai	280	Nanning	195	Urumqi	156
Nanjing	180	Haikou	221		
Hangzhou	215	Chengdu	156		

Source: Yang, 2000.

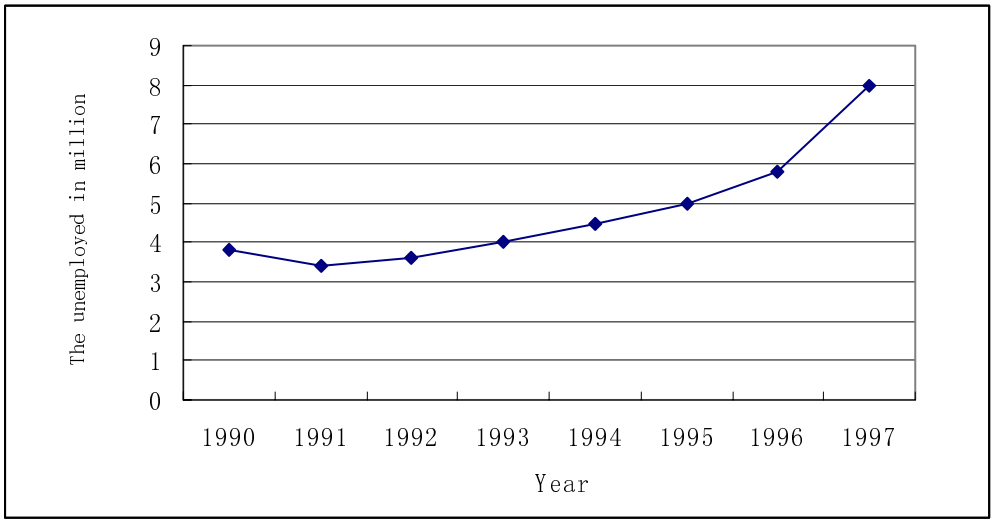
5. Urban poverty in China (II): An overview

Since different definitions and measurements are used in studying urban poverty, it is understandable that different estimates have been reached to describe the magnitude of urban poverty, or the number of urban poor in China. Currently, the lowest estimate, 2.6 million in 1999, or 0.6% of the total urban population, is based on the minimum living standard approach. A higher estimate was made by the Ministry of Civil Affairs in 1997, implying that 5.3 million, or 1.2% of the total urban population, lived in poverty. The SSB estimates, as showed in Table 1, are considered the highest, ranging from 12.4 million in 1995 to 9.6 million in 1999. As mentioned above, some unofficial sources came to even higher estimates. Nevertheless, it is widely agreed that people living in poverty make up less than 5% of the total urban population. It is worth noting here that all the estimates above do not include migrant workers from rural areas now working in their tens of millions in cities. According to a 1997 survey, migrant workers and their families totaled 3 million in Beijing alone. Among them, 8% faced severe financial difficulties (Wei, 1999). Obviously, any discussions on urban poverty in China would not be complete, were migrant workers excluded from the discussion.

A number of surveys have been conducted in recent years in selected cities to give further insights of urban poverty in China. It is found that urban poor can be divided into four major groups. The first group consists of people traditionally classified as the Three-No's, i.e. people with no working ability, no income or no providers. Making up the majority of urban poor before the transition, they used to be the prime target of the

government's social relief programs. Currently, the Three-No people account for only a small part of those eligible for the living minimum assistance. According to a survey in nine large cities in 1998, for example, 6.8% of people eligible for assistance in Kunming and 12.4% in Tianjin fell into this group (Wei, 1999). The second group consists of unemployed workers, and particularly those who are not qualified for unemployment payments. The third group consists of low income workers, workers who are temporarily laid off by employers (state-owned factories, in most cases), and pensioners. These people do have regular income in forms of wage, pension or living allowances. However, their income is not sufficient enough to support the family, judged by the minimum living standard. Currently, unemployed and laid-off workers make up the majority of the new poor in urban areas, ranging from 73.4% in Tianjin and 93.2% in Kunming, for example. According to a SSB estimate at national level, 87% of urban poor were state sector workers and retirees and their families in 1997 (Xinhua, 1997). The last group, relatively small in size, consists of people trapped in poverty for a variety of reasons, such as social misfits like gamblers and drug users, as well as criminals just released from jail.

Figure 1: Changes in the number of registered unemployed workers *, China, 1978-1997



Note*: The laid-off workers are not included.
Source: .Yang, 2000.

In the pre-transition period, as mentioned above, unemployment was almost non-existent in urban China under the "iron rice bowl" system. The urban poverty caused by unemployment and laid-off is a entirely new phenomenon during the transition period, quite similar to what happens in transition economies in Eastern Europe. According to the Ministry of Labor and Social Security, the number of the unemployed increased from below 4 million in 1995 to over 8 million in the peak year of 1997, as displayed in Figure 1. If laid-off workers are included, the number of the jobless totaled 17 million. At the same time, 10.9 million workers were affected by wage cut or arrears, and 2.3 million pensioners by pension payment delays. In the first half of 2000, the number of registered unemployed and laid-off workers dropped to

15.3 million. However, if the unregistered are included, the number of jobless workers is estimated as 21.7 million (Li, 2001). It is true that not all unemployed and laid-off workers suffer from poverty. Nevertheless, they are prone to fall into poverty because the unemployment benefits are either inadequate or not paid on time.

The emergence of urban poverty, particularly the unemployment-related poverty, can be attributed to a number of factors directly associated with the market-oriented reform. First, under the life employment system in the pre-transition period, almost all state-owned factories in cities were burdened with overstaffing. The number of redundant workers in the state sector was estimated as 28 million in the late 1970s. Managers were not free to dismiss workers, even at the cost of productivity and profit-making. During the reform, in contrast, managers have been given greater authority in decision-making, including the power to dismiss or lay off workers to streamline the workforce for higher profits and greater competitiveness on the market. Unemployed workers and their families often experience a sharp decline in their living standard because of the sudden income loss. Second, in the pre-transition period almost all factories were state-owned, and their existence had no direct link to their performance. A loss-making factory might still survive on government support, and its workers could still have their fixed wage paid on time. However, such non-sense can no longer last in the era of reform. Factories that make loss will face either reorganization or closure. For those workers who are lucky to have their jobs retained, fully or partially, wage cut or arrears are not uncommon. Along the wage cut, other work unit-based welfare benefits also have to go. Third, the old work unit-based welfare system has almost collapsed as the life employment system ceased to exist in the transition. Unfortunately, the government is not quick enough to adopt new measures of social protection to replace the old ones. As a result, the risk for the disadvantaged being trapped in poverty rises, due to lack of sufficient unemployment support, health insurance, or pension benefits.

6. Urban poverty in China (III): Findings from a survey

The Institute of Social Development of the Chinese State Planning Commission, where the author of this paper work, conducted a survey on income of urban residents in six Chinese cities in July 2000. Findings from the survey can provide us some insights of urban poverty at micro level. The six cities, Shanghai, Harbin, Guiyang, Yinchuan, Xiamen and Shangqiu, are of different size, in different locations and at different level of development. In each city, 350 persons were selected through the PPS sampling procedure, and a total of 1988 completed questionnaires were collected. Apart from the general personal information, the questions asked cover four main areas: income, expenditure, social insurance coverage, and attitude toward income inequality and the government's current distributive policies.

As learnt from previous experience, people are usually reluctant to answer sensitive questions about their income or financial situations. Also to provide accurate information about their annual income is difficult, even the respondent is cooperative. In stead of exact figures, we asked for operational reasons interviewees to tick one of the 10 income categories, ranging from 3,000 Yuan and below to 100,000 Yuan and above, that fits roughly in their total income in 1999. The lowest income category of 3,000 Yuan and below is based on an SSB estimate for 1999: 2617.8 Yuan, the per capita annual income of the lowest income group (the first decile) among urban residents. People in the lowest income group are usually considered as urban poor, although low income does not necessarily equal to living in absolute poverty.

Among the 1988 interviewees, 250, or 12.6%, fell into the lowest income category. The proportion of low income earners differs from one city to another. Shangqiu has the highest rate at 25%, followed by Harbin at 17%, Guiyang at 14.6%, Yinchuan at 10.3% and Xiamen at 7.3%, whereas Shanghai has the lowest rate at 3.8%. Such marked differences can be explained primarily by the difference in economic and social development, when a single standard of low income is applied nation-wide. Obviously, people in Shanghai, the largest and economically most advanced city in China, have higher income than those in other less developed cities. Similar situation can also be found in Xiamen, one of the rich coastal cities prospering from the booming export and foreign investment in recent years. Shangqiu, on the other end of the spectrum, is a small city located in the backwater of the inland province of Henan. The high proportion of low income earners in Harbin deserves special attention, because it provides a typical case how China's new urban poor are created. Harbin used to be one of China's major industrial centers in the 1950s and 1960s. Its economy was based on heavy industry and almost all factories were state-owned. In recent years, however, many of these old industrial centers are hit hard by the market-oriented transition, since the "sun-set" industries plus central planning can no longer make profits. Many workers have been dismissed or laid off during the state-owned enterprise reform. As the survey data show, unemployed/laid-off workers and pensioners make up 57.4% of all low income earners in Harbin, the highest proportion in all six cities. Of 112 unemployed/laid-off workers and pensioners the survey interviewed, 39, or 34.8%, are from Harbin alone.

Table 3 displays the distribution of interviewees by two income groups (the all other categories and the lowest income category) and selected indicators, to see who are more likely to be low income earners and what is their attitude toward the current income. As showed in the all other category of Panel A, men and women are almost equally distributed, with the proportion of women only slightly lower than that of men. In the lowest income category, in contrast, nearly two thirds of the low income earners are women. It seems that women are more likely to earn less than men. This trend has also been suggested by the correlation coefficient between income and sex, –0.225 ($p<0.05$), calculated from the same data set. Panel B looks at the impact of education, implying that people of less schooling are more likely to fall into the low income

category. The correlation coefficient of 0.297 ($p<0.05$) indicates a weak but positive correlation between income and education. Other studies like Wei (1999) have also found that sex and education can still influence a person's income level, and women and the poorly educated are prone to be trapped in poverty. A person's employment status or occupation may influence his income level, too, as indicated in Panel C. For example, over half (55.6%) of persons in the lowest income category are from three disadvantaged groups: pensioners, unemployed or laid-off workers and unskilled workers. In comparison, they make up only 19.6% of all other people surveyed.

Table 3: Percentage distribution of interviewees by selected indicators, by income category, 6 Chinese cities, 2000

Item	All other categories	The lowest income category
A: Sex		
Male	50.9	35.2
Female	49.1	64.8
B. Education		
Primary school	6.7	13.2
Junior high school	31.4	43.6
Senior high school	45.9	36.0
College	14.0	7.2
C. Employment		
Retired	5.7	16.0
Unemployed/laid-off	5.2	18.8
Unskilled	8.7	20.8
Others	80.4	44.4
D. Attitude toward current income		
Very satisfactory	10.8	4.8
Satisfactory	15.0	4.0
Acceptable	42.1	23.2
Not satisfactory	24.6	44.4
Very unsatisfactory	7.5	23.6
Total	100.0	100.0
No.	1738	250

Apart from their income, interviewees have been asked about their personal attitude toward their income. As Panel D shows, 68% of people in the lowest income categories are unhappy or very unhappy about their current situation, while in the all other category, unhappy people account for only 32.1%. Poor people are three times more likely than others to be very unsatisfactory with their current income. The survey has also produced other interesting results. For example, over half (56.3%) of the people surveyed blamed unemployment as the prime reason for the widening income gap among city dwellers during the transition, followed by 12.6% who mentioned corruption. As for the near future, 75% of people anticipated the income gap to widen, while only 18.1% were optimistic in seeing the gap to be narrowed. Therefore, it is not surprising to find that 70.7% of people hoped the government to introduce a modern

social security system that can provide protection to the vulnerable and disadvantaged people.

7. Urban poverty in China (IV): The government's response

In China's poverty alleviation programs, as mentioned above, rural areas have been given top priority over the last few decades. Urban poverty was considered non-existent during the pre-transition period. The new phenomenon of urban poverty is largely an unwanted by-product of the market-oriented reform. Responding to the emerging problems, the government has launched since the mid-1990s a framework of anti-poverty programs in urban areas, including the following three tiers: the social security insurance programs, the basic living allowance program for laid-off workers and the minimum living standard guarantee program for urban poor. Some of the programs are still in the process of development at present stage, and further improvement is much desired in future.

The social insurance programs covers pensions, health care, unemployment and work-related injury and maternal benefits. In fact, the early effort to establish a modern social insurance system began in 1986. The objective is to separate the economic and social functions of state-owned factories under the old system, so that factories do not have to keep redundant workers or pay pension directly to their retired employees. The unemployed and the retired will be looked after by social insurance programs, with contributions made by employers and employees and paid into pooled and individual accounts. In 1999, the number of people covered by unemployment insurance totaled 99.1 million, and 1.3 million unemployed workers received benefits. At the same time, the people covered by pension plans totaled 94.3 million, and 29 million retired workers received their pension from the new program.

Assistance for laid off workers includes a basic living allowance and other benefits (323 *Yuan* on average in 2000), funded from a combination of central government, enterprise and social insurance contributions, and managed by re-employment service centers within enterprises. This support for laid-off workers is seen as a transitional measure with the intention to be merged with the unemployment insurance by 2005, when laid off workers formally break their employment contracts with their employers and receive unemployment benefits (if eligible) or relief. Apart from paying living allowance to laid off workers, the re-employment service centers (over 12,000 nation-wide) are also responsible to help them get re-employed by running various training programs. In the first half of 2000, for example, 1.3 million laid off workers found new jobs.

The minimum living standard guarantee system is a means-tested, non-contributory social assistance. As mention previously, the program provides a basic living allowance to those whose per capita household income falls below a locally determined minimum living standard. Funding is primarily from local budgets, with

some special transfers from the central government to local governments with financial difficulties. In 1999, people who received assistance totaled 2.8 million.

On the National Conference on Social Security Work held in December 2000 in Beijing, Premier Zhu Rongji made continued commitment to the reform of China's social security systems. Officials at all levels were urged to implement the government's current social security policy thoroughly and completely. Special attention has to be paid to the Two-Ensuring requirements: ensuring laid off workers' living allowance being paid in full and on time, and ensuring retired workers' pension being paid in full and on time. In the meantime, the living minimum standard for urban poor was increased by 30% on average.

8. Concluding note

Currently, China is making great efforts for accomplishments on two fronts: industrialization and modernization like other developing countries and transition from central planning to market economy like other transition economies in Eastern Europe. Understandably, China is in a unique position in fighting the poverty problem. On the one hand, it has to deal continuously with the traditional Third World style poverty in rural areas. On the other hand, it has to tackle the East European style poverty in major cities.

Unlike in most transition economies in Eastern Europe, the market-oriented transition in China over the last two decades has been proven very successful, from which the majority of Chinese population have greatly benefited. The emergence of urban poverty is largely an unwanted by-product of the transition, and only a small part of urban population have been affected. Over two third of urban poor are those who fell into victims of the economic restructuring in recent years. In response to the emerging urban poverty problem, the government has in recent years introduced a series of poverty alleviation programs, including the three-tier social security programs. Some of these programs have started to show effect in boosting employment and easing the social tension caused by poverty and inequality.

In China's prosperous urban areas today, poverty exists only in relative terms, not in absolute terms. A reverse to the old, egalitarian system of the pre-transition period is certainly not a good idea. Solutions have to be found in the course of transition, no matter how difficulty and costly it might be. In the short run, the government could take at least three measures to tackle the transition-induced poverty problems in cities: (1) to speed up the social security system reform, so that unemployed and laid-off workers can get basic unemployment benefits, without falling into poverty; (2) to provide various job promotion services, including training programs, to help laid-off workers get re-employed; (3) to foster an open and fair labor market environment, so that laid-off workers can compete for jobs or even create jobs for themselves. In the long run, the Government should make all efforts to maintain a healthy and robust economic

growth. A thriving economy can not only generate more jobs for the able-bodied, but also finance better welfare programs to look after the vulnerable and the disadvantaged in the society.

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